

## Office for Financial Success – Financial Tip of the Week

A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
University of Missouri-Columbia  
**(March 10, 2006)**

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### **Payday Lending** ... (Source: Center for Responsible Lending)

Payday lending (often called cash advance) is the practice of using a post-dated check or electronic checking account information as collateral for a short-term loan. Research indicates that the payday lending business model is designed to keep borrowers in debt, not to provide one-time assistance during a time of financial need [as they're often thought of] ...

Payday lending is often referred to as a "debt trap" – here's a few reasons why:

- 91% of payday loans are made to borrowers who use 5+ payday loans/year.
- 99% of payday loans go to repeat borrowers.
- The average payday borrower pays \$800 to borrow \$325.
- It is estimated that payday lending costs US families \$3.4 billion annually.

Payday lenders typically allow borrowers just two weeks to repay, and borrowers regularly find they cannot come up with the cash to pay back their loan so quickly. To avoid defaulting, borrowers often agree to renew the loan and pay the interest again. Interest fees are usually \$15-\$20 per \$100 borrowed. A PIRG study found the average interest nationally was 680% APR. The Department of Defense lists payday lending as one of the top ten key issues impacting the quality of life of U.S. soldiers. A "New York Times" article in Dec. 2004 revealed that more than 1/4 of military households (26%) have been caught up in payday lending. In many university towns, students are a primary "user" of these products.

Many states have seen the problems these types of lenders have created for consumers [and 14 states] have banned payday lenders. Unfortunately, lenders have found ways around these state laws. National chains use partnerships with out-of-state banks to 'skirt' the law. They also use this arrangement (known as the rent-a-bank model) to avoid limits on interest rates and other provisions in states that do authorize payday lending.

The Center for Responsible Lending provides "[9 Signs of a Predatory Payday Loan](#)" to help educate consumers on the pitfalls that entrap many ...

1. **Triple digit interest rate** – fees equal to 400% APR and higher.
2. **Short minimum loan term** – 75% of payday customers are unable to repay their loan within the allotted two weeks and are forced to get a loan "rollover" at additional cost.
3. **Single balloon payment** – payday loans do not allow for partial payments to be made during the loan term. The entire loan must be repaid at the end of the two weeks.
4. **Loan flipping** – 90% of the payday industry's revenue growth comes from making more and larger loans to the same customers.

5. **Simultaneous borrowing from multiple lenders** – many consumers on the “debt treadmill” get a loan from one payday lender to repay another.
6. **No consideration of borrower’s ability to repay** – consumers are usually encouraged to borrow the maximum, regardless of their credit history.
7. **Deferred check mechanism** – consumers who can’t make good on a deferred (post-dated) check covering a payday loan may be assessed multiple late fees and NSF check charges or fear prosecution for writing a “bad check.”
8. **Mandatory arbitration clause** – by eliminating the borrower’s right to sue for abusive lending practices, these clauses work to the benefit of the lender, not the consumer.
9. **No restrictions on out-of-state banks violating local state laws** – federal banking laws were obviously not enacted to enable payday lenders to circumvent state laws, but that is what is happening in many instances.

In addition to payday lending information, the Center for Responsible Lending (<http://www.responsiblelending.org>) also provides education on other abusive financial practices such as: tax refund anticipation loans, rent-to-own, car title loans, and more.

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### **MIZZOU Personal Finance Course Offerings – fall/summer ...**

I’m very excited to be able to say that the Personal Financial Planning Department has agreed to offer the popular Financial Survival Course this coming summer and fall terms! Other personal finance courses are also available ...

#### **SUMMER:**

Financial Survival (FINPLN 4318, ref# 23455); MWF 12-1; 1<sup>st</sup> 4 week session (1 cr).  
Personal/Family Finance (FINPLN 2183, ref# 23435, 3 cr); MTWHF 9-11; 1<sup>st</sup> 4 weeks  
Other PFP summer course offerings (<https://sis.iats.missouri.edu/soc/select.cfm>)

#### **FALL:**

Financial Survival (FINPLN 1183, ref# 44250); W 3-3:50 (1 credit).  
Personal/Family Finance (FINPLN 2183, sec 1 or 2, ref# 44260 or 44265)  
Other PFP fall course offerings (<https://sis.iats.missouri.edu/soc/select.cfm>)

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**Student Loan Consolidation** ... Consolidating your federal student loans during the current semester appears smart. You have the chance to lock your interest rates at **4.7%** by consolidating before June 30<sup>th</sup>. Consolidation does not trigger immediate repayment – you will also have the opportunity to consolidate in the future to take advantage of other programs (like UHEAA), as well as the opportunity to consolidate future loans. Based upon the current 91-day T-bill, your loan rate would rise to **6.2%** on July 1<sup>st</sup> if you don’t. This rate will “officially” be calculated the last business day in May.

More information is available on the student loan consolidation section of our site (<http://financialsuccess.missouri.edu/consolidationhome.htm>) to gather information

about calculating your weighted loan rate (if you consolidated last year at 2.82%), consolidating while in school, estimating your monthly student loan payment, etc.

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**Tip Archive.**

Free access to recent weekly financial tips ...  
<http://financialsuccess.missouri.edu/archive.htm>

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**The Financial Tip of the Week is a service of the Office for Financial Success**

Dr. Mark Oleson - Clinic Director

Department of Personal Financial Planning  
College of Human Environmental Sciences  
University of Missouri-Columbia

Interested in a career in Financial Counseling/Planning? (<http://pfp.missouri.edu>)  
Interested in becoming involved with the Office for Financial Success?

Contact me: [olesonm@missouri.edu](mailto:olesonm@missouri.edu)

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- WEBSITE: <http://financialsuccess.missouri.edu>
  - E-MAIL: [financialsuccess@missouri.edu](mailto:financialsuccess@missouri.edu)
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