

What is a Payday Loan?

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A payday loan is a short-term, high-cost loan you must pay back on or before your next payday. It does not matter if your income is from employment or government benefits.

Who can make a payday loan?

- storefront lenders
- check cashers
- pawn shops
- credit unions
- banks
- online lenders

In Washington, anyone providing a payday loan, even online lenders, must have a license from the [Washington State Department of Financial Institutions \(DFI\)](#).

How long can I take out a payday loan for?

The maximum term in Washington is 45 days. There is no minimum term. The term for most payday loans is fourteen days.

How much can I get?

The most any one payday lender can loan you at one time is \$700.

How are payday loans different from other loans?

You do not get approval for a payday loan based on any credit check, as with a standard loan. Payday loans do not show up on a credit report. They cannot *improve* your credit if you pay the loan back on time. Payday loans can only *hurt* your credit rating if you fall behind. The lender can

- Refer your account to collections.
- Report you to a credit-reporting agency.

How does a payday loan work?

You write a post-dated personal check to the payday lender OR authorize them to take money directly out of your bank account on the date of the check or authorization (authorization for short). Generally, this is on your next payday.

When the payday loan is due, either you give the payday lender cash in return for your post-dated check, OR you let the lender deposit your check. If you authorized the payday lender to take the money from your account, the lender will do so on the due date.

Should I take out a payday loan?

You should look for other options (see “What other options do I have ...” paragraph below). Payday loans cost a lot. They are hard to pay back on a tight budget. You could be stuck in a cycle of debt by using one payday loan to pay off another.

Am I eligible for a payday loan?

Under state law, you are not eligible if any of the following is true:

- You currently have at least one outstanding payday loan totaling \$700 or equal to 30% of your gross monthly income, whichever is less.

OR

- You currently have an installment plan to pay off a previous payday loan.

OR

- You have taken out eight loans in the last twelve months.

OR

- You are in default on another payday loan.

How does the lender decide I am eligible?

They must check a statewide payday loan database to see if you have any other payday loans or debts from payday loans as described above. You give the lender this information:

- Your Social Security number (or other ID number if you do not have a Social Security number).
- Information about your gross monthly income.

The lender puts your info into its statewide database to see if you are eligible for a payday loan and, if so, how much it can loan you. You

cannot borrow more than \$700 or 30% of your gross monthly income, whichever is less, at any one time. If the database says you are NOT eligible, the lender will give you a toll-free number to call for more information.

How much will a payday loan cost me?

In Washington, payday lenders commonly charge the maximum amount allowed by law ([RCW 31.45](#)): 15% for the first \$500 borrowed, and 10% above \$500 up to \$700. This chart shows the maximum a payday lender can charge you.

Amount Borrowed	Cost of Loan (in dollars)
\$100	\$115
\$200	\$230
\$300	\$345
\$400	\$460
\$500	\$575
\$600	\$685
\$700 (maximum)	\$795

The contract you sign with the payday lender must tell you the annual percentage rate (APR) for the amount you borrow. The APR is the interest rate for your loan spread over a year.

The less time you have to pay back the loan, the higher your APR.

Do payday loans cost more than other types of credit?

Yes. Cheaper types of credit include:

- A personal line of credit at your bank.
- A credit card cash advance.
- One overdraft charge on one bounced check.

Below is a comparison chart with examples of credit options.

	Payday Loan	Personal Line of Credit	Credit Card Cash Advance	Overdraft Fee (one bounced check)
\$ Borrowed	\$300	\$300	\$300	\$300
Days to repay loan	14 days	14 days	14 days	14 days
Interest rate	None	12.81%	18.8%	None
Fee	\$45	None *	\$13.50	\$28.75
Total Cost	\$45	\$1.47	\$15.66	\$28.75
APR	391%	12.81%	135.75%	250%

* Some personal lines of credit may have an annual fee. In those cases, the APR may be higher than this chart reflects.

Does the payday lender have to tell me how much my loan will cost?

Yes. By law, the lender must tell you the loan's terms, including the amount of fees and APR.

Many online payday lenders do not give this disclosure until after you have clicked "yes" to taking out the loan. ***This is illegal.*** It may make the loan unenforceable.

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- ❖ Most storefront lenders put this disclosure in the paperwork you sign.
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All payday lenders must provide these disclosures before you agree to take out a loan. Contact the [Department of Financial Institutions \(DFI\)](#) immediately to report a problem. Call 1-800-RING-DFI (746-4334) or contact them online at www.dfi.wa.gov.

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- ❖ Lenders do not have to explain to you in plain terms how much your payday loan will cost if you cannot pay it back by the due date or you take out successive loans.
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Are there other fees?

If the payday lender gives you the loan in the form of a check, they CANNOT charge you a fee for cashing their check.

I am out of money. I still have bills to pay. What can I do besides take out a payday loan?

- Try to **work out a payment plan with creditors**. Utility companies, credit card companies, and landlords often allow extra time to pay. The cost of late fees may be less than the cost of taking out a payday loan.
- **Borrow from friends or relatives.**
- Seek help from **religious institutions or social service agencies**. Contact the Washington State Department of Social and Health Services (DSHS). You might

be eligible for an emergency assistance program.

- Shop around. **Banks, credit unions, and finance companies** offer alternatives to payday loans, including small consumer loans.
- **Check with your employer.** They might have a program allowing you to get an advance on your next paycheck.
- **Contact a credit counselor.** One can help you get out of debt and avoid a payday loan. Your bank or credit union might have in-house credit counseling.

What if I need legal help?

- **Apply online with [CLEAR*Online](https://nwjustice.org/get-legal-help)**
- <https://nwjustice.org/get-legal-help>
or
- **Call CLEAR at 1-888-201-1014**

CLEAR is Washington’s toll-free, centralized intake, advice and referral service for low-income people seeking free legal assistance with civil legal problems.

- **Outside King County:** Call 1-888-201-1014 weekdays, 9:15 a.m. - 12:15 p.m.
- **King County:** Call 211 for info and referral to an appropriate legal services provider Monday – Friday, 8:00 am – 6:00 pm. You may also call (206) 461-3200, or toll-free 1-877-211-WASH (9274). You can also get info on legal service providers in King County through 211’s website, www.resourcehouse.com/win211/.
- **Persons 60 and Over:** Persons 60 or over may call CLEAR*Sr at 1-888-387-7111, regardless of income.

Deaf, hard of hearing or speech impaired callers can call CLEAR or 211 using the relay service of their choice.

211 and CLEAR will conference in interpreters when needed at no cost.

Free legal education publications, videos, and self-help packets covering many legal issues are available at www.washingtonlawhelp.org.

This publication provides general information concerning your rights and responsibilities. It is not intended as a substitute for specific legal advice.

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