

Avoiding Payday Loans

Podcast Transcript

This podcast is brought to you by Military OneSource.

Chances are you've heard ads on the radio or TV for payday loans, cash advance loans, check advance loans, or deferred deposit loans. No matter what you call them, these short-term, small loans can come at a very high price to you and your family.

Typically, payday loans are cash advances that you agree to repay--usually at a very high rate--on your next payday. You write a personal check to the lender for the amount you want to borrow plus a hefty additional fee, and the lender holds the check until your next payday, when the lender either deposits your check or you buy it back by repaying the loan in cash. If you can't pay off your loan when it's due, the lender will allow you to "roll-over" the loan for an additional fee. Although these fees may not seem high, they add up when you continually roll over the loan--making it much harder to repay.

You have better options than using payday lenders. First of all, establish a savings account for emergencies so you can cover unexpected expenses without borrowing.

When you do need a loan, consider borrowing from a credit union or bank, which may offer small, short-term loans at competitive rates. Banks on military installations occasionally offer loans designed just for service members and their families. A cash advance on a credit card is another option, but watch out for high interest rates and know the terms from your credit card company before seeking a cash advance. Finally, relief organizations for each branch of the military may provide low-interest loans or grants to service members and their families who qualify.

Whatever option you choose, shop around to find a loan with the lowest annual percentage rate, or APR. The Military Lending Act helps to protect service members by restricting the APR on payday loans and certain other forms of credit to no more than thirty-six percent, including any additional one-time fees or annual account fees. Just keep in mind that this protection only covers active-duty personnel or activated Reservists, their spouses or dependent children, and individuals who rely on an active duty service member or activated Reservist for the majority of their financial support.

Finally, consider talking to a financial counselor who can help you choose the right loan or develop a plan to get you out of debt. Your installation Personal Financial Manager (PFM), or your local Personal Financial Counselor (PFC) can assist you in deciding on the right type of loan or developing a plan to help get you out of debt. Contact information for the nearest installation PFM can be found through your local installation directory or through the MilitaryINSTALLATIONS application, available at <http://www.militaryinstallations.dod.mil>. PFMs and PFCs can also be found at your local installation family services center.

You may also seek financial counseling through Military OneSource at one of the hundreds of nationwide offices of the National Foundation for Credit Counseling. You can schedule an in-person appointment with a financial counselor or receive counseling by phone by contacting Military OneSource online at

<http://www.militaryonesource.mil>, or by phone at 1-800-342-9647. Overseas personnel may contact Military OneSource at 00-800-3429-6477; or call collect overseas at 1-484-530-5908.

--

For more information, visit Military OneSource at <http://www.militaryonesource.mil>, an official Department of Defense website.