



FEDERAL TRADE COMMISSION

Consumer Information

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# What To Know About Payday and Car Title Loans

If you need cash fast to deal with an emergency, bills, or rent, a payday loan or car title loan might be tempting. But these are expensive loans, and they can trap you in debt. Find out how they work and about other possible ways to get money or credit quickly.

- [What To Know About Payday Loans \(#payday\)](#)
- [What To Know About Car Title Loans \(#car\)](#)
- [What Information Should I Look for if I Apply for a Payday or Title Loan? \(#apply\)](#)
- [Possible Alternatives to Payday and Car Title Loans \(#alternatives\)](#)
- [What if I'm in the Military? \(#military\)](#)
- [Report Fraud or Deception \(#report\)](#)

## What To Know About Payday Loans

Payday loans are small, short-term loans. They're usually for \$500 or less, and typically have to be repaid within two to four weeks. Also called cash advance loans, they are legal in most states.

To get a payday loan, you give the lender a personal check for the amount you want to borrow, plus the lender's fees. Or, you authorize the lender to take the loan amount, plus fees, from your bank account electronically. If you don't repay the loan on time, the lender can cash the check or electronically debit your account.

**Payday loans are expensive.** Lenders usually charge from \$10 to \$30 for every \$100 borrowed. On a typical two-week payday loan, a fee of \$15 per \$100 translates to an annual percentage rate (#apply) (APR) of 391%. The APR tells you how much it costs you to borrow money for one year. By comparison, the average APR for credit cards is 15%.

**Here's how a typical payday loan works:**

- You want to borrow \$500. The lender offers you a two-week loan. The fee is \$15 for every \$100 you borrow. So your fee will be \$75.
- You give the lender a check for \$575, or you authorize the lender to electronically debit your bank account. The lender gives you \$500 in cash.
- Two weeks later, you pay the lender \$575. The lender may either debit your bank account, cash your check, or take cash or other payment from you, depending on how you agreed to repay the loan.
- The bottom line: You paid \$75 to borrow \$500 for two weeks.

**Costs increase with rollovers.** If you can't repay the loan when it's due, many lenders will let you extend the due date for another two or four weeks — but you must pay another fee. This is a “rollover.” Each time you roll over the loan, the lender will charge you a new fee, and you will still owe the entire original balance. With rollovers, the cost of the loan grows very quickly.

#### **Here's how a typical rollover works:**

- Using the example above, on the original due date you don't pay but instead roll over the two-week, \$500 loan. The rollover will cost you another \$75.
- That \$75 is added to the \$575 you already owe, so you now owe \$650.
- The rollover brings your cost of borrowing \$500 for four weeks to \$150.

If you roll over the loan several times, you may pay hundreds of dollars in fees and still owe the original amount you borrowed.

## **What To Know About Car Title Loans**

Car title loans, often just called title loans, also are short-term loans. They typically last 15 or 30 days. The loans use your car, truck, motorcycle, or other vehicle as collateral. They're usually for amounts ranging from 25% to 50% of the vehicle's value.

To get a car title loan, you must give the lender the title to your vehicle. Usually, you need to own the vehicle free and clear, but some lenders will take your title if you've paid off most of your vehicle loan. The lender will want to see the vehicle, a photo ID, and proof of insurance. Many lenders also want a duplicate set of keys for the vehicle.

If you get the title loan, you won't get your vehicle title back until you repay the amount you borrowed, plus the lender's finance charge and any other fees.

**Car title loans are expensive.** Title loans usually have an average monthly finance fee of 25%, which translates to an APR of about 300%. Title lenders often add other charges to the loan amount, like processing, document, and loan origination fees. You also may have to buy add-ons, like a roadside service plan. If you have to pay added fees and buy add-ons, the cost of your loan will be higher.

**Here's how a typical car title loan works:**

- You want to borrow \$1,000 for 30 days.
- The finance fee is 25%. That means that you have to pay \$250 to borrow \$1,000.
- You give the lender the title to your car, and the lender gives you \$1,000 in cash.
- When it's time to repay the lender in 30 days, you must pay \$1,250, plus any other fees the lender charges.

Costs increase with rollovers. Like with payday loans, if you can't repay a title loan when it's due, the lender may let you roll it over into a new loan. But rolling over the loan will add more interest and fees to the amount you owe.

**Here's how a typical title loan rollover works:**

- Using the example above, on the original due date you don't pay but instead roll over the 30-day, \$1,000 loan for another 30 days. The rollover will add another \$250 in finance fees, plus any other fees, to the amount you owe.
- That \$250 is added to the \$1,250, you already owe, so now you owe \$1,500, plus any other fees that the lender may charge for the rollover.
- The rollover brings your cost of borrowing \$1,000 for 60 days to at least \$500.

You can lose your vehicle. If you can't repay the money you owe, the lender may repossess your vehicle, even if you've been making partial payments. When you get the loan, some lenders insist on installing Global Positioning System (GPS) and starter interrupt devices so that they can locate the vehicle and disable its ignition system remotely, making repossession easier.

Once the lender repossesses your vehicle, they can sell it, leaving you without transportation. In some states, lenders can keep all the money they get from selling the vehicle, even if they get more than you owe.

## What Information Should I Look for if I Apply for a Payday or Title Loan?

Federal law treats payday and title loans like other types of credit: lenders must tell you the cost of the loan in writing before you sign the loan agreement. They must tell you the finance charge, which is a dollar amount, and the APR, which is a percentage. The APR is based on how much money you borrow, the monthly finance charge, the fees you'll have to pay (like processing fees, document fees, and other charges), and how long you borrow the money. Use the APR to compare the cost of borrowing money from different lenders. It's the clearest way to see how expensive a loan is.

Be sure to read the loan agreement carefully to see if there are other costs or fees. These can include late or returned check fees. There also may be fees to roll over the loan.

Also, check with your state attorney general (<https://www.consumerresources.org/file-a-complaint/>) or state regulator (<https://www.consumerfinance.gov/ask-cfpb/how-can-i-tell-if-a-payday-lender-is-licensed-to-do-business-in-my-state-en-1597/>), about payday and title lending laws in your state. A number of states protect people from high-cost payday lending with small loan rate caps or other measures. Many states also require lenders to be licensed if they operate in the state.

## Possible Alternatives to Payday and Car Title Loans

Here are some less expensive and less risky options to payday and car title loans:

- **Ask your employer for a paycheck advance.** Your employer may be willing to give you money you've already earned but haven't been paid. For example, if you've worked seven days but your next scheduled paycheck isn't due for another five days, your employer might be able to pay you for the seven days. This is not a loan. It will be deducted from your next paycheck.
- **Ask your creditors for more time to repay them.** They may be willing to work with you. If they offer an extension on your bills, find out if they'll charge you for that service — through a late charge, an additional finance charge, or a higher interest rate.
- **Try to get a loan** (<https://www.consumer.gov/articles/1010-using-credit#!what-to-know>) **from a credit union.** Credit unions (<https://www.consumer.gov/articles/1003-opening-bank-account>) typically offer lower interest rates than banks or other lenders, and some federal credit unions offer "payday alternative loans," or "PALs," for small loans. PAL loans are much less expensive than payday or car title loans. Some state-chartered credit unions offer loans similar to PAL loans.
- **Visit a community bank.** Local banks can offer smaller loans with easier repayment terms than large regional and national banks. Talk with a small bank in your area to find out if you can qualify for a loan.
- **Use your tax refund.** If you think you might have a tax refund coming, file as soon as you can. The IRS says it usually issues refunds in 21 days or less if you file electronically. Ask the IRS to direct deposit your refund into your bank account.
- **Get help managing debt.** A credit counselor (<https://www.consumer.gov/articles/1014-managing-debt#!what-to-know>), may be able to help you manage your debt. Non-profit groups in every state offer credit guidance to people for no or low cost. You may want to check with your employer, credit

union, or housing authority for no- or low-cost [credit counseling programs](https://www.consumer.ftc.gov/articles/getting-out-debt) (<https://www.consumer.ftc.gov/articles/getting-out-debt>), too.

- **Ask family and friends for help.** It can be hard to borrow money from family or friends, but it can be worth it to avoid taking out, or rolling over, a payday or title loan.
- **Local charities and churches.** Charities, churches, and other centers of worship often offer financial and other help at no cost to community members who are hitting a rough spot. It's what they do, and it's okay to ask for help.

## What if I'm in the Military?

If you're in the military, the [Military Lending Act](http://www.consumerfinance.gov/askcfpb/1783/what-are-my-rights-under-military-lending-act.html) (<http://www.consumerfinance.gov/askcfpb/1783/what-are-my-rights-under-military-lending-act.html>) protects you and your dependents. The law limits the APR on many types of credit, including payday loans, car title loans, personal loans, and credit cards, to 36%. The law also tells lenders to give you information about your rights and the cost of the loan.

The military also offers financial help (<https://www.consumer.gov/articles/1011-payday-loans-and-cash-advances#!what-to-do>) and help managing your money. If you're facing financial trouble, talk with a [Personal Financial Manager](https://www.militaryconsumer.gov/spend/getting-started/personal-financial-managers-pfms-other-financial-counselors-and-legal-help) (<https://www.militaryconsumer.gov/spend/getting-started/personal-financial-managers-pfms-other-financial-counselors-and-legal-help>) (PFM) about your options. Do you need more time to pay your bills or a possible advance on your paycheck? Do you want to talk with a certified credit counselor about managing your money? Do you want some help from a military relief society? Call DoD's [Military OneSource](http://www.militaryonesource.mil/) (<http://www.militaryonesource.mil/>) help line at 1-800-342-9647 to discuss alternatives. Visit [MilitaryConsumer.gov](https://www.militaryconsumer.gov/) (<https://www.militaryconsumer.gov/>) to learn more.

## Report Fraud or Deception

If you think a payday or car title lender has been dishonest, contact your [state attorney general](https://www.consumerresources.org/file-a-complaint/) (<https://www.consumerresources.org/file-a-complaint/>), or [state consumer protection office](https://www.usa.gov/state-consumer) (<https://www.usa.gov/state-consumer>). Tell the Federal Trade Commission too, at [ReportFraud.ftc.gov](https://ReportFraud.ftc.gov) (<https://ReportFraud.ftc.gov>). The FTC doesn't resolve individual complaints, but your report helps law enforcement detect patterns of wrongdoing and may lead to an investigation.

May 2021