

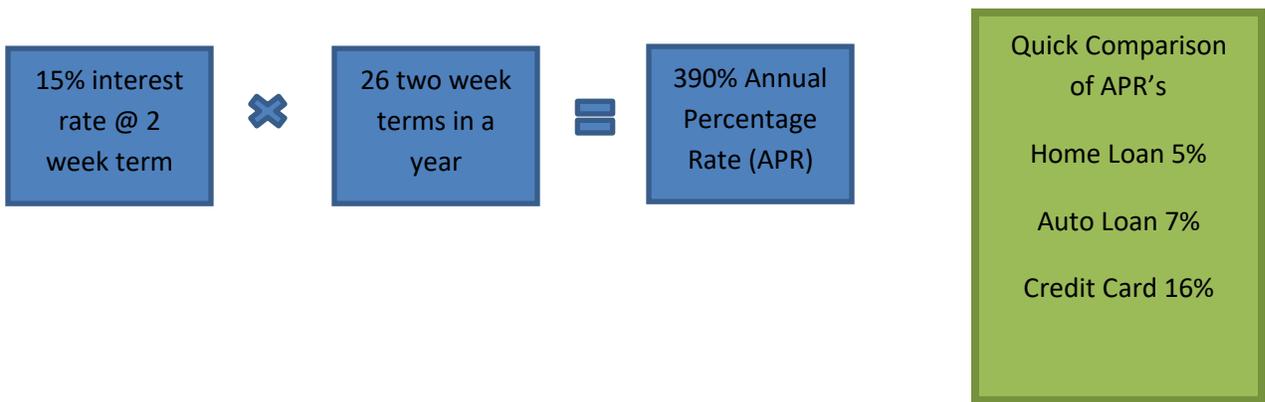
Assisting Your Clients with Understanding the Dangers of Payday Loans A Financial Coaching Resource

Question: If my client is drowning in payday loans, how can I assist them to get on the right track?

Answer: *Payday loans are a hard habit to break. However, a first step is to review your client's credit history. It is possible that they might have some active or previous credit that qualifies for a better type of loan, such as a credit card. Even a credit card with a small credit limit of \$500 is a great tool for someone in a tight spot because the amount charged could be paid in full each month, saving the borrower from paying any interest or other fees.*

Question: How can I convince my client that a payday loan is a financially destructive way to borrow money?

Answer: *Many people don't pay attention to the Annual Percentage Rate (APR) of a payday loan. Instead payday loans are often advertised using a two week term interest rate which can make the rate appear similar to other types of credit, such as a credit card or auto loan. In reality, the APR attached to a payday loan is much higher. Here's an example:*



Based on this example, a \$300 payday loan will charge a \$45 interest fee every two weeks. If that interest were to build for one full year, the total fee will be outrageous!



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Question: What are some better options than a payday loan for someone who needs quick cash?

Answer:

- *Check to see if your client qualifies for a credit card from a local bank or credit union. However, you should always pay attention to any fees, in addition to the interest, that the card carries and make sure your client understands how the fees work.*
- *Another option is to review your client's budget to see if it might be possible for them to create a cash cushion over time, to reduce the need to borrow when times are tough. Establishing an emergency savings account for people new to banking can be a great way for a person to save for unplanned expenditures. Make sure your client is aware of possible overdraft fees or other related costs that some financial transactional accounts carry. Also, in the United States, a number of Bank On-approved accounts are available. These accounts have no overdraft fees, transparent monthly fees, and a maximum opening account deposit of \$25 per account. The Oklahoma Native Assets Coalition, Inc. is available to help you find Bank On-approved accounts in your area. For more information, go to: http://www.oknativeassets.org/our_work/Native-Bank-On-ONAC and contact the Manager of Native Bank On ONAC.*
- *A low-cost pre-paid or secured credit card can be another useful money management tool. A person makes a deposit onto the card and can then charge up to that limit just like an ordinary credit card.*
- *Some tribes offer tribal credit programs to tribal members who need loans with fair interest rates. Check to see if any are available in your community.*
- *A Community Development Financial Institution, or CDFI, is another good option. CDFI's serve many tribal communities and often offer credit builder loans and other affordable loan products to borrowers with less than perfect credit.*
- *Check with any assistance programs such as TANF (Temporary Assistance to Needy Families) or SNAP (Supplemental Nutrition Assistance Program) that might be able to provide money or other resources to a family facing a setback. Churches, shelters, and local nonprofits or charities might also be able to help.*
- *Check with your employer about a payroll advance. Payroll advances have gone high tech and some employers now offer advances through a smartphone app. For example, Walmart provides free payroll advances, called Instapays, which are deducted from an employee's next paycheck. A payroll advance might be a better option than a payday loan because it is only an advance of earned wages instead of a loan. These advances are not intended to be used on a regular basis, however, if you can't pay back an advance in a timely manner, the debt won't go to collections. It is important to do your homework with these types of loans, because there are*

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many payroll advance apps available and some collect tips and fees which are just as costly as high-interest payments.

- *If you need a payday loan for a specific purchase, a growing number of online merchants offer point of sale financing at checkouts. For example, the online store Wayfair currently works with several companies to offer customers point of sale loans. Similar to old fashioned layaway, point of sale loans can be used for small dollar purchases, as well as big ticket items. A point of sale loan might be a good option for someone who can't qualify for a credit card. Moreover, some point of sale loans charge lower interest than credit cards and a borrower will usually know upfront how much they will pay in total. However, point of sale financing also has some significant drawbacks: loans that aren't paid off might show up as delinquencies on a credit report, and late fees can apply to any missed payments.*

Question: I've tried suggesting everything I know of to help my client break the habit of taking out payday loans. What if I can't get them to stop?

Answer: *Unfortunately, there is only so much a financial coach can do when trying to assist a person facing a financial hardship. However, try to find out why the person continues to need payday loans. It might be that they just need help with a good monthly budget. In other cases, there might be a larger issue such as a gambling problem, substance abuse, or an elder who is a victim of financial abuse from a relative or caregiver. Look into local support programs for problem gamblers or substance abusers. Casinos will also allow a problem gambler to be voluntarily banned from the casino, if necessary. Sadly, financial abuse is a growing problem in Indian Country. If you suspect financial abuse, consider contacting protective services or even law enforcement. Lastly, assisting a client with placing a credit freeze on his or her credit report is another option. A credit freeze locks a credit report so that no lender can access to it to make lending decisions until the freeze is lifted.*

