

# Payday Loans: What are my options?

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Consumers using payday loans may find themselves unable to repay the loans on the due date, resulting in a spiral of ever-renewing loans. Or, they add new loans to make payment on existing loans. Many fall behind on priority expenses such as rent and utilities, or end up with negative checking account balances causing other checks to bounce.

Remember: It can constitute criminal fraud to take out a loan if you know you cannot repay or do not intend to repay. However, if you intended to repay the debts but were unable, and are committed to ending the cycle of payday loans, here are several options that may stabilize your situation:

1. Increase your income or reduce your expenses to allow payment on the loans. Do NOT stop paying on priority expenses such as rent, utilities, food, insurance and medical care. That will likely create more financial crisis, not less.
2. Find funds to pay off the payday loans in full (savings, sell assets, help from family, or other resources.)
3. Seek advice from a bankruptcy attorney about the possibility of bankruptcy protection. This option may be most practical if you have a substantial amount of other unsecured debts.
4. Consider if a debt management plan through a reputable credit counseling agency (like LSS Financial Counseling Service) may be workable. This option would have to be discussed with your financial counselor to determine if it may be viable.
5. The fifth option, described below, may stop the spiral of new payday loans, while repaying the money you owe in full within a reasonable period.

## **Steps to Convert Payday Loan into Repayment in Full Plan**

- Stop writing ANY checks. Keep enough money in your account to cover any outstanding checks you have. Once they have all cleared, stop depositing money in that account. Open up a SAVINGS account at a separate bank or credit union to use for your banking needs going forward. Use money orders to pay your priority expenses.
- Go in person to your bank or credit union to let them know that you are going to have the payday loan checks sent through, despite not having adequate funds in the account to cover the checks. Tell the bank that you do not want them to pay the checks on your behalf.
- Let the payday lender(s) know that you will not be renewing the loans, and that you want the check sent through to your bank on the date the loan would renew.
- As soon as the payday loan checks are all presented to your bank ONCE, close the checking account down. Pay any fees that this generates at your bank. Closing the checking account is vital, as the payday lenders can continue to present the checks, as well as electronically debiting the account, which would generate more bank fees.
- You now owe the payday lenders the amount of the check sent through, plus a NSF fee (typically less than \$35) for the check being returned non sufficient funds. You do not owe a 'loan' anymore, rather a dishonored check. The lender cannot charge you interest on the debt.
- Write a letter to the payday lender(s) indicating your intention to pay the debt back over a short period of time (2-6 months), and include your first payment in the form of a money order. Send this letter certified mail and keep a copy for your records.

With honest communication to the lender, and follow through with monthly money orders, most lenders appear to accept having the debt paid off in payments.