



OKMM[™]
OKLAHOMA MONEY MATTERS

PREDATORY LENDING

Felix's Story

"I just need a little help until I get my first paycheck," Felix said. As a full-time student working part-time, Felix found that he still needed a little cash to cover his bills for the next two weeks. There was a cash advance storefront nearby that he could visit for the extra \$400 he needed, but he learned he could also apply for a payday loan right on his phone! Through the app, his loan could be approved and the funds delivered directly to his account, but the interest on this type of loan would make his total pay-off amount twice as much as the amount he actually needed to borrow.

Recently, the Oklahoma Small Lenders Act restricted the payday loan business, limiting the monthly interest rate to 17% and the maximum loan amount to \$1,500. The annual percentage rate (APR) on the loan Felix was considering, however, would be 204%! Felix would either have to keep borrowing to catch up on his debt or find another quick cash business, which shouldn't be too hard considering how many of them were located in his neighborhood.

Payday loan establishments and other predatory lending companies come in all shapes and sizes. Just because the company doesn't have "payday loan" in their title doesn't mean it's not a predatory lender. Predatory lending is any type of lending that loans money at an unfair or excessive cost to the borrower. Over the last few years, there's been an increase in apps and other online services that specialize in payday lending, giving the public easier access to funds, but the end game is still the same: the borrower obtains a small amount of quick cash and promises to pay on their next payday. If they don't pay as agreed, they can be charged extremely high interest. At that time, the lender suggests "rolling over" the debt into another loan and the cycle continues. Whether brick and mortar, through an app, or online, predatory lending exists.

Felix didn't want to get caught up in this greedy game with payday lenders, so he visited the financial aid office at his college. He was still eligible to receive some student loan funds that he hadn't accessed at the start of the school year. His financial aid counselor helped him take out a small federal direct student loan to help with his immediate school-related expenses. They also shared OKMM's **Borrow Smart from the Start** publication, which helped Felix choose the right repayment plan and successfully repay his student loan after graduation.