

FINE PRINT: Payday Loan Agreement

❖ **Teacher Tip:** If you prefer to administer this activity using a Google Form, please see the answer key for the Google form link. You can find this on the [Unit Page](#) this resource is in.

In this activity, you will explore a payday loan agreement in more detail to understand its various components. Then, you will answer questions using the payday loan agreement below.

Part I: Read The Fine Print

Analyze this sample payday loan agreement and answer the questions that follow.

PAYDAY LOAN AGREEMENT

Payment Due Date
11/28/2005

Customers Name RON JONES	Social Security Number: 545-45-4544	Contract Number: CA76100R	Contract Number: CA76100R
Customer's Address (Residence) City, State, ZIP 1015 EAST BOBBY COURT MILLERSVILLE, MO 37072-		Home Phone: (615) 855-1999	Work Phone: 615-662-9537
		Time Made: 1/14/2005 11:39:07 AM	Date Made: 11/14/2005
		Date of Birth: 4/24/1958	Eyes: brown
		Race: White	Height: 5'6"
			Gender: M

Creditor / Lender Alpha Omega Consulting Group, Inc. 716 Vauxhall Drive Nashville, TN 37221 (615) 662-9537	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Payment Schedule</td> <td style="width: 20%;">Number of Payments: 1</td> <td style="width: 50%;">When Payments Are Due: 11/28/2005</td> </tr> <tr> <td>Prepayment:</td> <td colspan="2">If you pay off early, you may be entitled to a refund of part of the finance charge</td> </tr> <tr> <td>Additional Information</td> <td colspan="2">See your contract for any additional information concerning nonpayment, default and prepayment refunds or penalties</td> </tr> </table>	Payment Schedule	Number of Payments: 1	When Payments Are Due: 11/28/2005	Prepayment:	If you pay off early, you may be entitled to a refund of part of the finance charge		Additional Information	See your contract for any additional information concerning nonpayment, default and prepayment refunds or penalties	
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ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
<i>The cost of your credit as a yearly rate</i>	<i>The dollar amount the credit will cost you</i>	<i>The amount of credit provided to you or on your behalf.</i>	<i>The amount you will have paid after you have made all payments as scheduled</i>
469.29%	\$36.00	\$200.00	\$236.00

ITEMIZATION OF AMOUNT FINANCED

Amount Financed <u>\$200.00</u>	Amount given to you directly. <u>\$200.00</u>	Amount Refinanced <u>\$0.00</u>
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This Loan Agreement, Promissory Note, and Security Agreement is entered into by and between CREDITOR/LENDER and BORROWER/DEBTOR as of the above date, subject to the terms and conditions set forth and any and all representations BORROWER has made to LENDER in connection with this transaction.

LOAN AGREEMENT. You have requested a loan (the "LOAN") in the amount of the Amount Financed stated above (the "PRINCIPAL"). At your specific request, we as LENDER do hereby advance to you the Principal Amount. This loan is offered under the Laws governing money, interest and usury. You as BORROWER shall pay in cash to LENDER the amount set forth by the installment schedule above when due pursuant to the Promissory Note. Any notice that we as LENDER are required to provide you pursuant to the Agreement and/or the Uniform Commercial Code of the State of New Mexico will be deemed reasonable if sent to you at the address set forth by you above at least five (5) days before the event with respect to which notice is required. In the event the loan is repaid prior to maturity, BORROWER shall pay interest at the rate set forth as the ANNUAL PERCENTAGE RATE above for the number of days the loan is outstanding and there will be no prepayment penalty. The amount set forth above as the FINANCE CHARGE is deemed a service fee by New Mexico law and is not interest.

INTEREST. This is a Simple Interest Loan, early payment will decrease the amount of the Finance Charge and late payment will increase the amount of the Finance Charge.

For example: Amount Financed Interest Rate #Days in year Interest Per day

\$200 x 625% / 365 = \$3.57

If this sample loan was paid in 7 days, interest owed would be: 7 days x \$3.57 = \$24.99. If it were paid in 22 days interest owed would be 22 days x \$3.56 = \$78.54.

TRUTH OF APPLICATION. You certify that the information stated on this contract is true and correct. You understand that we are relying upon the Application and this Agreement. You authorize us to verify any information through any source including the use of a credit report.

CUSTOMER'S BANK CHARGES. You will not hold LENDER or our agents responsible for depositing any check(s) or for any fees you must pay as a result of any check(s) being deposited at your bank.

DEFAULT. You will be in default under this Agreement if: (a) you stop payment on the check(s) we deposit or otherwise fail to pay the Total of Payment on or before the Payment Due Date shown above, or (b) you provide false or misleading information about yourself, your employment or your financial condition (including the account on which any check(s) is (are) drawn) prior to entering this Agreement, or (c) any of the following things happen to you: death, failure to pay your other debts as they come due, appointment of a committee, receiver or other custodian of any of your property, or the commencement of a case under the Federal Bankruptcy Laws by or against you as a debtor.

1. What is the borrowed amount for this payday loan agreement?
 - a. \$100
 - b. \$200
 - c. \$300
 - d. \$400

2. This loan payment is due ____ days after the finance date.
 - a. 7
 - b. 14
 - c. 21
 - d. 35

3. How much did Ron need to pay upfront?
 - a. \$20
 - b. \$36
 - c. \$200
 - d. \$236

4. How many payments should Ron make on the repayment date?
 - a. 1
 - b. 3
 - c. 14
 - d. 36

5. The APR for this loan is 469.29%. What does this mean?
 - a. If Ron had this loan for a year, the annual interest charge would be \$469.29 more than the principal amount borrowed.
 - b. If Ron had this loan for a year, the annual interest charge would be \$938.58.
 - c. Ron's loan will be worth 469.29% more if he waits a year before paying it off.
 - d. Ron has 469 days to repay his loan before it goes into default.

6. In what kind of situation might Ron be entitled to a refund of part of the finance charge?
 - a. If Ron paid off the loan on 11/30/2005.
 - b. If Ron paid half of the finance charge when signing the agreement.
 - c. If Ron paid off the loan before 11/28/2005.
 - d. If Ron missed his payment due date.

7. What information is included in this loan agreement that would NOT be included if Ron had gotten a loan from a bank or credit union?
 - a. Ron's phone numbers
 - b. Ron's physical features, such as his eyes, race, height, and gender, in case the lenders need to track him down
 - c. Ron's address
 - d. Ron's social security number

8. All of the following could happen if the payday loan is not paid back EXCEPT...
 - a. Lenders may charge a default fee of \$20.00
 - b. Lenders may go to court and get a judgment against you for the unpaid amount
 - c. Lenders could charge you for their attorney (if necessary) and court costs
 - d. Lenders would be in possession of your auto title loan.

9. If Ron does not return to the payday lender with \$200 in cash or certified payment by 11/28/2005, what will occur next?
 - a. The lender will charge Ron the default fee of \$20
 - b. The lender will cash the post-dated check he gave them at the time the loan was granted
 - c. The lender will send the police to Ron's residence
 - d. The lender will visit Ron's workplace and garnish his check on payday

10. APRs for credit cards can range from about 9% to 30%. How does the APR for this loan compare?
 - a. The payday APR is incorrect in this loan agreement.
 - b. The credit card APR is about 15 times more than the APR for this payday loan.
 - c. This payday loan APR is about 15 times more than the APR for most credit cards.
 - d. The APRs for both credit cards and payday loans eventually even out over the course of 15 years.

Part II: What Did You Learn?

Use what you learned from analyzing the payday loan agreement to answer this question.

11. Using information from the payday loan agreement, explain how payday loans can cause many consumers to fall into vicious cycles of debt.