

THERE ARE BETTER ALTERNATIVES TO HIGH-COST DEBT. THE BIPARTISAN VETERANS AND CONSUMERS FAIR CREDIT ACT WILL HELP CONSUMERS RELY ON THESE SAFER, LOWER-COST FORMS OF CREDIT

Consumers with Bad Credit Do Have Alternatives to Payday, Vehicle Title and Similar Forms of High-Cost Debt. Millions of American rely on:

Credit cards. Every credit card in America includes the equivalent of a free payday loan. Credit card borrowers who are not carrying a revolving monthly balance are entitled to a no-cost grace period each month. Many banks and credit unions offer credit cards especially designed to work for subprime borrowers with poor and very poor credit histories. Many subprime credit cards are a far less expensive, safer product that are worth the time it takes to apply. Credit card lenders have lower administrative costs and generate revenue from merchant swipe fees.

Federal credit union Payday Alternative Loans. Many federal credit unions offer “PAL” loans with interest rates of 28% and an application fee to compete with triple-digit interest rate payday loans. These are relatively inexpensive, safer products that are widely available to borrowers who invest the time in developing a banking relationship with a federal credit union.

Finance company and fintech installment loans with rates below 36%. Some finance companies specialize in making loans with interest rates below 36% to subprime borrowers. All companies are not created equal, however, so consumers should exercise caution when choosing companies. Subprime finance company installment loans are usually much cheaper than debt-trap payday and vehicle title loans.

Charitable community and poverty assistance organizations. America has a diverse and robust non-profit sector that provides many subsidized and charitable payday loan alternatives. Many faith organizations, local governments, and charities have programs specifically designed to help consumers who are facing an emergency. The financial advice website Nerdwallet.com is currently maintaining lists of dozens of charitable organizations providing payday loan alternatives in many areas around the country.

Payroll Access Services. A growing number of employers provide active payroll access services to help their employees have access to their wages before payday. Some employers provide the services directly through their payroll department while others outsource these advances to a technology company.

Negotiated forbearance agreements with landlords, merchants, utilities, and other creditors. Many lenders and loan servicers understand that borrowers running to payday lenders can make repayment of a home mortgage or auto loan less likely. In some cases, loan servicers have the authority to negotiate forbearance agreements that are typically cheaper than a payday loan and similar forms of credit. Many landlords, merchants, and utilities will also work with struggling borrowers to accommodate delayed repayment for free or at lower prices than payday and car title lenders, or can make referrals to reputable local charities.

Pawnshops. Although pawn credit is expensive, it is often cheaper than triple-digit interest rate payday and car-title debt traps. In bona fide pawn loans, borrowers preplan their exit from the debt. Borrowers select an item of personal property to serve as collateral and forfeit the item they themselves chose if they cannot repay. Pawn credit tends to nudge borrowers toward savings by forcing them to relinquish something of value prior to borrowing. Principal balances tend to be more manageable for lower-income consumers than those in payday and car title loans.

Assistance from family or friends. Not everyone has family or friends to turn to in times of need. But many people do. Payday loan borrowers are better off turning to friends or family before a payday loan turns a tough financial situation into a crisis. Many high-cost borrowers are forced to turn to friends and family to help them escape from payday, vehicle title, and similar lenders, but need *more* assistance when they do.

Increasing income or cutting back on expenses. While not everyone can increase their income or cut back on expenses, many people can. In some circumstances, thrift and hard work are an important alternative to high-cost debt.

Struggling consumers may qualify for bankruptcy protection under federal law. The most common causes of personal bankruptcy include medical expenses, job loss, and family instability. Yet, many consumers struggle for years to overcome insurmountable financial obstacles. Bankruptcy isn't for everyone, but Americans should consider making a “fresh start” bankruptcy before turning to predatory lenders.