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DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

BARBARA ANTHONY
UNDERSECRETARY

Contact:

Jason Lefferts
(617) 973-8767

August 18, 2009 - For immediate release:

Division of Banks Orders Internet Payday Lenders to Cease Activity in Massachusetts

Payday Lenders Charge High Rates and Fees, Expose Consumers to Identity Theft and Insurmountable Debt

BOSTON – August 18, 2009 – Continuing the Patrick Administration’s efforts to combat illegal Internet payday lending activity in Massachusetts, the Division of Banks today announced that cease-activity directives had been issued to [95 companies](#) **EWB** marketing illegal payday loans to Massachusetts consumers. This follows similar cease activity initiatives against Internet-based payday lenders during 2005 and 2006.

A payday loan is short-term, small-sum, high-rate, unsecured personal loan that utilizes a consumer’s checking account (usually through electronic access but sometimes actual checks) for repayment of the amount borrowed. Since these loans are short-term in nature, the cost of payday loans to the consumer is enormously high, many times exceeding the original loan amount borrowed.

In exchange for a loan, a borrower provides the lender with an authorization to automatically debit his bank account. Repayment of the full amount, along with any fees required by the lender, is typically due within 14 days or with the borrower’s next paycheck. If a borrower does not have the ability to repay the full amount within the required time frame, she can roll over the loan for an additional period of time for an additional fee.

“The exorbitant fees and interest rates charged on these loans are illegal and alarming,” said Undersecretary of Consumer Affairs and Business Regulation Barbara Anthony. “These types of lenders prey upon those members of our population that are most vulnerable and result in overwhelming debt that consumers are unable to overcome.”

This type of lender is Internet-based and requires access to a consumer’s bank account and personal information. Due to the nature of these lenders operating over the Internet and across the globe, they are difficult to track and verify, consequently increasing the risk of identity theft for consumers.

“It is extremely important for consumers to be aware that they have no avenue to get their money back if they willingly give their personal account information to these entities,” Undersecretary Anthony said.

Payday lending is not specifically prohibited in Massachusetts. However, statutory licensing provisions require entities that wish to engage in such small-dollar lending in Massachusetts obtain a small-loan license from the Division of Banks. Under the small-loan licensing requirements of Chapter 140, Section 96, an entity engaging in small loans for amounts of \$6,000 or less cannot charge an annual percentage rate of more than 23 percent or fees greater than \$20.

Many of the entities identified by the Division of Banks engaging in payday lending were found to be charging annual percentage rates averaging over 500 percent and fees averaging \$40 to \$60.

“These companies are not licensed to operate as lenders in Massachusetts and offer terms well in excess of those allowed under our small-loan statute,” said Commissioner of Banks Steven L. Antonakes. “The Division of Banks will continue to aggressively identify and pursue these types of unlicensed lenders and educate consumers of the dangers of these types of loan products.”

Payday lending is a costly alternative for short-term cash needs. Before considering a payday loan, consumers should explore other less costly alternatives including:

- Contacting their local bank or credit union provides short-term loans. While there are still costs associated with these alternatives, they are typically much less than what would be paid for a payday loan. Additionally, the consumers have the ability to interact with representatives of the institution if they have questions and concerns;
- Obtaining a cash advance from a credit card. Although this is generally a very costly way to borrow money, it is still less costly than payday lending;
- Asking your employer for an advance on your paycheck;
- Finding out if you can delay paying a non-interest bill such as a utility bill and make payment arrangements with the utility company, or;
- Asking your creditor for more time to pay your bills or a modification to your terms and what they will charge for this service – a late charge, an additional finance charge or a higher interest rate.

Anyone with additional questions regarding payday lending may contact the Division of Banks' Consumer Hotline at **1-800-495-BANK (2265), Ext. 501**.