CHAPTER 4

Realities of Cash Advances

Activity: Individual or pairs

Materials: Activity handout and access to the internet

Objective: The purpose of this research activity is for students to obtain and analyze information about cash advance and payday loan services. Some of the actual terms of these services (fee structure, penalties, and so on) are difficult to locate, and that in itself is part of the activity.

STANDARD Credit and Debt Standard 1: Identify the costs and benefits of various types of credit
• Give examples of “easy access” credit.
• Discuss potential consequences of using “easy access” credit.

Procedure

Instruct students to find a specific cash advance, title pawning, or tote-the-note business by entering “cash advance,” “title pawning” or “tote the note” into an online search engine.

Hand out student activity sheet. Students will record information on this sheet and answer questions related to these services.

Question #6 refers students to the Better Business Bureau. Go to www.bbb.org to further research the company.

Instruct students to do further research to reveal the actual cost of using these services. This could include calling around to different businesses to ask about their policies, reviewing articles written about these services—basically anything they can think of to get quality information. At the end of this activity, students should be able to provide ample support that title loans and cash advance services drag low-income borrowers into a cycle of debt where it is easy to incur enormous expenses, more debt and even repossessions.

Note: Remember that these services are located in the lower-income neighborhoods. Students should start to realize that borrowing for emergencies only leads to a cycle of debt, as most payday or cash advance borrowers have trouble repaying the loan plus fees only 30 days later. You may have to guide them to this realization if they haven’t connected with this concept.

Answers

Note: Answers will vary. The answers below are suggested answers based on a fictitious company.

1 Happy young people, money, people helping others, “No credit check,” “Bankruptcy OK!,” “Cash in Minutes!,” toll-free phone number, easy to work with, easy to get, easy site to navigate

2 They look over your vehicle and lien-free title, appraise it, and determine how much they will loan against the car. They hold the title and give you the cash. You get to keep the car.

3 Newer truck, cash, happy people with cash in hand, all nicely dressed, middle class—all convey that this will be the solution to your money problems. Made to look simple, easy, no hassle, no catches.

4 Examples:

» Quick Cash, Keep Your Car: You get the cash you need and get to keep your car. Otherwise in a time of need, you would be forced to sell your vehicle at a below-market price to a used car dealer.
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Answers (Continued)

» **Lowest Rates in Industry:** King’s Title Tote’s highest interest rate is up to 50% less than most competitors. In many cases, a cash advance from King’s Title Tote is cheaper than sending your own money through a leading wire transfer service.

» **No Credit Check:** King’s Title Tote does not check your credit when you apply for an advance or affect your credit score if you default. Getting the cash you need without affecting your credit rating can be a huge bonus if you have a marginal credit score.

» **0% Military Policy:** If you or your spouse is an active U.S. service member deployed to a combat or combat-support zone or a reservist called up for active duty, King’s Title Tote will give you a cash advance at 0% interest for the term of your deployment. This means you pay nothing while you are deployed.

» **High Customer Satisfaction:** Over 50% of King’s Title Tote customers are referred by another customer or are repeat customers themselves. Repeat customers are those who received a cash advance, paid their account off completely, and then returned at a later date to get another cash advance.

» **Maximum Value for Vehicle**

» **No Insurance Requirement:** If you total your vehicle in an accident, you keep the cash from the loan and King’s Title Note gets a totaled vehicle.

» **Repossession Is the Last Resort:** If King’s Title Tote is forced to repossess and sell your vehicle, all surplus proceeds are returned back to you. King’s Title Tote does not profit from repossessing and selling vehicles. Repossession is a last resort.

3 30-day payback; interest is $25 per $100; late fee is $10 per day; interest is about 300% if you compute it on a yearly basis.

6 Answers from the Better Business Bureau will vary.

7 Called them, looked up news stories on this type of service; they don’t want people to see the terms because they are outrageous; if people understood these clearly, they wouldn’t use them; information is power.

8 Answers will vary.

9 Answers will vary but should refer to the cycle of debt.

10 Answers will vary.

*Note: Alternative activity for number 10: Create a public service poster or commercial displaying the realities surrounding the payday lending industry.*
Realities of Cash Advances

Directions

Search for “cash advance,” “title pawning,” or “tote the note” online. Use the guided research sheet to record information and answer questions related to these services.

Website ____________________________
Name of Company ____________________________

1. What pictures and information are used on the home page, and what ideas do they convey?

2. How does this service work?

3. What other images are used within this site, and how does that relate with what they are selling?

4. What are some of the promises or guarantees that the company makes? How does it attempt to position itself as a service provider? Give at least five observations below.

5. What are the exact terms of use for this service? Think about fees, payback time, interest rate, and so on.

6. Research the company with the Better Business Bureau (www.bbb.org) to find out if there is additional information about this company.

7. How difficult was it to discover the exact terms of the service? Why aren’t those terms listed prominently, where a person can see them clearly and easily?
8. Look at some of the FAQs (Frequently Asked Questions). Which questions or answers surprised you the most? Why?

9. Go back to the guarantees or promises in question 4. Consider everything you’ve learned about this business, and explain how this business keeps borrowers in a cycle of debt.

10. Analyze the information, and assess why some critical components (terms, fees, interest rates) are not listed. Write a paragraph refuting the myth that cash advance/payday lending are financial services for lower income people that help them get ahead using the facts gathered.

Note: Alternative activity for number 10: Create a public service poster or commercial displaying the realities surrounding the payday lending industry.