

How to Figure a Payday Loan APR

Susie needs \$100 to buy school clothes for her kids. She hasn't saved the money. Should she use her credit card or get a payday loan? Before she gets the loan, she needs to compare the APR (annual percentage rate) of her credit card and the payday loan.

When Susie looks at her credit card information, it says the APR is 20%. When she goes to a payday loan store, the lender tells her the fee is \$15 for a two-week loan but doesn't give her the APR. What is the APR for this two-week loan?

Step 1: Change the two-week fee to a yearly charge.

52 weeks/year divided by 2 = 26 two-week periods/year

$$\begin{array}{rcccl} \$ \underline{15} & \times & \underline{26} & = & \$ \underline{390} \\ \text{payday loan} & & \text{\# of periods} & & \text{yearly charge} \\ \text{fee} & & \text{in a year} & & \end{array}$$

Step 2: $\$ \underline{390} \div \$ \underline{100} = \underline{3.9} \times 100^* = \underline{390} \%$

yearly charge amount of loan APR

(*to figure the percentage)

What should Susie do—use her credit card or get a payday loan?

- 390% is a very high APR! Susie's credit card APR is 20%; therefore, it costs less money to use her credit card.
- If Susie rolls over her payday loan for an extra two or more weeks, her payday loan fee will also increase. Her total fee for using her credit card is \$20. If she pays her credit card bill when the payment is due, there will be no fee charged.



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