

Payday Loans

A payday loan is a short-term loan for \$100 to \$500. It is sometimes called a cash advance because you make the loan with the promise to repay from your next paycheck.



How it Works

For example, on February 1st you needed \$200 cash but your payday is in 2 weeks. The lender agrees to give you the loan with a \$60 service fee. You then write a post-dated check for February 14th for \$260. The lender will then give you \$200. The lender will hold your post-dated check.

How You Repay

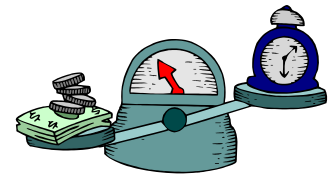
To repay your loan you will redeem your post-dated check with cash, money order, or let the loan company deposit the check to your bank.

Another option is to rollover the loan. This means that the loan can be repaid at still a later date. An additional fee is added onto the first loan making your loan total \$320 (\$260 + \$60).

The loan can be rolled over two, three, or more times, before coming due. Each time the loan is rolled over; you will be charged an additional fee. As a result, this type of loan can be very high priced credit.

The Real Cost

The *real cost* of the payday loan is the charge the company makes for lending you the money. This *real cost* depends on the amount of the loan, the lenders fee scale, and if you have gotten a loan before with the lender.



The lender usually does not quote interest rates, but quotes fees in dollar amounts. If the fee cost is quoted like with other traditional loans, the interest rates are very high. Based on annual percentage rates you may be paying as much as 2000% for using this type of loan.

If You Do Not Repay

If you do not follow the repayment agreement, the loan company can cash the check from you. If the check bounces, this will cause extra charges from your bank and charges from the lender.

Writing bad checks is illegal and you can be threatened with criminal action.

Should You Use Payday Loans?

Payday loans may sound like a good source of quick and easy cash. But the truth is these types of loans may push you further into debt. Ask yourself these questions:

- What are the total fees, the payback plan, and the penalties if you don't pay on time?
- Did you comparison-shop for the best rate?
- Why do you need money for emergencies? Do you need an increase of income, revise some of your expenses?
- How can you get a loan that is less costly? Can you borrow from friends or relatives?
- Do you need to talk with a financial counselor to solve your money problems?
- How can you save \$300 in a savings account that would be for emergencies?
- Can you delay paying a non-interest-charging bill such as utility bill and make payment arrangements with them instead?

If you decide to borrow money from a payday loan lender, make certain to borrow only what you can afford to pay back from your next paycheck.

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Now look at an example of how much payday loans really cost:
[Payday Loans Can Be Costly](#)

Learn how to compare the cost of using a credit card versus a payday loan:
[How to Figure a Payday Loan APR](#)