



Payday Loans = Costly Cash

Payday loans are a quick answer to a need for quick cash. But, they come with a very high price to the consumer.

Usually, a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed — say, for every \$50 or \$100 loaned. And, if you extend or “roll-over” the loan — say for another two weeks — you will pay the fees for each extension.

The typical payday loan amount is about \$300 per two-week period, and carries an average fee of \$15 for each \$100 charged thus resulting in a 390% Annual Percentage Rate (APR).

The payday loan industry has exploded in recent years, with almost twice the number of MacDonald's locations across the country. It's designed to be available for emergency situations, but many consumers end up renewing their loans and incurring even higher fees because they were not able to pay the original fee on the due date. This “loan flipping” can result in APRs ranging from 300% to 800%. Research shows that only 1% of payday borrowers take out one loan per year and pay it off on the original due date.

Under the Truth in Lending Act, the cost of payday loans — like other types of credit— must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the APR (the cost of credit on a yearly basis.)

Alternatives to Payday Loans

There are other options. Consider the possibilities before choosing a payday loan:

- When you need credit, shop carefully. Compare offers. Look for the credit offer with the lowest APR. Consider a small loan from your credit union, an advance on pay from your employer, or a loan from family or friends.
- Ask your creditors for more time to pay your bills. Find out what they will charge for that service — as a late charge, an additional finance charge or a higher interest rate.
- Make a realistic budget, and figure your monthly and daily expenditures. Avoid unnecessary purchases — even small daily items. Their costs add up. Also, build some savings — even small deposits can help — to avoid borrowing for emergencies, unexpected expenses or other items.
- Find out if you have, or can get, overdraft protection on your checking account.
- If you need help working out a debt repayment plan with creditors or developing a budget, contact your credit union for a referral.