

Let's Talk Finances

The High Cost of Payday Loans



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Being broke is expensive. Right now, so many people are scrambling to figure out how to make rent, cover utilities, pick up some work, get their unemployment checks, and keep their heads above water. When it's getting down to the end of the month, if people have exhausted personal loans through their bank, they may be putting more on their credit card, or getting a cash advance. As a last resort, they then might turn to payday loans.

What is a Payday Loan?

A payday loan is a very short-term loan. You pay a fee to borrow the money, even if it is for just a week or two. Here's how it works:

- You give the lender a check for the amount you wish to borrow, plus a fee.
- The lender keeps your check and gives you cash – less the fee charged.
- On your next payday, you are required to pay the lender in cash, at which time you get your check back.

Or at least that's how it's **supposed** to work. The reality is frequently very different:

- You borrow \$500.00. The fee is \$75.00, so you give the lender a check for \$575.
- Two weeks later, it's time to pay back \$575.00 and receive your check back, but life happened and you are short. You pay the lender \$75.00 to extend the loan for another two weeks.
- Every two weeks, until you pay back the original \$500.00, you pay additional charges to roll the loan over for another cycle. After a bit of time, you can end up paying more than the original loan to cover your fees, and **still** owe the original \$500.00.

Payday loans aren't anybody's first choice. Studies have shown that very few people are one and done with payday loans. So, read the terms of the loan really carefully. Add up how much you'll have to pay if you can't make that repayment in 2 weeks. And ask yourself: will taking out a payday loan do more to help or hurt you?

Sometimes there are only bad choices or worse choices. But you don't want to be blindsided with the long-term bad as you're trying to get back on your feet. Bottom line: check out the real cost of any loan before you sign.