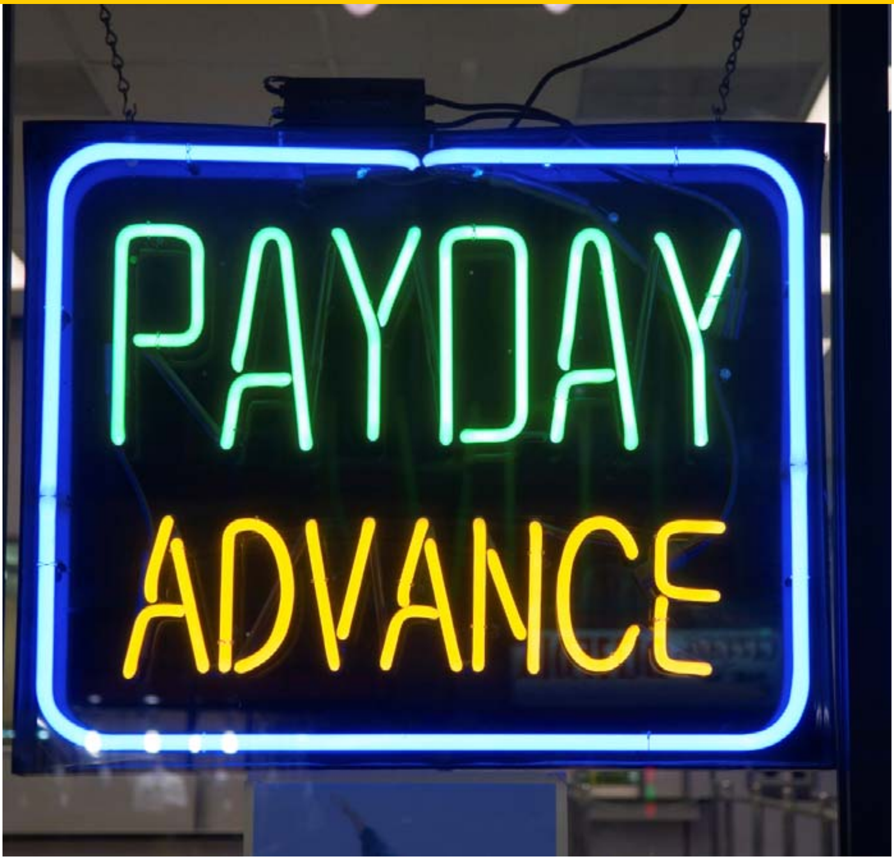
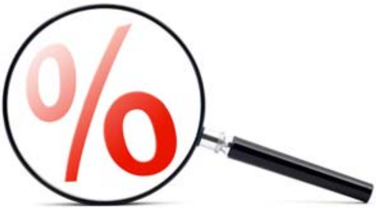


Payday Loans = Costly Cash

Payday Loans

Would you take out a loan with an Annual Percentage Rate (APR) of 391%?



Many people do. If you have used payday loan services you may have too. The fee may not seem too high, only $15 for a $100 loan. But because the loan is for such a short period of time, the interest rate is very high.

Here's how it works:

Let's say you write a personal check for $115 to borrow $100 for up to 14 days. The check casher or payday lender agrees to hold the check until your next payday. At that time either:

- the lender deposits the check,
- you redeem the check by paying the $115 in cash, or
- you roll-over the check by paying a fee to extend the loan for another two weeks.

Note – if you roll-over the loan three times, the finance charge would climb to $60 to borrow $100.

Here's the math:

$15 fee ÷ $100 loan = 15% for 14 days
15% ÷ 14 days = 1.07% daily interest rate
1.07% daily interest rate x 365 days in one year
= 391%

Other Choices

Before taking out a payday loan, consider these options:

- take out a small loan from a bank or credit union
- get an advance from your employer
- borrow from family or friends
- ask your creditors for more time to pay your bills
- if you have a credit card, check into getting a cash advance

Remember – always shop for the lowest APR

For more information contact:

Adapted from FTC Consumer Alert, *Payday Loans = Costly Cash*, Federal Trade Commission, Bureau of Consumer Protection, Feb 2000.

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