



**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:

$\$15 \text{ fee} \div \$100 \text{ loan} = 15\% \text{ for 14 days}$

$15\% \div 14 \text{ days} = 1.07\% \text{ daily interest rate}$

$1.07\% \text{ daily interest rate} \times 365 \text{ days in one year}$   
**= 391%**

## Other Choices

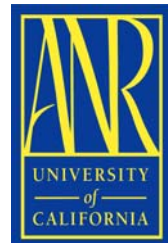
Before taking out a payday loan, consider these options:

- ◆ 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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