

Payday Loans Explained

Have you ever found that there's more month than money? Every once in a while, we all fall a little short on cash. When this happens, most of us turn to our friends, employers or parents for a short-term loan. There is a new kid on the block, however, that's all too willing to lend you the cash you need # at a premium.

Payday loans are becoming big business. We hear about them on the Internet, on TV and radio, and even in the mail. While these loans may promise an easy solution, there is a steep price involved.

Check cashers, finance companies and other lenders offer small, short-term, high-rate payday loans to provide a quick fix for people who fall short of cash between paydays. These transactions go by a variety of names, including cash advances, check advance loans, post-dated check loans and deferred deposit loans.

So, how does a payday loan work? Typically, a borrower writes a personal check payable to the lender for the amount that he or she wishes to borrow, plus an additional borrowing fee. The lender will then provide the amount of money in the form of a check or cash, minus the fee. The fees charged are usually based on a percentage of the face value of the check. Sometimes, a flat fee is charged per amount borrowed. For example, a fee of \$15 may be charged for every \$100 borrowed. On extended loans, a process referred to as "roll-over", you are obliged to pay any additional fees that may be incurred. Let's say you arrange for an extension of two weeks to pay back your loan. At a rate of \$15 per week, plus the initial \$15 borrowing fee, you could end up paying \$45 in charges simply to borrow \$100.

Paperwork Under the Truth in Lending Act, the cost of payday loans, along with other types of credit, must be disclosed to the borrower. Other pieces of relevant information that the lender is required to give you in writing include the finance charges or dollar amounts, as well as the APR (annual percentage rate). The APR refers to the cost of borrowing on a yearly basis.

Fast Cash at High Rates Regardless of where you secure your payday loan, you can bank on it being a very expensive source of credit. Despite this, people continue to opt for payday loans. To illustrate just how expensive payday loans can be, let's say that you need to borrow \$100. You write a check for \$115, which will cover your cost of borrowing. The check casher or payday lender agrees to hold your check until the next payday arrives. At that time, depending on the particular plan you choose, the lender will deposit the check. The check is redeemed, and you pay the \$115 in cash. If you are not able to cover the payment, you can ask to "roll over" the check by paying an additional fee to extend the loan for another two weeks. In this example, the lender charges you a fee of \$15, while also charging an APR of 391. If the loan is rolled over three times, your finance charge will climb to \$60 on the \$100 you borrowed.

It's easy to understand how people can get caught in a vicious cycle of borrowing and repaying. The loan is repaid on payday, leaving the borrower short on cash again. He or she returns to the lender, and the process starts all over again. For this reason, it's a good idea to explore all other options before resorting to payday loans.