

The Perils of Payday Loans

courtesy of AICCCA member Pioneer Credit Counseling

It seems like you can't turn on the radio, TV or favorite webpage without seeing or hearing an ad for a payday loan center. They all promise the same thing; fast cash, no credit checks, easy money in your pocket for whatever you need. Unfortunately, they don't tell you how you can get caught in a web of never-ending debt. They forget to mention that their interest rates can be up in the hundreds.



Does it still sound like easy money?

There are many reasons that the payday loan companies tell you why you should use their services. Some reasons play off of your fears while others entice you to splurge on yourself. They may show you a scenario where you need money to pay a bill or for an emergency and you don't have anywhere else to turn to. Their convenience and no credit checks are tempting to individuals who have a hard time getting loans elsewhere.

A payday loan works like this. You go into one of their offices and receive a cash loan for a pre-determined amount. You then write them a post dated check for the amount you borrowed PLUS interest and fees. The date of the check usually corresponds with your payday to ensure that you will be receiving money. If you do not pay back the loan before that date the lender will process your check accordingly.

An example is you go to Johnny's Payday Lending Center on the 5th of the month and want to borrow \$100. You write them a check for \$120 (\$100 cash + \$20 charge) and date it for the 15th of the month, which is your next payday. The lender gives you the hundred dollars cash and you can walk out the door.*

It is now the 15th of the month and you get paid but are still short funds. You go back to the Lending Center and they tell you that you can roll it over an additional two weeks for the same \$20 charge. You now owe them \$140 on the 30th of the month. So you paid forty dollars to borrow a hundred.

Some advertisements will even suggest that you can come to them to borrow money for unnecessary things like vacations, guitars, TVs, clothes, and many other things that should be budgeted. If you don't have the money to buy these things than you should not borrow high-interest money.

If you are between paychecks and need money for a bill, there are plenty of other options out there for you instead of a payday loan.

- You can ask your employer for a payday advance. They may be able to advance you the amount you need or even the entire check based on their paying schedule.
- Call your creditors and ask them for an extension. Even if you were late with the payment the fees and charges are usually less than the interest you would pay with a payday loan.
- Ask to borrow the money from a friend or family. Use a contract and a repayment schedule so you don't strain your relationship over borrowed money.
- You can also try and apply for a small loan at your bank or credit union. This will depend on the amount you are asking for and your credit standing. Some banks are more willing than others to work with you.

Even a cash advance on a credit card will cost you less than getting caught in the cycle of payday loans. This works best with a card with a low APR. This should not become a habit however or you will find yourself in a whole different mess.

If you have exhausted all of your options and still think that a payday loan might work for you, take these things into consideration. Only borrow the amount of money you can afford to miss from your next paycheck. Make sure that you payoff your balance on the day that it is due so you don't acquire any more charges and fees. Review your spending and find where you can cut back so that you are not left short of money between paychecks again.

You also need to find a way of trying to put together some funds for your savings account. This will help you if you have an unexpected problem when all of your other money is spoken for.

There may be some of you out there that have already dealt with them and some of you may have even come through it unharmed. It is our advice that you try and ignore the bombardment of ads. They are meant to help you with a temporary setback but can often times become a permanent problem.

*A fictitious name and any similarities to an actual loan center is purely coincidental.

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