

PAYDAY LOAN\$

What could 'fast cash' really cost you?



“Payday loans” which are also called cash advances, check advances, and post-dated check loans, have become increasingly popular for fast cash. All someone needs in order to obtain a payday loan is proof of employment, a utility bill, a checking account, and a driver’s license.

Consumers may be misled into thinking that payday loans are a cheap and convenient way of borrowing money for the short term. However, they often have difficulty repaying the loan because it leaves little or no money for living expenses. The result ends with the borrower paying another round of fees while receiving no additional cash in return.

PAYDAY LOAN CYCLE

The borrower writes a personal check payable to the lender for the amount he or she wishes to borrow, plus a fee, which is typically in the range of 10% to 25% of the amount borrowed. That check is normally held for up to four weeks, then “cashed” to repay the loan. If the borrower cannot cover the check, the loan can be rolled over for an additional four-week loan term by writing another check. This transaction comes with another set of fees, which are then added to the balance. When new fees are tacked on, along with exorbitant interest rates, borrowers can become trapped in a seemingly never-ending cycle of ballooning debt.

WHEN A BARGAIN'S NOT A BARGAIN

With average annual interest rates ranging from 390% to 871%, payday loans are no bargain. Consider this example: If the check is written with a face value of \$200, a 15% fee (\$30) is applied. The amount paid to the borrower is \$170 and the lender receives \$30, which translates to an APR of 458% if the loan is repaid in two weeks. If it is rolled into a new payday loan, an additional fee of \$30 is charged, the loan is raised to \$230, and the APR jumps to 917%. In other words, it could cost \$60 to borrow \$170 for one month.

TRUSTED ALTERNATIVES

Instead of using these high-interest loans, consider financing options with your credit union. Carolinas Telco FCU members can apply for our [Lend A Hand Loan](#), which offers an alternative to payday lenders. This loan could be used for just about any emergency financing need, even when the borrower may have less than perfect credit.

No matter which option you choose, remember that short-term relief could lead to long-term financial damage. To find out more information or which loan might best fit your needs, visit www.ctelco.org/lendahandloan.

