

# Payday Loans

### Fact or Myth

 A Pay Day Loan <u>is affordable</u> for most borrowers.



### Fact or Myth

A Pay Day Loan is <u>easy</u> to obtain



## Fact or Myth

 A Pay Day Loan has a <u>lower interest</u> rate than a loan from a bank

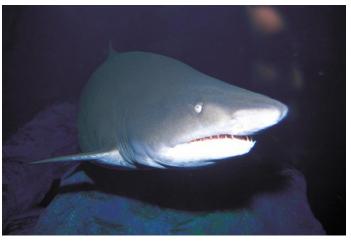


## What is a Payday Loan?

- What is it?
  - Form of Credit
  - Cash Loan
  - Unsecured
  - Extremely High Interest
  - Short-term (14 45 days)
- Also called
  - Cash Advance
  - Check Cashing

Stay Away!





### How Do Payday Loans Work?

#### You:

- Show a paycheck stub
- Postdate a check

#### They

- Loan you cash
- Automatically withdraw the loan amount + fees from your checking account.
- Charge you a fee for borrowing the money equivalent APR can be between 300% and 700%.





### Risks of Payday Loans

- A short-term loan turns into a long-term liability
- Borrowers get trapped in a payday loan cycle of debt
  - Customers renew or rollover loans an average of 10 to 13 times per year.
  - https://www.youtube.c om/watch?v=WtruZLAiJkc#action=share



### How a Payday Loan can Balloon

- Original cost to borrow \$500 for two weeks
  - Loan amount: \$500
  - 15 percent fee: \$75
  - Total amount due to lender: \$575
- If the customer can't pay the loan back in full after two weeks, he can roll it over for a fee.
  - Loan: \$575
  - Roll-over fee: \$75
  - Total cost of loan after two-week extension: \$650
- Many customers roll over loans multiple times.
  - Loan: \$575
  - Cost of rolling loan over 10 times: \$750
  - Total cost to maintain a \$500 loan over 22 weeks: \$1,325

## Payday Regulations

- 37 states restrict payday lenders by
  - Limiting interest amount per \$100
  - Limiting loan amounts
- 4 states *ban* payday lenders
  - Pennsylvania
  - New York
  - Maryland
  - West Virginia

APPLY NOW!
Get up to
\$1000 in just
30 seconds!



### Pay Day Loan Scenario

- You buy a boat but need \$300 to complete the purchase
- Credit card hit max and bank won't loan you
- You seek a pay day loan with 20% percent finance charge and 10% percent interest



 With a loan period of 2 weeks, how much will the loan be in one month(4 weeks)?

### Math Behind Scenario

- The payday loan is \$300. The fixed finance charge of 20% would = \$60, the customer would also owe 10% interest on the loan = \$30 and make the total amount owed \$390 in 2 weeks.
- If they chose to "roll over" the payday loan, the new amount would be \$489. You start by accruing the 10% interest on \$390 to = \$39, then you add the \$60 fee. 390+39+60= \$489
- That is how a \$300 loan becomes a \$489 in one month.