



Payday Loans

Fact or Myth

- A Pay Day Loan is affordable for most borrowers.

Affordable



Fact or Myth

- A Pay Day Loan is easy to obtain



Fact or Myth

- A Pay Day Loan has a lower interest 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.com/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.