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Payday Loans

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Last week, I received an email encouraging me to apply for a payday loan online. It sparked my interest because I'm currently teaching a basic money-management series, and understanding credit is one of the big topics. The offer sounded attractive and promised I could apply for the loan in the privacy of my home.

Before taking advantage of such an offer, consumers need to understand how payday lending works. It may not be as attractive to someone who understands the costs involved.

Payday loans (also called cash advance loans, check advance loans, post-dated check loans or deferred-deposit check loans) are small, short-term, high rate loans to individuals to tide them over from one paycheck to the next. Most lenders don't take into account the borrower's ability to repay the loan or conduct a background credit check, and a person can qualify regardless of his or her credit score.

To get a payday loan, a borrower usually writes a postdated check to the lender or gives authorization for automatic withdrawal from the borrower's bank account for the amount to be borrowed plus a fee.

The fee represents either a flat fee per \$100 or a percentage of the amount to be borrowed. For example, the fee may be \$15 per \$100 dollars. The creditor deposits the check or withdraws the money at an agreed-upon time, for example 14 days from loan origination.

But many borrowers can't pay back the loan at the agreed-upon time and make it to the next payday. A couple of things can happen.

The first is that the lender deposits the check but there isn't enough money in the borrower's account to pay it. Now, in addition to the initial fees, the borrower gets hit by bounced-check fees from both the bank and the lender and can't pay back the loan. Lending companies can start collection procedures on defaulted payday loans.

Borrowers can also take out another loan to pay off the first loan, which involves paying the fee again, falling into a debt trap by taking out multiple loans to pay off old loans with the original amount never being paid back and costing more money and more in fees.

The fees alone can add up quickly. For example, a woman takes out a \$300 payday loan with a fee of \$45. She can't pay it back, so she takes out another \$300 loan with a \$45 fee to pay off the first one. Now she's paid \$90 to borrow \$300. This cycle can go on and on and cost more and more. Keep in mind that the majority of payday loans go to repeat borrowers.

If you are tempted to take out a payday loan, do your homework first. Know the terms up front and evaluate the total cost for that loan. Also, really decide if you will or won't be able to make payments. Know why you are borrowing money in the first place and ask yourself if you could find another way to meet your needs for cash. Remember that payday loans are costly and could cause you to keep paying fees for months on end just to borrow a few hundred dollars.

For more information visit the Consumer Federation of America's web site on payday loans at <http://www.paydayloaninfo.org/>. Contact the New Hampshire State Banking Department at 271-3561 if you have a complaint against a payday loan company.

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