

The Darker Side of Payday Loans

There are clear advantages to payday loans - nearly everyone qualifies; the loan process is simple and quick; and extra cash can be obtained in a very short time.

The disadvantages might not be so clear.

According to the CFA, the typical payday borrowers are:

- Younger consumers with limited understanding of finances
- Consumers deeply in debt
- Consumers struggling to meet their day-to-day financial obligations
- Consumers with a history of using high-risk lenders

For consumers in these categories, payday loans may not be such a good idea. Sadly, millions of Americans experience shortages of cash not as an occasional situation, but as a long-term one. Short-term solutions may even lead to a downward spiral of increasing debt.

If payday loans are extended over too long a period, or if a consumer takes one payday loan after another, it will put a strain on his or her financial situation. Payday loan fees are very expensive, particularly if a loan is extended over time. The fee charged for a payday loan is equivalent to a 250-650% Annual Percentage Rate (APR), which is by far one of the most expensive loan options on the market.

A number of payday lenders will automatically renew your loan at the end of the 14 day period. They will only deduct the fee, leaving the consumer to owe a new fee at the end of the next period. If the consumer never takes action to repay the loan, the fee will be deducted repeatedly. A consumer with a \$100 loan with a fee of \$25 will, by the end of 8 weeks, have paid \$100 in fees and still owe the original \$100 loan. If the loan is not paid for an entire year, the consumer will have paid \$650 in fees on a \$100 loan that still isn't paid back.