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PAYDAY

LOAN

PITFALLS

Many people (maybe **MOST!**) have financial emergencies from time to time...

And, when that happens, a **payday loan** might make sense...

A payday loan can pay for the prescription that can't wait...

Or it can replace a car's dead battery...

Or whatever else might be ailing...

And, a payday loan can avoid the embarrassment (and EXPENSE!) of a bounced check...

Financial institutions often charge \$20 (or even more) for a bounced check...not to mention the fee charged by the merchant who received the NSF check.

The customer is out this "bounced check fee", embarrassed and still can't meet the emergency...

So the desperate consumer might opt for a **payday loan**...

Payday loans aren't cheap: a common rate is \$15 per \$100 borrowed for 14 days, an ANNUAL PERCENTAGE RATE (**APR**) of 391.07% !!!

But that \$15 can be lots cheaper and *far* less troublesome than bouncing a check.

So a **Payday Loan** might make sense, in a desperate situation.

But...**WATCH OUT FOR THE PITFALLS !!!**

AVOID RENEWALS! Anyone can see that the rate on a payday loan is staggering...the extremely brief term is part of the reason...if a customer borrows the \$100 for the 2 weeks and pays it off, the cost is \$15, not too burdensome to get past an emergency...*but, if the borrower keeps renewing, that \$100 loan will cost \$391.07 for a year and the borrower will still owe the original \$100!!!!*

And another pitfall: a \$100 payday loan, if paid in full after one 14 day term, will cost \$15; **BUT**, if the loan is not \$100 but is, instead, \$500...that cost will be \$75 for the two weeks...*a series of renewals will have the borrower staggering under an interest payment of \$150 a month to service a debt of only \$500!!!*

(Most payday loans are "secured" by a check left by the borrower with the lender. If a loan is not repaid, the lender may present the check for payment on the due date either in person or by electronic means. This check being paid can cause other checks already written to bounce, creating a sort of snowball effect.)

SO...when facing a financial emergency...and most of us, from time-to-time do...Remember:

PAYDAY LOANS CAN MAKE SENSE (and **save** a lot of cents...to say nothing of avoiding embarrassment)...**BUT**

DON'T USE PAYDAY LOANS FOR ANYTHING BUT VERY SHORT TERM CREDIT...

KEEP PAYDAY LOANS AS SMALL AS POSSIBLE BECAUSE THEY ARE VERY EXPENSIVE...

AND

NEVER--NEVER--NEVER HAVE MORE THAN ONE PAYDAY LOAN OUT AT A TIME !!!!