Payday lending

Understanding the dangers & alternatives.

> A payday loan is a short-term loan with high fees that the borrower agrees to pay back the amount owed upon their next paycheck.

Who uses a payday loan?

Taking out a payday loan means that the borrower falls short on cash before their next paycheck. The borrower is likely using a payday loan to cover an unexpected expense that costs more than the money they have on hand.

This can happen to anybody. However, common borrowers are the underbanked and unbanked — those who do not have access to credit cards or a savings account.

The dangers of payday loans

Getting a payday loan is a quick way to get cash, but there is a huge catch: you're paying extremely high interest rates on top of the amount borrowed. If you're unable to pay the money back on your next paycheck, you roll over your borrowings and incur more fees — making it easy to quickly wound up into spiraling debt.

The reality

Day 1

$375.00

Take out loan

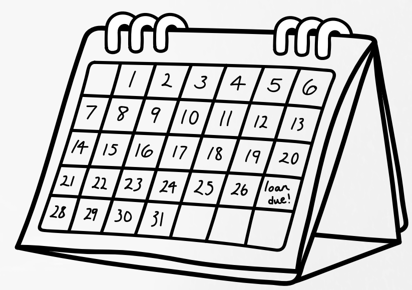
You take out a $375.00 payday loan for a car repair.

2 weeks

$431.25

Add interest

You're charged $15 per every $100 borrowed, which is $56.25 in interest (amounting to 391% interest annually).



1 month

$495.94

Add finance charge

If you can't pay, your loan rolls over with a finance charge of $64.69.

Next few months

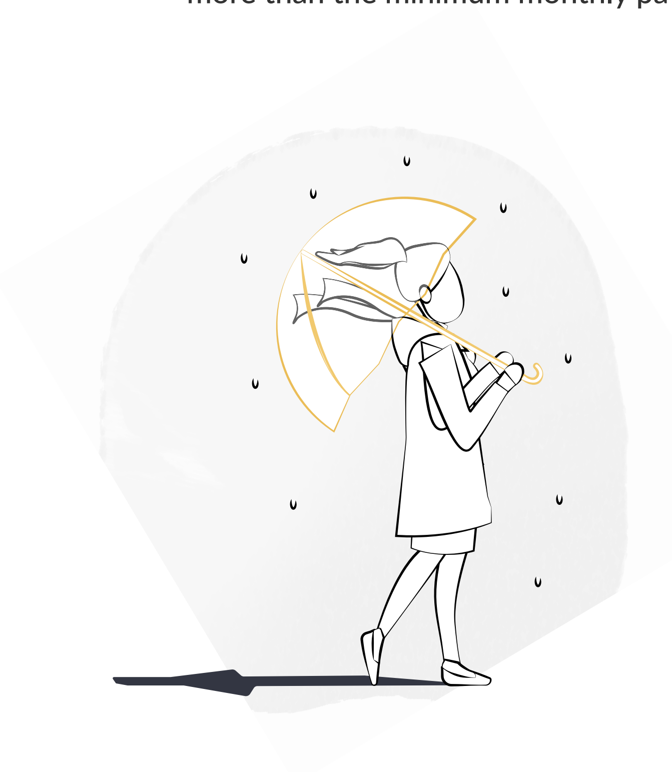
Sent to collections

If you continuously can't pay off your loan, you could get sent to collections which would hurt your credit score. Your wages could be garnished by your employer too.

Your alternatives

Get a lower interest rate credit card

If you have the option, getting a credit card with a lower interest rate is far better than getting a payday loan. The average credit card interest rate in the U.S. is 19.24%. When getting a credit card, ensure that you are paying off your debt as quickly as possible, paying more than the minimum monthly payment.



Build an emergency fund

Being proactive and saving for emergencies is the best way to avoid going into debt. The recommended emergency fund amount is three to six months' worth of expenses. Read our guide on how to start building a rainy day fund.

Find an employer offering Instant Pay

Many employers are taking action to improve the financial wellness of their employees. Some are offering instant pay or earned wage access options to their employees. If your employer is partnering with Instant Financial, you can opt into the Instant Pay program, which allows you to access your money for free, after every shift.