

What happens if you take out a payday loan?



If you need money fast, you may be tempted by a short-term loan—the kind you plan to pay back quickly. However, whether they're offered by an online payday lender or a check-cashing store in your neighborhood, **these loans come with steep costs that can be hard to recover from.**

The situation

Say your car transmission failed, and the repair wiped out your cash. You're short on your rent and **you need \$400—fast.** You decide to take out a payday loan.



What you might pay upfront

Most payday lenders charge a fixed fee when you borrow—typically between \$10 and \$30 for every \$100 borrowed.

Let's say your payday lender charges \$80 for the \$400 you need

INTEREST RATE:

\$400 borrowed



=

520%

TO COMPARE:

Cash advance from
your credit card



=

15-25%

Average credit card APR
(annual percentage rate)



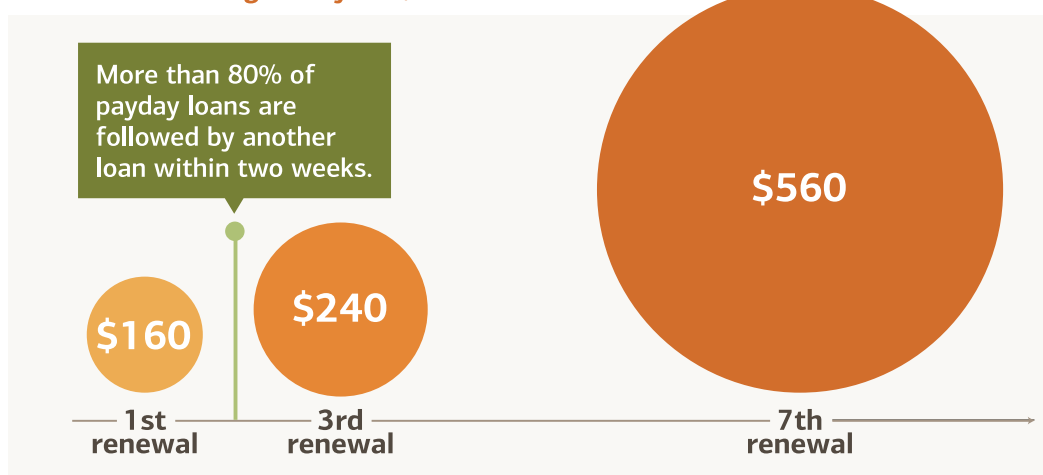
=

13%

How that interest builds

Most people plan to use a payday loan for a week or two but end up unable to pay it back right away—in part because the costs are so steep. **Each time you renew, that original \$80 interest charge is multiplied. It doesn't take long before those charges exceed the loan amount.**

Total interest charges on your \$400 loan



What happens if you take out a payday loan?

But that's not all

There are other fees, too:

- **Returned checks:** Most lenders require you to write them a post-dated check to pay them back. If it bounces, they may charge you—as will your bank.
- **Overdraft:** Or, they may take money directly from your bank account. If the funds aren't there, you could face overdraft or insufficient funds fees from the bank and the lender.

The average borrower takes out \$375 and pays an additional \$520 in interest and fees.

Proceed with caution

We all find ourselves in need of a quick dose of cash at one time or another. But **payday loans can lead to a vicious cycle where you need to re-up over and over again.**

Payday loans increase the chance of bankruptcy.

Before you go in search of a payday loan, consider one of the many alternatives.



The material provided on this website is for informational use only and is not intended for financial or investment advice. Bank of America and/or its partners assume no liability for any loss or damage resulting from one's reliance on the material provided. Please also note that such material is not updated regularly and that some of the information may not therefore be current. Consult with your own financial professional when making decisions regarding your financial or investment management.

Better Money Habits®

Powered by **Bank of America**  in partnership with  **KHANACADEMY**

For more information, visit
BetterMoneyHabits.com