

## Payday Loans Explained

We all run short of cash from time to time. Sometimes there's more month than money, and we need access to extra cash # fast. At times like these, payday loans can seem like a great option. But are they?

You've likely seen advertisements on television and in newspapers for payday loans. The companies offering these "services" are generally private cheque cashers and finance companies, as opposed to banks and other trusted financial institutions. These short-term, high interest arrangements are also called cash advances, post-dated cheque or cheque advance loans, deferred deposits or high-risk loans.

Payday loans follow a basic concept: a small amount of money is lent, unsecured. This is a short-term cash advance granted to help you meet your financial obligations until payday arrives. Because they are short term and unsecured, payday loans are intended for small amounts of cash, and are not applicable to those requiring help with larger financial problems. People who need help with the bigger picture should speak with a bank or seek consumer credit counseling.

If you wish to arrange a payday loan, you'll write a personal cheque, payable to the lender, for the amount you wish to borrow. The cheque will be postdated and cashed on the agreed date, usually your next payday. There is also a cost of borrowing, in the form of a fee that is deducted from the amount you will receive. The fee is typically a percentage of the face value of the cheque itself, or it may be a set amount. For example, a \$100 loan may be subject to a borrowing rate of fifteen percent (\$15), or a set \$10 fee. In some payday loan situations, there may be a loan repayment extension or "rollover" period, in which you will be required to pay fees every time the loan is extended.

Under the Truth in Lending Act, any fees must be fully disclosed to the borrower. This applies to payday loans as well as all other forms of credit. Before agreeing to a payday loan, you should obtain the finance charge and the APR (annual percentage rate) in writing.

Payday loans have their place, but they are certainly not for everyone. It's important to realize that there are other options available to you, and you need to consider all possibilities before making your final decision. If you're really in a pinch, you can turn to a friend or family member, or ask your employer for a pay advance. If you're thinking about taking an advance on a credit card, you should be aware that these plans carry very high interest rates, and some cards charge additional service fees for cash advances. A small loan from a known financial institution is likely your best option.

Unexpected events and expenses can cause you to run short of cash, and there are ways to find the money you need. Just be sure to consider all of your options and understand the terms before accepting the loan.