What is a payday loan?

While there is no set definition of a payday loan, it is usually a short-term, high-cost loan, generally for $500 or less, that is typically due on your next payday. Depending on your state law, payday loans may be available through storefront payday lenders or online.

Some common features of a payday loan:

- The loans are for small amounts, and many states set a limit on payday loan size. $500 is a common loan limit although limits range above and below this amount.
- A payday loan is usually repaid in a single payment on the borrower's next payday, or when income is received from another source such as a pension or Social Security. The due date is typically two to four weeks from the date the loan was made. The specific due date is set in the payday loan agreement.
- To repay the loan, you generally write a post-dated check for the full balance, including fees, or you provide the lender with authorization to electronically debit the funds from your bank, credit union, or prepaid card account. If you don't repay the loan on or before the due date, the lender can cash the check or electronically withdraw money from your account.
- Your ability to repay the loan while meeting your other financial obligations is generally not considered by a payday lender.
- The loan proceeds may be provided to you by cash or check, electronically deposited into your account, or loaded on a prepaid debit card.

Other loan features can vary. For example, payday loans are often structured to be paid off in one lump-sum payment. Some state laws permit lenders to "rollover" or "renew" a loan when it becomes due so that the consumer pays only the fees due, and the lender extends the due date of the loan. In some cases, payday loans may be structured so that they are repayable in installments over a longer period.

Cost of a payday loan

Many state laws set a maximum amount for payday loan fees ranging from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an annual percentage rate (APR) of almost 400 percent. By comparison, APRs on credit cards can range from about 12 percent to about 30 percent. In many states that permit payday lending, the cost of the loan, fees, and the maximum loan amount are capped.

The laws in your state may permit, regulate, or prohibit these loans

Some states do not have payday lending because these loans are not permitted by the state's law or because payday lenders have decided not due to business at the interest rate and fees permitted in those states. In states that do permit or regulate payday lending, you may be able to find more information from your state regulator or state attorney general.

Protections for servicemembers

There are special protections through the federal Military Lending Act (MLA) for active duty servicemembers and their dependents. Those protections include a cap of 36 percent on the Military Annual Percentage Rate (MAPR) as well as other limitations on what lenders can charge for payday and other consumer loans. Contact your local Judge Advocate General's (JAG) office to learn more about lending restrictions.

Should I get a payday loan if I need money now?

Before choosing to take out a payday loan, think about the costs you will pay, whether you want to borrow, and how you will pay back the loan.

Cost:

If you take out a payday loan, you will likely be charged a fee of between $10 and $30 for every $100 borrowed. A $15 per $100 fee is typical. So, if you have an emergency and need $300 today, you will have to pay back $345 in a couple of weeks, assuming a fee of $15 per $100 borrowed. If your budget is already tight, that may be hard to do. In those states that do not ban or limit renewals or rollovers, the payday lender may encourage you to pay just the fee and extend the loan another few weeks. In that case, you would spend $45 and still owe $345 when the extension is over – that means you're spending $90 to borrow $300 for one month.

Choices:

First, there may be alternative strategies available, including those that don't involve taking out a loan. Some employers, nonprofit organizations, and community groups offer advances or emergency credit. And don't forget about help from family or friends.

Second, if you have an account at a bank or credit union, there may be less expensive alternatives available to you, especially if you have a stable credit history. A credit card may also be another option.

Third, another option might be to negotiate with the creditor or debt collector about the debt or bill you owe. A smaller repayment amount may help make repayment easier.

Finally, if you are expecting a tax refund or an increase in income, think about using that money to start saving some money for the next emergency.

What are the costs and fees for a payday loan?

Payday loans generally charge a percentage or dollar amount per $100 borrowed.

The amount of this fee might range from $10 to $30 for every $100 borrowed, depending on your state law and the maximum amount your state permits you to borrow. A fee of $15 per $100 is common. This equates to an annual percentage rate of almost 400% for a two-week loan. So, for example, if you need to borrow $300 before your next payday, it will cost you $345 to pay it back, assuming a fee of $15 per $100.

Rollovers. If you are unable to pay when your loan is due and your state law permits rollovers, the payday lender may allow you to pay only the fees due and then the lender extends the due date of your loan. You will then be charged another fee and still owe the entire original balance. Using the above example, if you pay a renewal or rollover fee of $45 you would still owe the original $300 loan and another $45 fee when the extension is over. That's a $90 charge for borrowing $300 for just four weeks.

Repayment Plans. Some state laws require payday lenders to offer extended repayment plans to borrowers who have trouble in repaying payday loans. These laws vary by state and may or may not permit or require a fee for using a repayment plan.

If your state requires a lender to offer an extended repayment plan, you may be able to get additional time to repay your loan without any additional costs or fees. This means that you can pay off your loan rather than borrowing again, incurring more fees, and getting further behind in debt.

Late fees. In addition, if you don't repay the loan on time, the lender might charge a late or returned check fee, depending on state law. Your bank or credit union may also impose an "NSF" or non-sufficient funds charge if your check or electronic authorization is not paid due to a lack of funds in your account.

Prepaid debit card. If your loan funds are loaded onto one of these cards, there might be other fees. There could be fees to add the money to the card, fees for checking your balance or calling customer service, fees each time you use the card and/or regular monthly fees.

Be sure to read the loan agreement carefully to spot all the fees and costs before you take out a loan. If you have questions about your state law, you might find more information on the website of your state regulator or state attorney general.

How do I repay a payday loan?

To obtain a payday loan, you typically must either provide a personal check to the lender or an ACH (Automated Clearing House) authorization to electronically withdraw money from your bank, credit union, or prepaid card account. Carefully read your loan documents so you know exactly how repayment works.

Although you are generally required when obtaining a loan to provide a post-dated check or authorization for an electronic debit of your account, some lenders strongly encourage, or in some cases, require consumers to return to the store when the loan is due to "redeem" the check. Encouraging or requiring borrowers to return to the store on the due date provides lenders an opportunity to offer borrowers the option to roll over the loan or, where rollovers are prohibited by state law, to reborrow following repayment or after the expiration of any cooling off period.

If you do not return, your lender might repay itself by depositing your check to your bank or credit union or withdrawing funds electronically from your account.

If you have taken out a loan online, you likely provided an ACH authorization for the lender to electronically access your checking account for repayment on the loan due date. So, while the way you repay a loan may depend on whether you took out a loan in a storefront or online, usually you provide the lender a way to repay itself the full amount as part of the loan application process.

> **Tip:** Know how your ACH payment is set up. If you gave a payday lender permission to take money directly from your checking account, it is important to know exactly how much your lender will withdraw and when.
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> Some lenders might set up payments assuming you only want to pay a renewal fee on the loan's due date and require you to act several days before your loan comes due to pay it in full. This could result in you paying several rounds of renewal fees while still owing the entire original loan amount.
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> Make sure you understand how your loan will be repaid and how much the loan could ultimately cost you before agreeing to get any type of loan.

If you have problems with a payment authorization, such as the ACH was unauthorized or revoked, you may want to contact your state regulator or state attorney general. You can also submit a complaint to the CFPB online or by calling (855) 411-2372.