

# Payday Lenders–

## Learn the Cost!

### What's a Payday Loan?

It's still ten days until your next pay cheque, cash is short. You really need a little bit, just to tide you over. But maybe your credit's not good, or you don't think a bank would be bothered with such a small amount. At times like this, it's tempting to think about a "payday loan."

A payday loan is a short-term cash advance, usually for two weeks or less. The lender provides a small amount of money, based on a percentage of your next pay cheque. A contract is signed and the loan is secured with a post-dated cheque.

### What's the Cost?

**A payday loan is a very expensive way to borrow money.** The final cost of a payday loan always depends on the amount of time it takes to pay it off. When you add up the interest charges the cost is usually many times higher than a cash advance from a credit card, or a line of credit on your bank account.

### Can't Pay on Time? The Cost Could Go Up, Fast!

If you can't repay the entire amount on the due date, some payday lenders will renew the loan for a fee. This is called a "rollover". The fees associated with a rollover are an additional amount and make the loan even more difficult to repay. Even if you do pay the whole loan off, it could leave you short before your next pay cheque comes in.

### Is This Loan Necessary?

The best way to avoid being trapped by debt is not to borrow, if you can possibly avoid it. If a loan is absolutely necessary, you may have more options than you think. Ask yourself a few simple questions, *before* you consider a payday loan.

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- ◆ Is there any way I can squeak through to my next pay cheque, *without* a loan? I could save a considerable amount in fees and interest.
- ◆ Even if I think they might turn me down, have I checked out a bank, credit union or caisse populaire about a loan or line of credit? Some financial institutions are now making special efforts to help people looking for small loans. This could be much cheaper than a payday loan.
- ◆ Can I use my credit card to address my short-term need? If it is used to buy a good or service borrowing costs will almost certainly be cheaper than a payday loan.
- ◆ It's good to be independent, but have I thought about asking family or friends? They may be willing to help out.

## Know What the Bottom Line Is for a Payday Loan!

Fees can be hidden or disguised, the terms of the loan can be confusing, and you have to think ahead.

Learn what the bottom line is, the **total** of how much the loan is going to cost. And learn what will happen if you can't pay the loan back. Remember the payday lender doesn't figure out how much you can pay out of your next pay cheque. You have to do that. Make sure you have copies of all documentation.

The best way to find out what's in store is to have a list of questions to ask the lender before even considering taking out the loan.

- ◆ What is the total amount of all interest and all fees I'll have to pay?
- ◆ What will happen if I'm unable to pay you back when I'm supposed to?
- ◆ If I have to get an extension, what will the new costs total?

The answers to these questions may point you in another direction to get the small loan you need.

For further information look under the "Money" section at

[ConsumerInformation.ca](http://ConsumerInformation.ca)