

Name: _____

Date: _____

Activity 1

What is a payday loan?

A payday loan - which might also be called a “cash advance” or “check loan” - is a short-term loan, generally for \$500 or less, that is typically due on your next payday.

Payday loans generally have three features:

- The loans are for small amounts.
- The loans typically come due your next payday.
- You must give lenders access to your checking account or write a check for the full balance in advance that the lender has an option of depositing when the loan comes due.

Other loan features can vary. For example, payday loans are often structured to be paid off in one lump-sum payment, but interest-only payments - “renewals” or “rollovers” - are not unusual. In some cases, payday loans may be structured so that they are repayable in installments over a longer period of time.

Some ways that lenders might give you the loan funds include: providing cash or a check, loading the funds onto a prepaid debit card, or electronically depositing the money into your checking account.

The cost of the loan (finance charge) may range 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%. By comparison, APRs on credit cards can range from about 12 percent to 30 percent.

State laws and other factors can influence how much you can borrow and the fees you are charged. Some states do not have payday lending storefronts because these loans are not permitted by the state’s law, or because lenders may choose not to do business in a state rather than abide by the states’ regulations.

There are special protections through the **Military Lending Act** for active duty service members and their dependents who use certain payday loans and other small dollar credit products.

Source: Consumer Finance Protection Bureau, UPDATED 11/6/2013, retrieved from <http://www.consumerfinance.gov/askcfpb/1567/what-payday-loan.html>