

# Payday Loans and Cash Advances Explained



Payday loans are loans for a small amount of money for a short time. They're also called cash advances. Payday loans can be very expensive. Before you get a payday loan, look for other ways to borrow money.

## How does a payday loan work?

### Step 1:

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You give the lender a check for the money you want to borrow — plus the lender's fees. OR you give the lender permission to take the loan amount and fees out of your bank, credit union, or prepaid card account.

### Step 2:

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The lender gives you cash — minus the fees.

### Step 3:

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You have to pay the lender back — usually two or four weeks later. If you don't, the lender can cash the check or withdraw the money from your account.

Lenders have to tell you the cost of the loan in writing before you sign the loan agreement.

Make sure you understand how much the loan really costs in finance charges and annual percentage rate, or APR. The finance charge shows the cost of the loan in dollars. The APR shows how much it costs you to borrow the money for one year.

If you can, borrow only what you can pay back with your next paycheck.

## What happens if I can't pay the lender back?

It could cost you a lot more money.

If you can't pay the lender back when the loan is due, they might let you borrow the money for two or four more weeks. This is called a rollover.



But to roll over the loan, you have to pay the fee that's due, plus a new fee to extend the due date.

If you roll over the loan a few times, you could end up paying hundreds of dollars in fees. And you'll still owe the original money you borrowed.

## What other options do I have?

Before you decide to get a payday loan:

- ▶ Ask for more time to pay your bills.
- ▶ Try borrowing money from family or friends, a bank or credit union, or your credit card.
- ▶ Talk to a credit counselor to get help.

Read **Getting Help When You're in Debt** at [consumer.gov/debt](https://consumer.gov/debt) for more information on credit counseling.

If you're in the military, the law gives you other rights and protections. Visit [MilitaryConsumer.gov](https://militaryconsumer.gov) to learn more.

## How do I report problems with payday loans?

If you think a payday lender has been dishonest about the loan terms or how much they're charging you, contact your state attorney general at [consumerresources.org](https://consumerresources.org).

Then tell the Federal Trade Commission:

- ▶ Go online at [ReportFraud.ftc.gov](https://ReportFraud.ftc.gov)
- ▶ Call **1-877-382-4357**

