Bank On Greater Milwaukee

Weighing the Risks of Payday Loans & Cash Advances

While payday loans, car title loans, and cash advance services appear convenient they can come at a high price and lead to long-term financial issues.

Payday Loans

Also known as cash advances, these loans are typically predatory in nature. Payday loans are short-term, high-interest loans, usually for small amounts ($500 or less), that are due on your next pay day. These loans are often advertised as quick help for an unexpected emergency.

However, the interest on these loans is much higher than any other lending offered. They often include both fees and interest and sometimes add up to more than 300% interest as compared to a credit card, bank, or credit union loan. If you use a credit card instead — even at the highest credit card rate available — you are paying less than one-tenth the amount of interest that you would on a payday loan.

Below are the most problematic issues with these loans:

- **Payday loans are expensive.** Interest rates for payday loans are often extremely high. The cost of the loan (the finance charge) typically ranges from $10–$30 for every $100 borrowed, so a $500 loan would include an extra $50–$150 and actually cost you $550-$650. If you have difficulty repaying the loan when it is due, these fees can increase.
- **Payday loans can damage your credit.** Lenders usually require a check upfront to cover the cost of the loan, which they then cash when the loan is due. If you have trouble repaying the loan when it is due, that check may bounce and cause you to default. The lender could then report your default to credit bureaus, which will damage your credit. The lender could also attempt to sue you, which could be recorded in your credit report and also cause damage.
- **Payday lenders can require you to give them your bank information.** Instead of requiring a check for the loan amount upfront, the lender may require your bank account information. If the time comes to pay the loan and your account does not have sufficient funds, the lender may try several times to withdraw the money, which can lead to overdraft charges from your bank.
- **Payday loans can lead to debt collection issues.** Many payday lenders are collection-minded. They might also sell your debt to an actual debt collector. If you are unable to pay the loan on time, you may be harassed with collection calls.

Car Title Loans

These loans are also typically predatory. Car title loans are also marketed as small emergency loans lent to you for a short time, but they also have extremely high annual interest rates. To get such a loan, you would need to give the lender the title of your vehicle. Typically, you need to repay the loan within 30 days, along with borrowing fees which can be high: sometimes 25% of the amount you borrow. If you cannot repay the loan, the lender can take your vehicle.

*Adapted from the National Association of Consumer Advocates (**consumeradvocates.org**)*

CONSIDER THESE ALTERNATIVES

Before taking a risky and high-interest loan, consider other options:

- **Shop around for a personal loan at local banks and credit unions.** They usually have affordable interest rates that are significantly lower. Interest rates are based on your income and credit history.
- **If that doesn't work, consider a lending company that offers small personal loans.** These may have higher interest rates, but they will always be lower than a payday or car title loan. Compare your options to find the best loan possible that has payments you can afford.
- **Ask to borrow the money from family or friends.**
- **Talk to a credit counselor or debt management advisor for advice.** Here are two local agencies that can help:

  Consumer Credit Counseling Services of Greater Milwaukee (CCCS):
  (414) 482-8801 or **creditcounselingwi.org**

  GreenPath Financial Wellness:
  (800) 550-1961 or **greenpath.com**
- **Ask for a paycheck advance.** Some companies offer a chance for employees to get money they earned before their paycheck is due. For example, if an employee has worked seven days and the next scheduled paycheck isn't due for another five days, the company can pay the employee for the seven days. It is not a loan. It will be deducted when the next payday arrives.