

# Why Payday Loans Don't Make Financial Sense

Life happens. The washing machine dies in the middle of a load, or you discover that your last visit to urgent care wasn't covered by insurance. It's not always possible to pay for these surprise expenses on the spot. This is when [payday loans](#) may become tempting.

Here's what you need to know about payday loans and why they shouldn't be part of your financial strategy.

## What's a payday loan?

Payday loans are small, short-term loans, often of \$500 or less. They're usually due within two weeks, or on your next payday. Many borrowers choose them because they're so easy to get: Lenders don't require collateral and rarely run credit checks. But you will pay for the convenience.

Most lenders charge a fee of \$15 per \$100 borrowed, according to a study done by the [Pew Charitable Trusts](#). To be approved, you must allow the lender access to your checking account or submit a post-dated check for the amount you're borrowing, plus the fees.

## What's so terrible about 15%?

Maybe you're wondering what the big deal is: 15% sounds comparable to credit card interest. With payday loans, though, that 15% is due by your next payday, making your [annualized interest rate](#) almost 400%. If you can pay it back on time, one payday loan won't bankrupt you, but if you don't have that cash in two weeks, you can easily get trapped in costly ongoing debt.

In fact, more than 80% of payday loans are renewed or followed by another loan, with the borrower paying additional fees. This creates a vicious cycle of debt for those who can least afford it.

Statistically, people who take out payday loans are more likely to have relatively low incomes and long-term cash flow challenges.

## Are there alternatives?

Payday loans are a bad deal, and if you need fast cash, you often have better options:

- **Church-backed loans:** Your church, temple, synagogue or mosque might offer small, low-interest emergency loans.
- **Family/friend loans:** Someone close to you might be willing to help.
- **Payroll advances:** Your employer might offer a cash advance on your salary.
- **Personal loans:** These installment loans are available through credit unions, banks and lending companies. They generally have fixed interest rates, don't require collateral and provide comfortable repayment terms.
- **Account or credit card advance:** Your bank, credit union or credit card company might provide cash advances. Interest rates tend to be high, but are still lower than those for payday loans.

Expenses often pop up at the worst possible times, but you don't need a payday loan to bail you out. By exploring more affordable alternatives, you really can make it through today without stepping all over tomorrow.