



# Understanding the Cost of a Payday Loan

## WHAT IS A PAYDAY LOAN?

A **payday loan** is an expensive, short-term loan that you have to pay back from your next pay cheque. It is usually due within two weeks. A number of private companies offer this type of loan.

### *How does a payday loan work?*

To get a payday loan, you have to prove to the company from which you are borrowing money that you have a regular income, a permanent address and an active bank account. You must give the lender a postdated cheque, or authorize a withdrawal from your account, for the amount you are borrowing — plus any charges that the company adds to that amount. You also have to sign a loan agreement, which indicates how much interest you will pay on the loan, plus any fees that apply. You can usually borrow up to 30 percent of your pay cheque (after taxes and any other deductions).

Once you get the money, you must pay it back on or before the date in the loan agreement. This includes the amount you borrowed, plus interest, and any other fees that apply.

Some companies will cash your cheque or process your direct withdrawal on the day the loan is due. Others may require you to pay the loan in cash. If you can't pay the loan on time, you might have to pay an extra fee.

### *How much does a payday loan cost?*

A payday loan is a **very expensive** way to borrow money. Payday loans cost much more than other types of loans. What make payday loans so expensive are all of the fees and charges you have to pay on top of the interest. Extra charges — such as for a late payment — can add up quickly and get you into financial difficulty.

Besides interest, payday lenders charge many other fees. Check with the company to see which of the following also apply:

- an administration fee, a processing fee, a verification fee or convenience charges
- a broker's fee
- collection fees
- an early repayment fee
- a set-up fee
- a loan repayment fee or a first-party, cheque-cashing fee
- a "locate" fee
- a return fee or a non-sufficient funds (NSF) fee
- a roll-over fee, a renewal fee, a finance charge or an additional charge, or an extension fee
- wage assignments or liens on personal property

### ***What are the advantages of a payday loan?***

- A payday loan is a fast way to get cash.
- If you have a poor credit rating, it may be easier to get a payday loan than another type of credit.
- Payday lenders are usually in easy-to-access locations, and offer convenient hours of operation.

### ***What are the disadvantages of a payday loan?***

- A payday loan is very expensive compared to other types of loans.
- To obtain a payday loan, you must provide a lot of personal information.
- The interest charged on a payday loan is much higher than the interest charged on other types of loans or credit cards.
- The many fees can add up quickly.
- A payday loan will not improve your credit rating if you make your payments on time. However, if you don't pay back the loan and it goes to collection, this could bring down your credit rating.

### ***Tips to consider before you apply for a payday loan***

Ask yourself:

- Have I explored a cheaper alternative, such as a line of credit, a cash advance on a credit card or overdraft protection on my bank account?
- Could I ask friends or family for help instead?
- Do I understand the fees, interest, and charges that apply to the payday loan if I pay it back on time?
- Do I understand the cheapest way to repay the loan?
- Do I understand the cost of making a late payment?
- Do I understand the negative impact a payday loan could have on my credit rating?
- Have I read and do I understand the payday loan agreement?

Some provinces prohibit rolling loans over or selling insurance on a payday loan. Make sure you know your rights.

### ***Where to go for more information***

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can reach us by phone through our toll-free Consumer Contact Centre at 1-866-461-3222 (our TTY number is 613-947-7771 or, toll-free, 1-866-914-6097), or by visiting our Web site at [www.fcac.gc.ca](http://www.fcac.gc.ca).

If you would like more information on payday loans, see our publication *The Cost of Payday Loans*. You can view this publication on our Web site, or obtain a free copy by contacting FCAC.