

Payday loans

Payday loans are short-term or emergency loans for small amounts of money, available from high street shops and internet sites. They can be easy to get but interest rates are high. They're usually for between £50 and £1,000 and are intended to be taken for a few weeks, usually until your next payday, hence the name.

Lenders refer to interest rates as APR (Annual Percentage Rate) which means the amount the credit will cost over one year. Since payday loans are not intended to take one year to repay, it can be confusing.

Paying back a payday loan

Usually you'll be given up to a month to pay back the money, plus interest.

Since new rules introduced in January 2015, no borrower will ever pay back more than twice what they borrowed and someone taking out a loan for 30 days and repaying on time will not pay more than £24 in fees and charges per £100 borrowed.

There were previously no caps on interest rates and payday lenders were known to use APR's as high as 4,214 per cent.

Although this has been reduced, you must bear in mind that payday loans are still a highly expensive way of borrowing, and should be avoided if you are not confident you can make the repayment on time.

Charges or fees will be added for late payment, making the unpaid debt even higher. If you are not able to make the repayment, things can get out of hand.

Some payday lenders allow you to roll-over the total debt into the following month, sometimes by paying back the original interest. By doing this the debt will grow, as it'll attract more interest until you clear it. The total amount owed can get huge.

There are limits on how many times a lender can allow a roll-over of the amount owed, but as some people take more than one loan at the same time, it's easy to see how a person's total debt spirals out of control.

The most common way to pay back the loan is through your bank debit card. When you get the loan, you agree to let the lender take money back from your bank account. This is called a Continuous Payment Authority (CPA). If there isn't enough money in the account to repay the loan, your bank may charge you. The lender can attempt to take this payment a second time, meaning you will incur more charges. Remember, if you do agree to a CPA you have the right to cancel this anytime with your bank or building society, just ask them. You must also offer an alternate method of payment, such as a direct debit to the lender.

The maths behind it

A payday lender cannot charge you more than £124.00 to borrow £100.00 over 30 days.

Whilst you cannot borrow for a year from a payday lender as it is for very short-term loans only, this helps put the high cost in to perspective, since most credit cards and credit unions use APR's more in the region of 20 per cent to 40 per cent, the higher rates usually applying to people with bad credit scores.

Although caps mean you will never end up owing more than double what you first borrowed, you should not rely on this, if you are unable to repay the amount you borrowed on time and regularly rely on payday loans to make it through the month then it could signify that you need extra support with budgeting your money.

There are other ways to borrow short term

You should only get a payday loan if you can pay it back comfortably, on time and still afford all your other outgoings. You need to ensure that you don't fall into a regular cycle of borrowing and repaying. Some people take on payday loans when they're already struggling. Often this leaves them in a worse position than before.

You could consider:

- A credit union
- A zero per cent credit card, even if you have a bad credit score
- A Government loan or Local Authority grant for people on Income Based benefits
- Extend an arranged overdraft with your bank, although be mindful of this as if you go above the arranged amount overdraft charges are more expensive than payday loans
- Borrowing from a family member or friend
- Is the purpose of the loan a necessity?

Comparing the market for a loan of £500 over a year

	Credit union	Door step lender
Weekly payment	£10.98	£17.50
Total repayment	£571.01	£910
Total interest	£71.01	£410
Interest rate	26.8%	272.2%



Thank you for downloading this information sheet from accordgroup.org.uk.
If you require further information, please visit our website or call our Customer First team on **0300 111 7000** or email customerfirst@accordgroup.org.uk

 178 Birmingham Road, West Bromwich, West Midlands, B70 6QG

 @theaccordgroup  /accordgroup  /theaccordgroup

All information correct at time of writing. Version 1.
November 2015