

Comparing Payday Loans To Personal Loans

Contributed by Webmaster

By Martin Sumner

Payday loans have, in many people's eyes, a reputation as being an expensive form of credit. It's certainly true that the imposition of a flat fee of 10% to 25% of the loan amount works out to be a very high APR when you take into account the short term nature of the loan, and although taking out a payday loan may actually work out to be cheaper than some other forms of finance such as long term credit card debt, the interest rate will still be much, much higher than that of a personal loan. So why do people take out payday loans if they're so costly?

The first reason is simply speed. Many people resort to a wage advance when they literally don't have any money left at the end of the month, and yet have bills to pay and food to buy. A payday loan can be arranged on the same day you apply, with the cash in your account the next day. A personal loan simply can't compare to this - there will be complex forms to fill in, credit agreements to sign and return, credit checks to be carried out... the list goes on. When you need quick cash, a payday loan might well be the only answer.

Another advantage of these loans is the fact that you can borrow only a small amount if that is what you want, just enough to see you through your current cash flow problem. Most personal loans have a much higher minimum amount you need to borrow, and if you don't need that much then you're saddling yourself with unnecessary and unwanted debt.

A related point is that the repayment term of a payday loan is, by its very nature, a lot shorter. While the APR rate on a personal loan might appear to be much lower, by spreading the repayments over a longer term you may well end up paying more in interest overall. The combination of having to borrow a larger amount over a longer period is certain to cost more in the long run than taking out an advance of just the amount you need over as short a time frame as possible.

The final reason is that because of the way payday loans work, they're very easy to be approved for. People with all kinds of credit ratings are likely to have their applications accepted, which is certainly not the case with other forms of finance.

No personal finance expert would recommend taking out a payday loan lightly, especially if you get into the situation of having to renew the loan every month, but taking the above advantages into consideration it's easy to see why sometimes payday advances can actually be a perfectly prudent way of bridging a temporary financial gap.

Martin writes on wide range of financial issues including payday loans, debt, and tenant loans.

Payday Loans

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