

Payday Loans : For and Against

Contributed by Webmaster

By Nicholas Hunt

While payday loans have long been popular in the USA, they are a relatively new service for UK customers, and many people aren't sure exactly what they are. With all the controversy over whether they're a worthwhile service or simply a form of legalised sharking, it's a good idea for any UK resident thinking of applying to know exactly what they're getting into.

Most of us struggle for money towards the end of the month to some extent, and have to tighten our belts a little by cutting down on socialising or other forms of non-essential spending. This is a perfectly normal (if annoying!) fact of financial life for most of us who are employed and get paid once a month. Sometimes however, running out of money can be more serious than this if there are essential expenses to be paid such as an unexpected bill or repair cost.

Many people use the overdraft facility of their bank accounts to give them a bit of leeway when funds are short, but in today's world many people are permanently overdrawn and near their limits, so this may not be an option.

An alternative way of tiding you over until your next salary is to use a credit card, both for purchases and cash withdrawals. There are several problems with this, including the fact that credit cards are an expensive form of borrowing, and it's tempting to build up a large balance which can have a disastrous effect on your long term financial health.

If neither of the previous two options are right for you, then a payday loan may be worth considering. Briefly, these loans are available to nearly everyone with a bank account and a debit card, and who is in regular employment. When you take one out, the lender will transfer the amount you ask for directly into your bank account, usually within 24 hours of your application being approved. During your application you will have supplied your debit card details, and the loan company will use these to automatically repay your loan on your next pay day, along with their fees.

And therein lies one of the main problems with payday loans - the fees.

This kind of credit is notorious for being expensive, and eye-watering APRs of 1000% or even much higher are the norm. These APR figures are perhaps a little misleading, as the APR system is designed for credit with a longer repayment period than payday loans where the term is measured in days rather than years. Nonetheless, these loans are pretty expensive, with a fee of 25% of your loan amount generally the going rate.

The second major problem is that repaying your loan and fee is likely to leave you skint again at the end of next month, and it's easy to get into an expensive vicious circle of taking out a loan every month - which is when those high APR rates will really bite.

So, is there any point to a payday loan? Yes, but only really for a genuine emergency where there isn't an alternative. If you're using these loans to finance your day to day life, then it would be better to examine your finances and see where you can economise, or to restructure your debt using a consolidation loan or similar to free up some extra cash every month.

Nicholas Hunt is a contributing writer to the 1Stop Finance money news and advice site, where you can read a longer version of this article on payday loans in the cash advance section.

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