

Avoiding The Payday Loan Trap

Contributed by Webmaster

By Martin Sumner

When budgets are tight and you're short of cash towards the end of the month, a payday loan can seem like the ideal answer, giving you enough money to see you through until you receive your next wage. Unfortunately, this can be too simplistic a view, and using payday loan facilities to paper over the cracks of a bad financial situation can make matters even worse, given the relatively high fees involved in short term, small dollar loans.

The fact that a typical payday loan will cost around 25% of the amount borrowed in fees, repayable within a period of a month or so of receiving the advance, means that in APR terms the cost can be astronomical even though the actual dollar amount may seem small. This means that potential borrowers need to think carefully about whether they really need a loan, as there are alternatives that may be a better option.

The major danger with payday loans is the temptation to use them to cover bills and allow a certain amount of living beyond your means. It's easy to fall into the trap of having to take out a new loan every month to make ends meet, all the time paying the high fees. Once in the trap, it's very difficult to escape without a dramatic change in circumstances. So what are the alternatives?

If the main reason you need a loan is to cover a credit card payment or other bill, you may be able to contact your creditor and arrange a repayment program that gives you enough breathing space to avoid the need for a loan. Even if you can't come to an arrangement, the bald fact is that delaying a payment will mean being charged a late fee only once, rather than the monthly fees incurred by the payday loan trap. Of course, it's rarely advisable to break a credit agreement, and your credit rating will certainly be damaged, but as a last resort it's an option to consider.

A more financially responsible way out of the trap is to look for a credit union in your area. These non-profit organisations will advance funds at an extremely low rate, and also offer advice and help to get your finances back in shape. In the longer term, they can also offer flexible savings plans to help you build up a 'rainy day' fund for the future.

You can also make use of a credit card cash advance facility, which although expensive, allows you to spread the cost over a number of months and will end up being less costly than a few months of payday fees. Debt consolidation or small consumer loans can be a cheaper alternative, but are best used as part of a complete overhaul of your finances and budgeting.

So are payday loans altogether bad news? Not entirely. In a genuine financial emergency they can be a lifeline, and so long as they're not renewed then they can actually be less expensive overall than taking out credit at a cheaper rate but over a longer period. Just make sure you don't fall into the trap of having to take out a new loan every month to cover basic living expenses.

Martin Sumner writes on a variety of financial issues for sites including Payday Loans UK, and specializes in articles on debt issues and money problems.

Payday Loans

{mos_sb_discuss:2}