What is a Payday Loan?
Payday loans are obtained from a variety of sources, including payday loan companies -- national chains and locally owned -- some check cashers, some pawn shops, as well as via the internet.

Payday loans are small-dollar ($100-500) short-term (generally initially two-week) loans that the borrower promises to repay out of his/her next paycheck or regular income payment. Payday loans carry an extremely high interest rate that ranges from 400-900 percent on an annualized basis. In a typical payday loan scenario, the borrower provides the lender with a check or debit authorization for the amount of the loan plus a fee (the fee is actually interest on the principal amount of the loan). The payday lender agrees to defer presentment of the check or debit authorization until the borrower's next payday or income payment, usually two weeks later. Payday loans typically are extended without any assessment of the borrower's ability to pay the loan, *i.e.*, no credit check; all the borrower typically has to prove is the existence of a bank account and a salary or other source of income.

If a borrower cannot repay the loan at the end of the two-week period, the lender often offers to extend the loan for an additional fee, called a rollover, which results in an even higher rate of interest. Indeed, surveys conducted by various states have found that contrary to the payday loan industry's claim that payday loans are short-term, the average payday loan borrower rolls over the loan numerous times, so that the loan is outstanding for many months and the borrower typically pays many times the face value of the loan in interest.

Who is the typical payday loan borrower?
Payday loan borrowers typically are low to moderate income individuals who may lack access to traditional forms of credit for a variety reasons, such as poor credit ratings, lack of home ownership and thus the inability to obtain home equity loans, and/or overextended credit card debt. Payday loan borrowers have relationships with a bank or credit union, since a checking account is required to make the loan. If a payday loan cannot be repaid and the lender attempts to cash the borrower's check as security, a bounced check can damage the existing relationship the borrower has with his/her bank and the borrower could also incur significant insufficient fund fees and damage to his/her credit history.

What you can do
A Consumers Union study suggests these alternatives to payday borrowing:
- take small loans from credit unions or take a cash advance on a credit card.
- make a pawn loan using an unessential item as collateral.
- seek out a loan from a licensed lender that makes small unsecured loans. Such loans usually are far less expensive and are available even to those with poor credit.

ResponsibleLending.org offers other alternatives:
- work out a payment plan with your creditors.
- seek overdraft protection in your checking account. Beware of 'bounce protection' programs with fees similar to payday loans.
- talk to your employer about granting you a paycheck advance.

If you are experiencing credit-related financial problems or debt collection phone calls, consider contacting a not-for-profit credit counseling agency that is licensed by the New York State Banking Department for assistance. Generally, these organizations offer assistance in paying back your debts for free or at minimal expense.