



Understanding the Cost of a Payday Loan

What is a payday loan?

A payday loan is a short-term loan that can help you cover your expenses until your next payday. **A payday loan is very expensive compared to other types of loans or credit products because of the high interest rate and fees that apply.**

How does a payday loan work?

You can usually borrow up to 50 percent of your next paycheque. You must pay back the loan, plus interest and fees, from your next paycheque – usually within two weeks of borrowing the money.

Before giving you a payday loan, a payday lender will want proof that you have regular income, a permanent address and a valid bank account. You will also be asked to pay back the loan either in cash, by cheque or directly from your bank account (in this case you will have to give the payday lender a post-dated cheque, and/or authorize a withdrawal from your account). You also have to sign a loan agreement, which indicates how much interest you will pay on the loan, plus any fees that apply.

How much does a payday loan cost?

A payday loan is a very expensive way to borrow money. The interest charged on a payday loan is much higher than the interest charged on other types of loans. **All the extra fees – such as for a late payment – can add up quickly and make it difficult for you to pay the loan back.**

Fees associated with a payday loan

Besides interest, payday lenders charge many other fees. Check with the payday lender to see which of the following apply and what they mean:

- set-up fee
- administration fee, processing fee, verification fee or convenience charges
- broker's fee
- collection fees
- early repayment fee
- loan repayment fee or a first-party, cheque-cashing fee
- locate fee
- return fee or non-sufficient funds (NSF) fee
- roll-over fee, renewal fee, finance charge or additional charge, or extension fee
- wage assignments or liens on personal property (where your paycheque or personal property is turned over to the payday lender to pay off your loan).

Know your rights

Some provinces and/or territories may have laws to protect your rights when dealing with payday lenders. In some provinces or territories, payday lenders may not be allowed to "roll over" your payday loan, which means extending your existing loan for a fee, or giving you a new loan to pay off the existing loan. **Check with the consumer affairs office of your province or territory to find out what your rights are before signing up for a payday loan.**

Alternatives to a payday loan

Here are some cheaper alternatives to getting a payday loan:

- Contact a local credit union or a financial institution for a small loan or line of credit.
- Look into getting overdraft protection on your bank account. If you don't have enough funds to cover a cheque you write, the bank will pay the cheque and you'll avoid non-sufficient fund (NSF) fees and returned cheque fees.
- Consider a loan from family or friends instead, and get the terms of the loan in writing.
- Request additional time to pay the bill from your creditors instead of taking a payday loan.
- Ask for a pay advance from your employer.
- Use a cash advance on a credit card.

Questions to ask before you apply for a payday loan

Here is a list of questions you should ask yourself **before applying** for a payday loan:

- **Have I considered other, cheaper alternatives (listed on the opposite page) to a payday loan?**
- If I am experiencing financial difficulty, have I considered credit counselling?
- What are the fees and interest that apply to the payday loan if I pay it back on time? If I don't pay it back on time?
- Do I understand all the impacts a payday loan could have on my credit score if I don't pay the loan back on time?
- Have I read and understood the payday loan agreement, and do I know all the fees that apply?
- Do I know which laws apply in my province or territory around certain practices or fees imposed by payday lenders?

Other FCAC information of interest

Tip Sheets

- Shopping Around for a Line of Credit
- Shopping Around for a Credit Card
- Shopping Around for a Pre-paid Card
- Before You Sign Any Contract: 10 Things You Need To Know
- Getting Help from a Credit Counselling Agency

Publication

- The Cost of Payday Loans

For more information

For more information on payday loans, contact the consumer affairs office of your province or territory. A list of these offices can be found in the **Canadian Consumer Handbook**, published by Industry Canada. Visit Industry Canada's website, at www.ic.gc.ca, or call, toll-free, **1-800-328-6189**.

