



Debt Awareness Week

The Dangers of Pay-day loans

Naturally, many people have considered a pay-day loan as a solution to their short-term money problems, especially given the period of economic uncertainty that many people are facing currently. Pay-day loans are easily accessible thanks to their quick application process and minimal credit score checks, however that doesn't always mean they are a good idea.

Pay-day loans are exactly what they say on the label - whereby a lender will advance you an agreed amount of money on the basis that you pay it back in full on your next pay-day. On that basis it seems like an easy solution, offering quick cash at a time when you may need it most. However, it unfortunately doesn't always work like that as many borrowers are unable to pay back the full amount due to the exceedingly high interest rates and fee charges.

While the Financial Conduct Authority has capped the cost of pay-day loans by law- lenders can still charge up £24 in loan application fees and up to £15 on default payment fees plus interest. Even more shocking, over a year, the average APR aka the interest on a pay-day loan can be up to 1,500% whereas the average APR for a credit card is 22.8%.

For example, if you borrowed £300 for a 30-day period and paid it back on time your total amount would be £362.40, however, if for some reason you were 30 days late with your payment, you would incur an interest charge of £134.40, a late fee charge of £15 and an interest charge on the late fee of £3.60- bringing the total amount you owe to £453.

As a result, many borrowers find themselves quickly trapped in a cycle of debt, taking out one pay-day loan to pay for the previous - one of the biggest dangers of the pay-day loan scenario. Not only that, borrowing from a pay-day loan is likely to have a negative impact on your ability to obtain credit from more mainstream providers in the future.

The cost of a pay-day loan can quickly spiral out of control and become a larger debt than the amount the loan was originally intended to cover, meaning that whilst it can seem like an easy fix at the time, in reality it is anything but.

For further information and help on managing debt, there are a number of resources you can turn to. For instance, The National DebtLine offers a free debt advice service, which you can access by calling 0808 808 4000. Debt charity [StepChange](#) also has a number of useful tools including an estimation on how much a pay-day loan would likely cost you. You can also speak to your employer as they will likely be able to provide you with information and resources, including numerous support links that can help those struggling with debt.

Please note that the information contained in this article is for information purposes only and should not be construed as individual advice. Please contact DAM directly to receive specific advice based on your own personal circumstances.