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in the
Student
Support
Centre**

PAYDAY LOANS



**In this guide you will find
detailed information about:**

- o **How a payday loan works**
- o **Things to think about before you take a loan**
- o **Alternatives to payday loans**

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Payday loans

Payday loans are short-term loans for small amounts of money. They are available from high street shops and internet sites. Payday loans are marketed on the basis that getting a loan is quick and easy and that they may lend you money even if you have a poor credit history. Their interest rates are very high.

Payday loans used to cause problems to many borrowers because interest and charges could rise very quickly if you didn't repay them on time.

From January 2015 several changes have been made to the law about payday lending, to protect borrowers.

1. A cost cap of 0.8% a day: for all high-cost short-term credit loans, interest and fees must not exceed 0.8% a day of the amount borrowed; that's 80p a day for a £100 loan. So if you borrow £100 for 30 days and pay it back on time, you should not repay more than £24 in fees and charges.
2. Default fees are capped at £15: if you default (don't repay your loan on time), default charges cannot be more than £15. Interest on the unpaid balance (including the charges) cannot be more than the initial rate of interest.
3. Total cost cap of 100%: borrowers must never have to pay back more in fees and interest than the amount borrowed. So if you borrow £100, you should never pay back more than £200 in total.
4. Limiting the number of times that a loan can be "rolled over". If you can't repay a payday loan on time you can "roll it over" to the next month. This incurs extra interest, which under the old system was a major factor in payday loan debts getting out of control. Under the new rules from January you will only be able to roll over twice.

If you decide to get a payday loan, shop around and compare the interest and charges before you borrow. Make sure you are clear about what will happen if you can't pay it back.

Other ways to borrow short-term

Pay day loans are an expensive way to help people over temporary problems. They are not suitable for longer term difficulties. If you are regularly getting payday loans, then you may need to get advice about your finances.

A loan from a credit union will be more affordable. There is a cap on the amount of interest they can charge and there won't be any hidden charges if you pay the loan back early.

If you have a bank account, you may be able to agree an **overdraft**. But be careful of going overdrawn without permission.

If you're on a low income and need money in an emergency, you may be able to get help from a local assistance scheme, a charity or a foodbank.

If you have a credit card, you might be able to increase your credit limit. Think carefully about this, because having a high credit limit can make it more difficult to borrow in future. If you use your credit card and repay within the month, this is interest free.

Remember if you borrow £100 from a payday lender for 30 days, it could cost you up to £24.

On a credit card with a 20% APR, you can borrow £100 for a YEAR and it will cost you £20.

Things to think about before taking a payday loan

Payday loans can be easy to get, and if you have problems paying the loan back the lender may offer an extension, known as a deferral or rollover.

This can seem like a great idea, but in reality payday loans are only manageable if used for short-term borrowing (30 days or less). Under new rules from January 2015 you can only roll over a loan a maximum of twice.

You may also find it easy to get another payday loan from a different company at the same time (and use one to pay off another). This can lead to debts that grow very quickly, so it's important that you avoid taking out more than one payday loan at a time.

If you have paid off your payday loan, you may find that the company contacts you again and again with offers of more loans (because it knows you are a good customer). This can be very hard to resist.

You should bear in mind that even paying a payday loan in full, on time, could affect your ability to get a mortgage in future: some lenders won't accept applicants who have used payday loans in the past.

Paying back a payday loan

Usually you'll be given up to a month to pay back the money you borrowed, plus interest.

The most common way to pay back a payday loan is through your bank debit card. When you get the loan you agree to let the lender take the money from your bank account. This is called a **continuous payment authority (CPA)**.

This gives them the right to collect payment on any day they like and for any amount they like. This causes problems for many borrowers when payments go out of the bank unexpectedly, leaving them short of money for essentials like rent and food. Payments could be much higher than expected, which can also leave you short of money. Under new rules, lenders will only have two chances to use a CPA: if there's not enough money in the account they will have to contact you about this.

Remember that missing payments on a payday loan will affect your credit rating and your ability to borrow in the future.

Stopping the continuous payment authority

If you can't afford to repay the loan, you can instruct your bank or card provider to stop the payment being taken. You must do this at least one day before the payment is due.

Simply tell whoever issued your card (the bank, building society or credit card company) that you don't want the payment to be made. You can tell the card issuer by phone, email or letter.

Your card issuer has no right to insist that you ask the company taking the payment first. They have to stop the payments if you ask them to.

Sometimes banks are reluctant to cancel CPAs. If your bank, building society or credit card company doesn't refund your money for a payment they shouldn't have allowed, write and ask for your money back under the company's complaints procedure.

If you're still not satisfied, you can complain to the Financial Ombudsman Service. You can contact the Financial Ombudsman Service helpline on 0300 123 9 123 or visit the website at: www.financial-ombudsman.org.uk.

Struggling with your money?

A payday loan should always be a last resort and only if you need a fixed sum of money for a very short time and you know you can repay it on time. If you're using payday loans often, or borrowing to repay other debts then you should seek money advice first before borrowing more money.

You should bear in mind that even paying a payday loan in full, on time, could affect your ability to get a mortgage in future: some lenders won't accept applicants who have used payday loans in the past.

To talk to a specialist money adviser, contact the Advice Team in the Student Support Centre. Drop-in 12 til 2 Monday to Friday or make an appointment at the Student Support Centre front desk

Useful links:

<http://www.moneysavingexpert.com/loans/payday-loans>

<http://www.lincscreditunion.org.uk/join.html>

<http://adviceguidancefunding.blogs.lincoln.ac.uk/hardship-funds/>