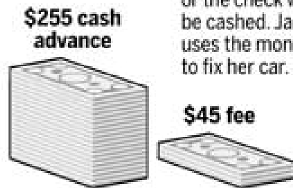
How a payday loan can get a borrower into trouble

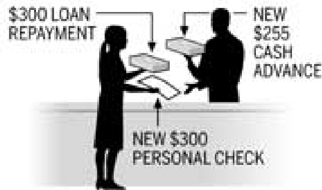
For people living paycheck to paycheck, a payday loan can put the borrower on a costly treadmill.

1 Jane is employed, but the paycheck from her low-wage job barely covers her living expenses. When Jane's car breaks down, she decides to go to a payday lender.

2 Jane learns from the lender that all she needs to qualify for a $300 loan is a checking account and a steady source of income. Though Jane's income is low, and her checking account is nearly empty, she qualifies.

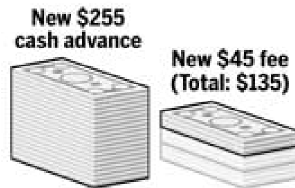
3 Jane writes the lender a check for $300, and she receives $255 in cash ($300 minus a $45 fee). She agrees to repay the loan on her next payday or the check will be cashed. Jane uses the money to fix her car.





4 **Two weeks later:** Jane repays the loan, but then can't afford her rent. She decides to take out a new loan with the same conditions. She pays another $45 fee.

5 **Two weeks later:** Jane repays the loan, but the cycle continues. She takes out another loan — with no end in sight.



6 **After 12 weeks:** Jane has now taken out and repaid six payday loans. After six transactions, the fees exceed the original loan.

Source: California Budget Project

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