

GUIDE TO SMARTER LOANS BORROWING



Need cash in a hurry?

You could be inclined to get an online payday loan. You may believe you are not qualified for a more suitable offer or you might not realize what else exists.

Look at all your alternatives first, though, since the interest costs and charges on most of these personal loans may be incredibly high - and there is often a less expensive option.



Mel discovered that immediate cash means immediate debt

Mel was concerned with how she would pay her rent, which was due the very next day. She found an advert that said '**Get instant pay day loan**'.



Mel completed a loan application form and later on that day, \$450 was transferred straight into her bank account.

Over the following couple of weeks Mel had various other expenditures so she didn't make her payments and didn't repay the borrowed funds within the expected 23 days.

Because the default charges were \$40 each and every time she missed a repayment, plus the initial fees to get the cash, **Mel discovered that 30 days later, she had a debt of more than \$700.** Her mother needed to help her pay it back.

..... How do payday advances work?

- **Online loans** are usually short-term loans, offered to you as a money advance against your upcoming paycheck. Such loans are generally for a couple of hundred dollars, to be paid back on an established time - typically within 2 to 4 weeks (based on whether you get paid fortnightly or once a month). You will most likely need to authorise a **direct debit** payment from your banking account, that will be deducted as soon as your upcoming paycheck arrives.
- Lenders usually impose a **set-up fee** (typically referred to as an 'application fee',

'draw down fee' or 'establishment fee'). Fees differ depending on the time period of the loan.

- Should you be unable to pay back the borrowed funds on the deadline day, you will typically pay a significant default fee and/ or a really high interest rate until you pay it back entirely.
- When you **compare all of these fees** to the interest incurred on other kinds of personal loans or credit cards, pay day loans may be an extremely costly type of credit.



What about high-cost personal loans?

If you wish to acquire a small sum (under \$5000) and don't want a credit card or you aren't eligible for one, you could have problems obtaining a personal loan from a bank or any other popular loan supplier. A number of lenders offer **small personal loans**, which include individuals with poor credit histories, in return for relatively higher rates of interest and/or fees. These personal loans might be repayable over a longer term than the usual payday loan, however the costs may also be quite significant:



- Lenders usually impose a **set-up fee and interest** until the loan is paid back. Fees and interest change based on the duration of the loan. Several lenders require that you use a 'broker' connected with their company, and then ask you for a brokerage fee. If you can't settle the credit on the payment date, you can expect to pay substantial default charges and/or a very high rate of interest before you pay it back completely.
- Just like payday loans, lenders providing small personal loans might take a **direct debit** on your banking account to ensure that you make your payments. You should be sure you have sufficient cash in your bank account on the payment date, or else you might be charged fees by your bank as well as the credit company.
- When you compare these fees to the interest incurred on other sorts of loans or credit cards, small personal loans can be a **very costly** type of credit. Loans which cost more than 48% every year as a whole, including interest and fees, are against the law in some states. Some lenders require security over your property or personal belongings. Bear in mind that it's banned to ask for security over crucial household goods that would be secured in bankruptcy.

In case you are worried about the conditions of your loan, talk with the loan provider. If your issues are not settled, **seek the advice of a community legal centre**, your state's Legal Aid office, or look in the front part of your phone directory for **legal support providers**.



HINT Investigate your alternatives first

In case you are in an economical crisis, it may seem a payday loan is the only real option. However, there may be other possibilities out there that cost significantly less:

- Do you absolutely need to get the cash immediately? Or maybe is it possible to hold off until your upcoming pay?
- Think about speaking with a **financial advisor** first about your alternatives - it's totally free and discreet.
- If you're on a low income, you might be entitled to a **no or low-interest loan**. These types of plans provide small loans for particular uses, for example buying a new refrigerator or washer.
- If you're having problems paying a water, telephone, gas or electricity bill, speak to your **service provider** directly to find out if you're able to pay the bill in instalments.
- Think about asking for a small sum of money from a friend or family member.



HINT Do not get a loan to pay bills

If you're having problems paying a water, telephone, gas or electricity bill, speak to your water, telephone or energy supplier. Nearly all firms have hardship officers who will be able to assist you in working out a strategy to cover the bills in instalments.



6 steps to clever borrowing

STEP 1

Figure out if you have enough money to borrow

- Only take out a payday loan after you have investigated all your possibilities and discovered you've got no alternatives left.
- When you have to borrow, by no means borrow more than you require and don't get a payday loan for even a day beyond the period you must.

STEP 2

Check around to find the best offer

- Be sure you fully grasp each of the charges and fees. Find out if there's a loan set-up or brokerage fee, and what the fee charged every week is. Make an effort to discuss a deal in some of the charges. In the event the credit company agrees, ensure the credit deal reflects the lower charges.
- Be sure you are aware of the payment date for the loan and if there are any fees for past due pay back. Additionally, learn what takes place when you are not able to make the settlement.

STEP 3

Understand who and what you are working with

- Anybody who needs to participate in credit activities (which includes brokers) needs to be certified or be an authorized associate of somebody who is certified. When they aren't, they're running against the law.
- There is at present an exemption from certification for loan support offered via certain businesses (for instance, retail stores and car yards). Even though the store might be exempt, the particular loan company must still be certified. If you're uncertain exactly who the loan supplier is, consult whomever you're dealing with to indicate the name in your loan agreement.
- Anybody participating in loan activities (for instance, by offering loan or aid to you) has to provide you with either a loan guide (with details such as their licence number, fees and specifics of your ability to make a complaint) or a written notice with specifics of your ability to make a complaint regarding their actions.

STEP 4

Keep up with your payments

- If you do make use of a payday loan, it is vital that you pay it back by the due date. In any other case, you may be charged interest at an extremely high rate.

STEP 5

Get help if you can't pay your debts

- Act fast if you're having problems making payments. It might be challenging to deal with the situation, but dismissing it will simply make matters worse.
- If you're having difficulty paying back a debt, stay away from refinancing with the same loan company. Get assistance instead.
- If you can't make the entire payment, pay whatever you can. Speak to your loan provider immediately.
- If you're going through financial complications, you have the ability to apply to the loan provider for a hardship variation. If the loan provider declines, you could apply to its independent dispute resolution scheme for a variation on the basis of hardship.

STEP 6

Make a complaint if things go awry

- Make an effort to solve your problem with your loan provider first.
- When you aren't pleased, take your problem to your provider's independent dispute resolution scheme.