Payday loans go by a variety of names, including “deferred presentment,” “payday advances,” “deferred deposits,” or “check loans,” and operate out of check cashers, over the internet, and elsewhere. They all work in the same way. You write a check or sign an authorization for the lender to take money out of your account electronically. The amount on the check equals the amount borrowed plus a fee. The check is due to be cashed or the electronic debit due to be initiated on your next payday or receipt of a government check.

Too often you will find that when it comes to repay the loan, you do not have sufficient cash in your bank account or you need the funds there for more pressing purposes. You then have no choice but to roll over the loan into a new loan with a new fee. The effective annual rate of the loan is often as high as 400% or 700% or even higher. As you roll this loan over each time, the balance quickly grows, making it more and more difficult to repay. You become caught in a spiral of rolling over the loan each month, accumulating ever more fees and interest at astonishingly high interest rates.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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