UK Payday Loans â€“ a Growing Phenomenon

By Phoenix Payroll Ltd

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Since the recession kicked in, many people in the UK are feeling the brunt of frozen pay, fewer benefits, and even salary cuts. Those of us lucky enough to hang on to a job are nevertheless feeling the pinch as food prices and conveniences rise out of proportion with salaries.

Itâ€™s a tad gloomy, this picture. But the recession has produced some unexpected trends which have remained in place even as employment figures slowly begin to rise again. One of these is the advent of the short term or â€˜paydayâ€™ loan.

The payday loan is a simple concept â€“ a short term cash injection designed to help out with lifeâ€™s unexpected expenses (a broken down car or unusually high bill for example). The idea is that applicants set the amount they want to borrow (usually less than Â£500), and choose the date they would like to pay it back (when the next pay cheque arrives).

These loans are only available for periods of one month or less, so arenâ€™t a long-term financial solution, but can be useful as a one-off, short term fix. What began as an American idea is becoming increasingly popular in the UK as more and more people look to short term loans to help them out of a rare tight spot.

Unlike bank loans, payday loans are generally administered entirely online â€“ which means no faxing and no paperwork. In other words, no hassle â€“ or thatâ€™s the idea, at least. Theyâ€™re also a lot quicl than bank loans, with payments being made within 48 hours in the majority of cases, and often much quicker than that.

The flipside is the processing fee and interest rates. Flat processing or administration fees are generally below Â£10 (depending on how much you borrow), but interest rates can run into thousands of percent â€“ anything from 100% APR to 30,000% APR, in one extreme case.

However, as these are short-term loans, in actual terms the interest you pay back is generally only a few pounds, and as with most loans, the quicker you repay what youâ€™ve borrowed, the lower the interest rate. Any payday lender worth their salt will quote this figure upfront before you commit to taking out a loan.

UK payday lenders exist in abundance, and many operate online which means you can get a payday loan with no faxing or phone calls. But before you use one, make sure you check what fees they charge. Responsible lenders will always check that you are able to repay a payday loan â€“ for example, youâ€™ll need to be in employment, have a current UK address and valid bank account. Never borrow from a lender that doesnâ€™t enforce these checks.

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