Risky Borrowing

Student Activity: Borrowing Money

“Predatory loans” have misleading or unaffordable terms that generally benefit the lender at the expense of the borrower. Predatory practices include charging unfair fees and interest rates or setting borrowers up for failure. Payday loans can fall into this category. While marketed as being a quick and easy way to get some extra cash to make it until payday, the interest rates and fees on these loans can be astronomical. An Annual Percentage Rate (APR) is defined as the rate and fees on a loan calculated over a one-year period. Payday loans often have an APR of more than 300 percent! To understand what that means, let us say you borrowed $400 for 14 days with a $50 fee. The APR would calculate to be 325.89%.

Objective

Understand the cost of predatory loans.

Activity

Imagine that your favorite band is playing at a nearby venue and you want to buy a $100 ticket for yourself. Although you have a job, you have not saved any money in the months leading up to the concert. You obtain a payday loan so you can purchase the ticket. The fee for the loan is $15 for 14 days.

Calculate each line on the chart to determine the Annual Percentage Rate.

1	**Finance Charge**	**$15**
2	**Loan Amount**	**$100**
3	**Divide Line 1 by Line 2**	
4	**Multiply Line 3 by 365**	
5	**Divide Line 4 by loan term (14)**	
6	**Multiply Line 5 by 100**	%

Now, go check your work by using the APR calculator at **tinyurl.com/PDAPR**. Did you calculate it correctly?

In the space to the left, explore different ways you could have paid for the ticket, then discuss as a class.