Name: ______________________

Jocylen's Financial Trouble

My Story

When I graduated from high school I was ready to be on my own. I found a full-time job and moved into an apartment with a roommate. What I didn't know was how hard it was going to be to make ends meet. Even with a roommate, there are months it is difficult to keep up with my bills. And a recent lay off really put me behind. Since then I have been getting further and further behind in my bills. Right now I have more expenses than income and need to find a way to pay my bills.

Jocelyn is considering the following four ways to solve her financial problem. Explain what you think is good or bad about each.

Solution 1: Use her credit card to pay bills and get cash.

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Payday loans are short-term cash loans based on the borrower's personal check held for future deposit. Borrowers write a personal check for the amount borrowed plus the finance charge and receive cash. In some cases, borrowers sign over electronic access to their bank accounts to receive and repay payday loans.

Lenders hold the checks until the next payday when loans and the finance charge must be paid in one lump sum. To pay a loan, borrowers can redeem the check for cash, allow the check to be deposited at the bank, or just pay the finance charge to roll the loan over for another pay period.

Payday loans range in size from $100 to $1,000, depending on state legal maximums. The average loan term is about two weeks. Loans cost on average 470% annual interest (APR). The finance charge ranges from $15 to $30 to borrow $100. For two-week loans, these finance charges result in interest rates from 390% to 780% APR. Shorter term loans have even higher APR's.

Solution 2: Take out a payday loan

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Solution 4: Take out a personal loan from her bank

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