

It's two weeks until payday, your credit cards are maxed out ... and then your car breaks down. You only need a few hundred dollars for the repair but you need it now. Many people in these situations have turned to "alternative" financial services providers such as pawnshops, car-title lenders and payday lenders. But while many nonbank lenders advertise quick and easy cash, their services tend to come at a steep price. Here are some tips for finding emergency cash at affordable prices.



**Build your own rainy-day fund and borrow from yourself.** The best way to avoid a cash crunch is to put money into an emergency savings account that you can use to pay for unforeseen expenses. Experts say this fund should equal about three to six months of living expenses to get you through a difficult period without having to take out a loan or borrow from retirement savings. "Saving money can seem impossible when you are staring down at a stack of bills and other expenses, but many people are able to make small, simple changes in their habits or banking practices that can make the difference," said Sandra Thompson, Director of the FDIC's Division of Supervision and Consumer Protection.

**Comparison shop for loans by looking at both total dollar costs and the Annual Percentage Rate (APR).** Payday lenders, for example, typically charge about \$15 for every \$100 borrowed. So, on a \$500 loan for two weeks, you'd pay \$75 in interest. That might not sound like a lot of money to pay for a small loan, but it translates to a whopping 391 percent Annual Percentage Rate! And if you renew or "roll over" the \$500 loan for another two weeks, you'd pay an additional \$75 in fees. At that rate, in just 14 weeks, you will owe more in fees (\$525) than the original loan! "Consumers often roll over the same payday loan several times because they cannot pay the full amount on the due date," said Rae-Ann Miller, special advisor on consumer issues in the FDIC's research division.

**Ask your bank about linking your checking account to your emergency savings account.** With this arrangement, an overdrawn checking account can be covered by having the shortage automatically transferred from your savings account. "Expect to pay a small transaction fee for using this service, but it will be less than what you'd be charged in interest and fees for a bounced check or a short-term loan," said Miller.

**Check out other options for emergency cash from banks.** Many banks offer reasonably priced, small loans that enable you to write a check for more than what you have in your account and repay the money later. One example is an overdraft line of credit, which means the bank will automatically cover checks you write, up to a specified amount, even if you don't have enough funds in the account. "The best way to ensure that reasonably priced emergency credit will be there if you need it," said Thompson, "is to work with a bank to set up an account in advance instead of waiting until you're in a rush to get cash."

Alternatively, some banks offer "bounce protection" that will cover individual overdrafts by check or ATM/debit card withdrawal, usually for a fee. This protection typically involves an informal agreement and no APR disclosure. While it can be helpful for rare and limited overdrafts, the costs can quickly add up depending on the number of transactions covered. To learn more, read the interagency brochure *Protecting Yourself from Overdraft and Bounced-Check Fees* available online at

[www.federalreserve.gov/pubs/bounce/default.htm](http://www.federalreserve.gov/pubs/bounce/default.htm).