

What happens if you don't pay a payday loan?

Payday lenders do not go quietly into that good night. If you don't pay your loan back on time, you'll wind up on the business end of a debt collector's list—and payday lenders always seem to contract with the most obnoxious collectors out there.

Here is what you will deal with if you don't pay back your payday loan.

The debt collector will call

Unfortunately, no matter how hard you wish for it, your payday loan debt doesn't just go away. When you don't pay your payday loan, the lender will sell that debt to a debt collection agency. That agency will start harassing you and anybody else they know is associated with you to force you to pay the debt.

According to the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB), [debt collectors have to follow very specific rules](#) about who they can call, when they can call, and what they are allowed to say when they call.

In the past year, the [CFPB has passed a couple of new rules](#). One says debt collectors cannot contact you more than seven times in a seven-day period. Another lays out very specific instructions for how debt collectors can and cannot use social media when contacting you. Sadly, debt collectors tend to see these regulations as more of a suggestion than a rule. For example, payday loan debt collectors have been known to do the following:

- Lie about their identities.
- Calling repeatedly at all hours of the night and all days of the week.
- Lie about the size of your debt.
- Threaten to take you to court or even to have you arrested if you don't pay up within their completely made-up time period.

Some payday lenders aren't willing to sell your debt to collectors because they want to recoup as much of what you owe as they can (selling debt usually means settling for less than that). They'll skip the collection process altogether and sue you as a first resort instead of a last.

This is why you should [know your rights inside and out](#). Knowing the regulations will help give you the confidence to stand up for yourself if a payday lender or debt collector gets too aggressive or breaks the law.

Legal Repercussions: Lawsuits and Wage Garnishment

You might think that, because your loan is small, you'll be able to fly under the radar.

You won't.

There is no such thing as "too small" when it comes to payday lenders collecting a debt.

According to a [report released by the CFPB](#), more than 15% of all complaints received in 2020 were about debt collectors and payday loans. More than half of those complaints were about a debt collector trying to collect a debt the consumer didn't owe. About 24% of them were about threatening behaviors, harassment, and lawsuits.

The sad truth is that payday lenders and debt collectors win most of the lawsuits they file.

Why?

Because most of the time, [the borrower simply doesn't show up](#) in court to defend themselves. If you get sued and don't show up, the judge has no choice but to accept the debt collector/payday lender's testimony as the truth. The judge basically "rubber stamps" the complaint. Sometimes they will also agree to have you arrested or to garnish your wages if you don't pay your debt off right away!

Maybe you're afraid of how much your defense will cost. Maybe you're afraid of the hearing itself. The best thing to do as soon as you are served with a lawsuit is to consult a lawyer. If cost is an issue, your state's Bar Association can help you find an attorney who will look at your case for a reasonable fee.

What if I close my bank account after getting my payday loan?

When you have a payday collector automatically yanking money out of your bank account, the idea of closing your account can feel very attractive.

Don't do it.

It's true that simply closing your account shouldn't have a detrimental effect on your credit score. It could, however, keep you from opening a new bank account with another financial institution.

This is because while banks don't report to the major credit reporting bureaus, they do [report to debit bureaus like ChexSystems](#). If your debit bureau score is low, the bank can deny your application for an account!

What if I don't have money in my checking account when the payday lender tries to debit my account?

First, you need to know that your lender is not required to remind you about upcoming debits. They can just debit your bank account without any notification or checking first to make sure you have the funds to cover the payment.

If you don't have enough money to cover the payment, a couple of things are going to happen:

1. Your bank will charge you an overdraft fee. They will do this every single time your lender tries to debit your account.

You better believe that they will take a "try, try again" approach when their first attempts fail.

2. Your lender will charge you a missed payment fee. This gets tacked on to the amount you owe, which means it is subject to your loan's interest fees.

All these fees can add up quickly, leaving you far worse off than you were before.

Luckily, you do have options to keep these fees to a minimum.

- You can ask your bank to remove the overdraft fees.
- You can rescind your lender's access to your account.

Unfortunately, neither of these steps will erase your obligation to pay what you owe. And, as previously stated, they can exacerbate an already difficult situation.

Try to negotiate with your payday lender

Whatever you do, don't hide from your payday lender and hope they'll go away. They won't. And if you hide from your lender, there is nothing to stop them from taking payments out of your bank account.

If you know you're going to have trouble paying back your loan, your first call should be to your lender.

Remember, if the lender sends your loan to collections, they'll lose money. This is why they are more inclined to work with you whenever possible.

Your lender may agree to a new payment plan. Maybe they'll even agree to settle for less than you owe. This way they'll get more money from you than they would if they sent you to collections. And, bonus, you won't have to deal with debt collectors or have the default reported to on your credit.

Of course, your lender may be resistant at first. They might try to bully you into an agreement that you can't afford. If you're trying your best to negotiate a fair deal and they won't play ball, here's what you do:

Tell them that you can't afford to pay and that you're thinking about declaring bankruptcy.

This is the worst-case scenario for the lender. If you declare bankruptcy, they won't get anything from you—they won't even be allowed to send your account to collections. Many lenders are suddenly happy to negotiate when the alternative is getting nothing.

Whatever agreement you make, make sure you get it in writing. In fact, make sure you have a written contract in hand before you pay even a cent on your loan.

What is a payday loan?

A payday loan is a short-term loan that, supposedly, is designed to help bridge the gaps between paydays.

Payday loans have:

- Extremely high interest rates/fees

- Paid back with the borrower's next paycheck (hence the name)
- Disbursement is usually done by electronic deposit, though some can be disbursed as cash, a prepaid card, or even an old-fashioned check
- Borrower allows lender to access their bank account to recoup payment, or pays the loan off with a post-dated check

In theory, payday loans are meant to help with unexpected expenses that you can't yet afford but need to take care of immediately. The [CFPB calls these expenses "shocks"](#).

The reality is that a large portion of borrowers take out payday loans to cover recurring expenses and non-shock events.

In [California in 2020](#), the average payday loan was Around \$246. The average interest rate on that loan was 361% and it took consumers, on average, 16 days to repay their loans. 5% of borrowers bounced their payment checks.

For comparison's sake, consider this: the fees charged by credit card companies average out to around 24% APR. Fees charged by payday lenders average out to 300-400% APR.

When a payday loan comes due, the borrower can either pay the loan and associated fees (typically around \$15 for each \$100 lent) in full or roll the loan over. Rolling over the loan, of course, will tack another fee onto the amount due.

Most people who take out a payday loan can't fix things with just one loan. Instead, they get stuck in a payday cycle that is months long, where they take out a new loan to pay off an existing loan. This is called the "payday loan trap."

Why are payday loans bad?

There are a lot of reasons that payday loans are bad. You've already read about the bonkers interest rates and the "payday loan trap." Here's the biggest reason that payday loans are bad. The terms of the loans are outrageous. Have you ever read the fine print on one of those things? They are bad enough when you borrow from a state-regulated lender. They get even worse when you borrow from a tribal lender.

State regulators are working hard to keep predatory payday lenders in check. In fact, many states have outlawed payday loans completely!

How will not paying a payday loan affect my credit report?

Your creditors and lenders report how much you borrow and your repayment history to the three major credit reporting bureaus: Experian, TransUnion, and Equifax. The bureaus then [apply an algorithm to that information to come up with a score](#).

Your credit score is what others use to determine whether you are worth a financial risk. It's used to figure out whether you qualify for loans, renting an apartment, sometimes even a job!

If the loan never gets sent to collections or to court, it is not likely to affect your credit report at all. Once either of those things happens, though, things change.

Payday loan alternatives

There are so many other options out there when you need help funding a “shock” or covering expenses between paydays. You could try crowd funding, microloans, peer lending, etc. One very important option is the “payday alternative loan.”

Payday Alternative Loan

A Payday Alternative Loan (PAL) is a loan that is administered by a credit union and is regulated by the National Credit Union Administration (NCUA).

PALs are smaller loans, usually capped at \$1,000. The borrower can take up to six months to repay the loan and interest rates only go as high as 28%. As far as fees go, the most a credit union can charge you for a PAL is \$20.

Unfortunately, there are some limits to PALs. There's the \$1,000 cap. You can't roll your PAL over for an additional fee. You also can't take out another PAL until you've paid off your first one. Borrowers are limited to three PALs in a six-month period.

These regulations might seem restrictive, but they serve a function. They keep desperate borrowers from being preyed upon by scammy lenders.

Other alternatives

Personal loan

This is what most people think about when they think about a loan. It is a loan offered to you by a bank or credit union. The amount you can borrow and the interest rate you'll be charged will depend upon your credit history and credit score. The higher your score, the more likely it is you'll be approved.

Cash advance app

Like payday loans, these apps connect to your bank accounts and give you small loans to help you cover the gaps between paydays. Unlike payday loans, these apps have reasonable fees and base the amount of your loan on your past deposit history.

Credit counseling

In addition to helping you create a plan to pay down your debt, a credit counselor can help negotiate down your debt payments and interest rates. They can also stop debt collectors and payday lenders from contacting you.

Debt management plan

A debt management plan is something a credit counselor can help you develop. It lumps several debts together. You then pay one payment every month to the manager of your plan. That person distributes the money appropriately.

Bankruptcy

Bankruptcy should always be a last resort and you should always hire a lawyer to help you navigate the process. Contact your state's Bar Association for help finding a lawyer who can help you explore your options for an affordable rate.

The bottom line

If you absolutely must take out a payday loan, remember these important tips:

- Shop around to get the best deal on fees, penalties, and interest rates.
- Only borrow what you are sure you can immediately pay back.
- Don't borrow from more than one lender at a time.
- Lenders are legally required to show you your interest rates, fees, and payment schedules before you sign a contract with them. Never agree to a contract you haven't seen yet.
- Make sure you know what your state's laws are re: payday lenders, consumer protections, etc.

Finally, if you're stuck in the payday loan cycle, know that you're not alone and that there is a way out. If you're interested in payday loan consolidation and debt repayment plans, schedule a free consultation with us by clicking [here](#).

FAQs

Do I have to pay back an illegal payday loan?

If the loan is actually illegal, you might not! Check with your state to figure out whether your payday loans are legal or not.

What is a tribal payday loan?

A tribal payday loan is a loan offered by a Native American tribe. These tribes claim that they don't have to follow any federal or state regulations but can govern their own lenders.

Does the government offer help with payday loans?

The government does not help you pay off legally obtained payday loans. They do; however, help keep you safe from predatory lenders and unfair lending terms!

What other type of loan can I get with bad credit?

PALs, peer funding, crowd funding, cash advance apps, personal loans—all of these are good alternatives for people with bad credit.