

5 PAYDAY ADVANCE APPS

Are services that offer paycheck advances a friend or foe? It depends how you use them.



By: Geoff Williams - March 24, 2021

The tv commercials make payday advance apps sound so wonderful, so helpful, so perfect. Are you short on cash? Well, just get your paycheck a couple of days early.

You can't blame anyone for viewing those ads warily. When companies promise you easy cash, generally you can expect serious fees attached.

But unlike payday lending stores and online lending websites, some payday advance apps are actually pretty helpful.

Still, you should look at even helpful payday apps warily, and you really do need to be aware of what you're getting into.

What Are Payday Advance Apps?

The idea behind payday advance apps is that they advance your paycheck, or part of your paycheck, early for a low fee.

That is what some of them do, but they're all different, and some may be less appealing than others as you comparison shop and weigh their differences. But they shouldn't all be painted with one brushstroke as predatory companies, according to Ryan Cicchelli, founder of Generations Insurance & Financial Services, a financial planning services company in Cadillac, Michigan.

"These apps are, by and large, an extremely far cry from the much nastier practices seen in strip-mall lending shops," Cicchelli says.

That isn't to say that Cicchelli thinks people should drop everything to download a payday advance app. "Let us not forget that any kind of payday advance can create a slippery slope that puts people in greater danger down the line," he says. "People should use these services only after carefully weighing the pros and cons of doing so. But for folks who just need a few dollars to get them through the week, these services can be a lifeline. Plus, they are most likely cheaper than adding anything to a credit card balance."

We'll get deeper into the pros and cons of payday advance apps, but if you want to learn more about these apps and how they differ from each other, the big names include:

Chime

If you have a Chime online bank account and your employer offers direct deposit, your check will become available the moment your bank gets the money. Typically, many banks will have checks for 48 hours before they become available to the consumer; Chime simply manages to get the money to you faster.

Its TV commercials tout the payday advance element, but it's really an online bank account with a payday advance feature.

Varo

This is also an online bank account with a couple of payday advance features. Like Chime, Varo can get your paycheck to you the moment it hits the bank account, which is generally 48 hours sooner than conventional banks. And if you need your money sooner, Varo will give you an advance of \$20 for free. But if you need more than that, you'll start to pay. The most of your paycheck that you can have advanced is \$100, and the most you'll pay for that is \$5, which you'll have to repay within 15 to 30 days.

Earnin

This payday advance app will send you up to \$100 a day and up to \$500 of your paycheck. You have to offer up your checking account information and prove that you have a paycheck; freelancers may struggle to prove that in Earnin's eyes. But it will give you this money for free and with no interest. You're just asked to pay a tip; it suggests 4%.

Brigit

The payday advance app will send you up to \$250 that you've already earned within one minute. You have to show proof of your monthly income and also that you've had your bank account for a while (it has to be at least 60 days old, which is common among these apps).

Once Brigit is positive that you are on the up and up, and that you really will be getting a paycheck, you can get an advance on up to \$250. Once you do get paid, an automatic withdrawal of what you owe Brigit will go back to the payday advance app. There are no fees and no requests for a tip. If you do want to use some extra features such as setting it up so that you get a small cash deposit any time your balance is about to drop below zero, you can pay a \$10 monthly fee. To avoid a \$30-something overdraft fee, you may feel that it's worth it.

Dave

Such a friendly name. So what do you get with Dave? Well, you can receive up to \$100 in an advance, although there is a way to get \$200 (it involves getting a Dave debit card and a Dave spending account). You won't be charged interest, but you will be asked for a "tip." You will also be charged a monthly membership fee of \$1 to use the app. It's also worth noting that if you need the money fast, like within eight hours, you'll pay a fee of \$4.99. But if you're planning and can wait a couple days, there's no fee.

There are additional features that are nice. For instance, if your account balance is low, or you don't have enough money to pay a bill that Dave knows is going to be due soon, you'll get a notification. In other words, Dave will help you manage your money.

The Pros and Cons of Payday Advance Apps

The pluses of payday advance apps should be pretty clear. If

you use one, you can either get your entire paycheck a little sooner than you would be able to at other banks (at least, that's the pitch), or you can get a small payday loan, generally between \$100 to \$250, for a relatively small fee and no interest. Compare that to payday loan stores and online lending stores, which can both really soak consumers with their high-interest loans.

A negative of payday advance apps is that they're not very good as a permanent or repeated fix. If you are constantly short on cash and frequently using payday advance apps, you could find yourself in a cycle where every month you're shelling out money to get your own money a little early. It may not be nearly as bad of a cycle as with a payday lending store, but it can be a cycle of debt and cash-flow shortfalls nonetheless.

Justin Nabity, certified financial planner and founder and CEO for Physicians Thrive, a financial advisory firm for doctors headquartered in Omaha, Nebraska, thinks payday advance apps can be useful in a financial emergency.

"These apps enable you to get cash in advance that can easily cover small expenses and save you from high-interest loans from the bank," Nabity says.

But he wouldn't recommend getting in the habit of using payday advance apps.

"It is not a long-term solution, and using these apps on a regular basis can lead to unhealthy financial habits," Nabity says.

After all, anyone with a checking account and a regular paycheck should always have at least one goal: to reach the next paycheck period with extra money in the bank. If you have the occasional shortfall, what should be habitual is to reach into a savings account for more money rather than pay a service to get your money a little sooner.

It isn't easy to stretch a paycheck if it's paltry in the first place. If you use a paycheck advance app sparingly, it's probably going to be more helpful than hurtful.

But if you use payday advance apps on a regular basis, especially the ones that charge a small fee, you're basically creating a new bill or expense that you'll incur once or twice a month. Meanwhile, if you're constantly using payday advance apps, you probably aren't putting money away in a savings account. Which means that eventually if your car breaks down or you need to call a plumber, you may need a large sum of money that can't be covered by a payday advance app. And what then?

That's when you may turn to a payday lending store or an online lender with exorbitant interest rates.

The bottom line: If you're going to use payday advance apps and you want to get ahead financially, you should use them sparingly.

Ryan Cicchelli, founder of Generations Insurance & Financial Services, is committed to providing clients with financial security through a personalized, friendly approach. Ryan's top concern is helping clients make informed decisions about all things related to healthcare and retirement.

To contact Ryan, call 231-878-7074 or visit www.GenerationsIFS.com



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