



Payday Lending:

Short-term loans, long-term financial problems

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Payday Lending 101



- Small, short-term loan secured by borrower's personal check
- \$15-16 per \$100 borrowed (400% APR)
- Only need a source of income and a checking account to qualify
- Most likely borrowers: women, people of color, renters, slightly less than median income, those with a high school diploma but no four-year college degree

Payday Lending 101



- 24,000 stores in 37 states, \$28-40 billion in loans annually
- Industry growth began in mid 1990s, when states gave lenders to special exemptions to small loan rate caps

The problem with payday loans...



1. High cost (triple-digit APR)
 2. Two-week balloon payment
- Most borrowers pay their loans off when they are due BUT, there's not enough left over for basic necessities and the borrower must take out another payday loan either immediately or a few days later

Why can't a borrower pay back their loan when due?



	\$35,000 Salary
Before tax income (2 weeks)	\$1346
Minus taxes*	-\$120
After tax income	\$1226
Minus two week expenditures on food, housing, transportation, and healthcare*	-\$963
Money left over	\$263
Payday loan payment due on \$325 loan	\$377
Deficit	-\$114

*Source: BLS, Consumer Expenditure Survey

Payday Lenders depend on trapped borrowers



- 90% of payday loan business is generated by borrowers with five or more loans a year
- Over 60% of business is generated by borrowers with at least one loan a month.
- Just **two percent** of loans are taken by borrowers who can pay it back and walk away from payday lending for the rest of the year....

At the Federal Level...



- Military Loan Act-passed in 2006, in effect as of Fall 2007
 - 36% APR rate cap on small loans
 - Effectively bans payday loans for active duty military and dependents
- Clinton and Obama include 36% APR rate cap in their platforms for all Americans

In the states...

- Momentum increased in past few years to clamp down on payday lending
- Some states have passed “best practice” reforms that have not helped borrowers escape debt trap
- Others have returned to capping interest rates at about 36% APR, causing payday lenders to leave

States That Don't Have High-Cost Payday Lending



- Connecticut
 - District of Columbia
 - Georgia
 - Maine
 - Maryland
 - Massachusetts
 - New Jersey
 - New York
 - North Carolina
 - Oregon
 - Pennsylvania
 - Vermont
 - West Virginia
- A quarter of Americans live in a state without payday lending
 - By the end of 2008, payday lenders are expected to leave New Hampshire and Arkansas
 - Unsuccessful attempts at a rate cap in 2008: California, Colorado, Virginia
 - Still pending: Ohio