

Payday Loans Trap Borrowers, No Matter What Fee

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The payday lending two-week loan term traps borrowers in a repeat borrowing cycle, no matter what fee is charged

	Cost of Two-Week Payday Loan		
	\$10 per \$100	\$15 per \$100	\$20 per \$100
<i>Income and Taxes</i>			
Income per half-month pay period	\$ 1,458.33	\$ 1,458.33	\$ 1,458.33
Taxes	\$ 17.79	\$ 17.79	\$ 17.79
Social Security	\$ 96.33	\$ 96.33	\$ 96.33
Income after tax	\$ 1,344.21	\$ 1,344.21	\$ 1,344.21
Payday loan payment due on \$300 loan			
	\$330	\$345	\$360
Paycheck remaining after paying back payday loan	\$ 1,014.21	\$ 999.21	\$ 984.21
<i>Household Expenditures per 2 week period</i>			
Food	\$ 193.54	\$ 193.54	\$ 193.54
Housing	\$ 516.21	\$ 516.21	\$ 516.21
Utilities	\$ 128.00	\$ 128.00	\$ 128.00
Transportation	\$ 165.42	\$ 165.42	\$ 165.42
Healthcare	\$ 103.88	\$ 103.88	\$ 103.88
Total Essential Expenditures	\$ 1,107.04	\$ 1,107.04	\$ 1,107.04
Money from paycheck remaining (deficit)	\$ (92.83)	\$ (107.83)	\$ (122.83)

*The median payday loan size in the United States is currently \$350.

Source: Two-week estimates for taxes, Social Security, and household expenditures derived from annual estimates from the 2007 Consumer Expenditure Survey, Bureau of Labor Statistics, households earning \$30,000-39,999 annually. Nationally, the median payday loan size is \$350. Annual income and expenses are divided by 26 to obtain a two-week cash flow estimate.

Most borrowers pay back their loan on time, BUT they do not have enough money left over for other expenses, and must take out a new loan immediately or a few days later.

For example, in Florida and Oklahoma¹ (which both employ fee caps, renewal bans, payment plans, cooling off periods, loan tracking databases etc):

- About half (49%) of all subsequent loans are taken out within 24 hours of the previous loan being paid off
- Nearly 90 percent of all subsequent loans are taken out within the same two-week pay period of the previous loan being paid off
- 94 percent of all subsequent loans are taken out within the same month of the previous loan being paid off
- 4.5 months is the time the average borrower is indebted for a typical \$300 payday loan.

¹ See Oklahoma Trends in Deferred Deposit Lending, Veritec Solutions LLC (June 2008) and Florida Trends in Deferred Presentment, Veritec Solutions LLC (July 2008). Subsequent loan data is from a public records request and is on file with CRL.

Any “Reform” that Allows 400% is No Reform At All

Just like in Proposition 200 last year, the payday lenders are shopping proposals to reduce their fee to \$15 per \$100. This equals **391% APR on a typical \$300, two-week loan**. Just like in Prop. 200, the payday industry is window dressing their 400% interest rates with a number of so-called “reforms” such as databases, loan limits, renewal bans and others. Prop. 200 included these same “reforms” and they were rejected by voters by a 2 to 1 margin. As evidenced by the experience of other states, their so-called “reforms” fail to stop the debt trap.

Demand for payday loans is a fraction of what the industry would indicate.

The most common reason a borrower takes out a new payday loan is to pay for the debt caused by the previous payday loan. Because of their high-fees, short-term, and payments that are due in full in two weeks, payday loans are a debt trap.

Here’s why: As shown in the table below, borrowers are unable to both repay the payday loans and meet their other monthly expenses. So, they must take out a new payday loan to fill the gap in their family budget caused by the previous payday loan. As a result, the average borrower is stuck for 9 pay cycles as a result of one payday loan.

What this means for you is that a typical Arizona borrower pays **\$841 to borrow a \$325**. That’s a lot of money that could be used to otherwise invest in the needs and future of your communities. Letting the sunset on 400% interest rates is the only way to stop this debt trap, meaning that borrowers will no longer have to throw good money after bad.

Credit is not always the option, and abusive credit never is.

Borrowers report having a range of options to deal with a cash flow problem – friends, families, churches, credit cards, credit unions, signature loans, employer advances, working out payment plans with utilities, all of which are a fraction of the cost of a payday loan.

Despite the payday industry claims, payday loans do not relieve families’ of the burden of overdraft fees. They increase them. Once a borrower defaults, they incur both overdraft fees from the bank and insufficient fund fees from the payday lender. That’s double the injury.

And, studies show that borrowers already have access to credit sources – one-third of payday borrowers had a credit card with an available balance, forty-five percent reported that they had savings, and nearly two-thirds reported that they make an effort to save a portion of their paychecks, with 30 percent regularly able to set aside funds.

In addition, studies show that because of their high costs and terms, payday loans leave borrowers exhibiting decreased productivity at work, unable to pay other bills, and more likely to file for bankruptcy. In states without 400% interest rates **borrowers report being better off without these loans** that have an easy entry, but no exit.

For more information, see *High-Costs Lending Traps Arizona Borrowers at*
<http://www.responsiblelending.org/payday-lending/research-analysis/high-cost-of-payday-in-arizona.pdf>