

Newsarticle

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Payday Lending

Payday lending (often called cash advance) is the practice of using a post-dated check or electronic checking account information as collateral for a short-term loan. Research indicates that the payday lending business model is designed to keep borrowers in debt, not to provide one-time assistance during a time of financial need [as they're often thought of] ...

Payday lending is often referred to as a "debt trap" – here are a few reasons why:

- 91% of payday loans are made to borrowers who use 5+ payday loans/year.
- 99% of payday loans go to repeat borrowers.
- The average payday borrower pays \$800 to borrow \$325.
- It is estimated that payday lending costs US families \$3.4 billion annually.

Payday lenders typically allow borrowers just two weeks to repay, and borrowers regularly find they cannot come up with the cash to pay back their loan so quickly. To avoid defaulting, borrowers often agree to renew the loan and pay the interest again. Interest fees are usually \$15-\$20 per \$100 borrowed. A PIRG study found the average interest nationally was 680% APR. The Department of Defense lists payday lending as one of the top ten key issues impacting the quality of life of U.S. soldiers. A "New York Times" article in Dec. 2004 revealed that more than 1/4 of military households (26%) have been caught up in payday lending. In many University towns, students are a primary "user" of these products. Many states have seen the problems these types of lenders have created for consumers [and 14 states] have banned payday lenders. Unfortunately, lenders have found ways around these state laws. National chains use partnerships with out-of-state banks to 'skirt' the law. They also use this arrangement (known as the rent-a-bank model) to avoid limits on interest rates and other provisions in states that do authorize payday lending.

The Center for Responsible Lending provides “9 Signs of a Predatory Payday Loan” to help educate consumers on the pitfalls that entrap many ...

1. **Triple digit interest rate** – fees equal to 400% APR and higher.
2. **Short minimum loan term** – 75% of payday customers are unable to repay their loan within the allotted two weeks and are forced to get a loan “rollover” at additional cost.
3. **Single balloon payment** – payday loans do not allow for partial payments to be made during the loan term. The entire loan must be repaid at the end of the two weeks.
4. **Loan flipping** – 90% of the payday industry’s revenue growth comes from making more and larger loans to the same customers.
5. **Simultaneous borrowing from multiple lenders** – many consumers on the “debt treadmill” get a loan from one payday lender to repay another.
6. **No consideration of borrower’s ability to repay** – consumers are usually encouraged to borrow the maximum, regardless of their credit history.
7. **Deferred check mechanism** – consumers who can’t make good on a deferred (post-dated) check covering a payday loan may be assessed multiple late fees and NSF check charges or fear prosecution for writing a “bad check.”
8. **Mandatory arbitration clause** – by eliminating the borrower’s right to sue for abusive lending practices, these clauses work to the benefit of the lender, not the consumer.
9. **No restrictions on out-of-state banks violating local state laws** – federal banking laws were obviously not enacted to enable payday lenders to circumvent state laws, but that is what is happening in many instances.

In addition to payday lending information, the Center for Responsible Lending (<http://www.responsiblelending.org>) also provides education on other abusive financial practices such as: tax refund anticipation loans, rent-to-own, car title loans, and more.

(source: Center for Responsible Lending)

For more information contact your county office for the Alabama Cooperative Extension System.