



The Debt Trap of Payday Lending

Protect Economic Security for Women and Families

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PAYDAY LENDING: HARMFUL TO WOMEN

Predatory payday lending is big business

The payday lending industry sales volume grew from \$10 billion in the year 2000 to \$40 billion in 2003. By the end of 2003, according to industry sources, there were approximately 22,000 payday offices generating \$6 billion in fees from around 100 million transactions. The payday lending industry has quadrupled in size within three years.

The business model is designed to trap borrowers

The payday lending business model is designed to collect multiple fees on a single loan by flipping borrowers every two weeks without reducing the principal owed. Ninety-one percent of all payday loans are made to repeat borrowers with five or more payday loans per year. Predatory payday lending fees cost Americans at least \$3.4 billion per year.¹

Women and payday lending

Sources both inside and outside the industry suggest that payday lending impacts women disproportionately. Two out of three respondents to a national survey of payday borrowers conducted in May of 2004 were women.² In a Utah survey, 62 percent of respondents were women.³ An Illinois study found that over 60 percent of payday borrowers being sued by a major payday lender were women.⁴ An industry newsletter describes the customer base as being over 60 percent women.⁵ And one payday lender's business plan blatantly states that "welfare-to-work mothers [are an] excellent opportunity for check cashing and cash advance businesses."⁶ Women are particularly vulnerable to this form of economic exploitation.

Payday lending undermines womens' struggle for equality and economic well-being

More than half (50.9%) of families living in poverty were headed by women, with no spouse present, in 2001.⁷ Single mothers end up in bankruptcy court more often than any other group.⁸ When caught in the payday lending trap, these women and their families are stripped of their hard-earned income at the time they need it the most, resulting in real hardships for their families. Many payday borrowers have been compelled to pay repeated fees on payday loans they cannot afford to pay off - before buying groceries, paying utilities and paying their rent. Many of these women face bankruptcy or foreclosure on their homes.

Mary's story

With retirement and disability income, Mary, a 62-year-old African-American mother and grandmother has an income of about \$1000 per month. She took out her first payday loan because she needed "a little extra" money to go out of town. Like many borrowers, she had to take out a second loan to pay off the first. She now has loans with four payday lenders.

"When I get a little extra money, I'm going to pay them off and I'm through with them," said Mary. "It's a rip off. There's nothing cute about it. I'm supposed to get some money, but I lose money."

The fees Mary has to pay to keep from defaulting on her payday loans add up to over **40 percent** of her monthly income.

How the debt trap catches payday borrowers

- Borrower writes payday lender a postdated personal check for \$300 (typical loan amount), or authorizes automatic withdrawal from her bank account.
- Payday lender gives borrower \$255 in cash (keeping \$45 in fees).
- Payday lender holds check until payday (typically two weeks - at over 400% APR).
- Payday lenders require payment in full. At end of term, borrower must pay another \$45 fee to renew the loan, OR pay off entire \$300 loan, OR default.
- Pressure not to default includes threat of bounced check fees, aggressive collection tactics, even threat of criminal prosecution (some payday lenders have made such threats even when they are illegal).
- To avoid default, borrower pays another \$45 fee every two weeks to float or renew the loan.

Most payday borrowers cannot pay off the loan by the end of the short term. Only one percent of payday loans are made to one-time borrowers. Borrowers are typically caught in this debt trap for weeks, months, even years. North Carolina borrower Lisa Engelkins was flipped 35 times, and paid over \$1200 - just in fees - for a small payday loan.

Payday lenders evade state laws

Motivated by high profit margins, predatory payday lenders have found creative ways to circumvent state laws against payday lending. Under the rent-a-charter subterfuge, payday lenders partner with out-of-state banks in order to avoid consumer protections in the states where they operate. The impact has been devastating. Large national chains use rent-a-charter to exploit borrowers in states where payday lending is illegal. And they use the practice to avoid restrictions and increase profits even in states where payday lending *is* legal.

Predatory payday lending is a women's issue

Predatory payday lending exploits women and children who may already be teetering on the edge of the middle class.

Gains made in equal pay, homeownership and quality childcare are lost when a struggling family is thrown into financial devastation by the debt trap of payday lending.

Women's groups can fight this economic exploitation by supporting state laws that eliminate payday loan flipping, and by insisting that federal regulators close the rent-a-charter loophole. For more information, please see www.responsiblelending.org/payday.

About the Center for Responsible Lending

The Center for Responsible Lending is dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. The CRL is a national nonprofit, nonpartisan research and policy organization that promotes responsible lending practices and access to fair terms of credit for low-wealth families.

For additional information, please visit our website at www.responsiblelending.org.

¹ Keith Ernst, John Farris, and Uriah King, "Quantifying the Economic Cost of Payday Lending," Center for Responsible Lending, 2003, www.responsiblelending.org.

² Patricia Cirillo, "Payday Advance Consumer Satisfaction Survey," Cypress Research Group, May 2004.

³ Utah Consumer Lending Association study, Io Data Corporation, July 2001.

⁴ "Greed: An In-depth Study of the Debt Collection Practices, Interest Rates, and Customer Base of a Major Illinois Payday Lender," March 2004.

⁵ "Payday Loan Industry Newsletter, Issue 03-10," <http://www.paydayandpaycheckloans.com/payday-loan-newsletter.html>

⁶ "A Business Plan for the Cash Exchange," on file with the Center for Responsible Lending.

⁷ Renee E. Spraggins, "Women and Men in the United States: March 2002," Current Population Reports (US Census Bureau March 2003), p.4.

⁸ Elizabeth Warren, Amelia Warren-Tyagi, "The Two-Income Trap: Why Middle-Class Mothers and Fathers are Going Broke," Basic Books, 2003, page 160.