STOP PAYDAY PREDATORS

the MAIN STREET alliance

PAYDAY LENDERS ARE PREYING ON SMALL BUSINESSES

Payday loans are among the most predatory forms of credit on the market. Though they are marketed as having "reasonable" fees or charges, typical interest rates exceed 300 percent. And because the payday lenders' bottom line actually depends on borrowers' inability to repay — most payday fees come from borrowers who take out more than 10 loans a year — they target people with low incomes.[1]

Most payday borrowers make less than $30,000 a year and nearly half default on a payday loan — compared to only 3 percent of standard bank loan borrowers — despite the fact that most of those who default actually pay fees in excess of the original principal.[2] Payday loans trap people in cycles of debt that drain local economies and result in a cascade of financial consequences, such as increased overdraft fees, delayed medical care, and even bankruptcy.

Payday Loans and Other Debt Trap Loans Extract Resources from the Local Economy

Siphoning money out of local communities takes a serious toll on the economy. The negative consequences are measurable. Money that could be spent building up small businesses or investing in local communities is instead diverted to never-ending fees.

- Payday and car title loans drain $8 billion in fees from American consumers each year.[3]
- The economic activity generated by payday lending is less than the lost economic activity from reduced household spending, caused by the exorbitant fees associated with payday loans.[4]

> "Payday and car title loans are predatory because they are designed to lock consumers into a cycle of increasing debt, siphoning off money that would otherwise be spent in the community. This hurts the shops and restaurants on Main Street that depend on a strong local consumer base."
>
> ***– Amanda Ballantyne, National Director of the Main Street***

- Each dollar spent on a payday loan fee costs the American economy an estimated 24 cents, according to a 2013 report from the Insight Center for Community Development.[5]
- Payday loans reduce consumer spending. In Florida, for example, consumer spending was reduced by more than $680 million and payday loans cost the state thousands of jobs in 2014.[6]
- The U.S. economy suffered a net loss of more than 14,000 jobs due to payday loans in 2011.[7]
- Payday loans exacerbate distress in the economically vulnerable communities in which they are located.[8]

Local Economies Do Better in States Without Payday or Car Title Lending

- In states that regulate payday lending, consumers who would have spent $5 billion on payday loan fees and interest payments instead spend that money on local goods and services.[9]
- Regulating the debt trap helps working families – in fact, a majority of former payday borrowers in North Carolina saw a positive impact on their household after payday lending was banned in 2006.[10]
- "Every dollar that unscrupulous lenders rip from the pockets of unsuspecting borrowers is a dollar that could be spent at local shops and restaurants, or on home renovations and repairs." – Marzett Hawkins, owner of Integrity Hawk, a general contracting company in Columbus, Ohio.[11]

Payday loans abuse consumers and directly harm small business owners' bottom lines

■ Payday lenders have direct access to borrowers' bank accounts, which means that as soon as a borrower's paycheck comes in, money is automatically routed to the payday lender, with no consideration given to the borrower's preferences, competing expenses, or other financial obligations.

■ Payday borrowers are more likely to become delinquent on other financial obligations and file for bankruptcy. For example, a 2009 study found that once credit card users began borrowing from payday lenders, they were 92 percent more likely to become delinquent on their credit card payments;[12] and, a separate study found that payday borrowers nearly doubled their chances of filing bankruptcy.[13]

"The theory in the business is you've got to get that customer in, [and] work to turn him into a repetitive customer...that's really where the profitability is."

– Dan Feehan, Cash America CEO[18]

In the 2013-14 election cycle alone, payday lenders and their industry gave more than $15 million to political candidates and committees in an effort to protect their profits.[14]

Like Most Americans, Small Business Owners Strongly Support Strengthening Regulation of Payday Loans

■ 74 percent of small business owners agree that higher interest rates mean lower profits, difficulty creating new jobs and less money for small business owners or their employees to spend at other small businesses.[15]

■ Small Business Majority found that 90 percent of Colorado small business owners oppose allowing lenders to increase the interest they can charge on a $3,000 consumer loan, with more than three-quarters strongly opposing it.[16]

■ More than seven in 10 small business owners surveyed in Colorado support a change in Colorado law that would limit the Annual Percentage Rate lenders can charge on payday loans to 36 percent.[17]

CHECK THE FACTS

1 Consumer Finance Protection Bureau. *Payday Loans and Deposit Advance Products.*

2 Politico. *The Government Loan Program With a 116 Percent Default Rate.* Feb 24, 2015.

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4 Insight Center for Community Development. *The Net Economic Impact of Payday Lending in the U.S.* March 2013.

5 Ibid

6 Howard University Center on Race and Wealth. *The Economic Impact of Payday Lending in Economically Vulnerable Communities.* December 2014.

7 Insight Center for Community Development. *The Net Economic Impact of Payday Lending in the U.S. March 2013.*

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9 Center for Responsible Lending. *States without Payday and Car-title Lending Save $5 Billion in Fees Annually.* June 2016.

10 Ibid.

11 Rouzer, Stephen. *It's Shark Week! Let's Rid Main Street of Payday Loan Sharks.* June 25, 2016.

12 Agarwal, Sumit, Paige M. Skiba, and Jeremy Tobacman. *Payday loans and credit cards: New liquidity and credit scoring puzzles?* 2009.

13 Skiba, Paige Marta, and Jeremy Tobacman. *Do payday loans cause bankruptcy?* Vanderbilt Law and Economics Research Paper 11-13 (2009).

14 Rouzer, Stephen. *CFPB's Proposed Rule Would Protect the Lifeblood of Small Businesses.* June 2, 2016.

15 Americans for Financial Reform. *Payday Pay-to- Play.* June 2015.

16 Ibid.

17 Small Business Majority. *Colorado Small Businesses Strongly Oppose Raising Loan Interest Rates.* May 4, 2016.

18 Ibid.