



FACT SHEET



PAYDAY LENDING

A payday loan, sometimes called a paycheck advance, is a small, short-term loan that allows an individual to borrow against his or her next paycheck. To obtain such a loan, the person must leave a check with the lender for the amount of the loan, plus any fees, to be held until the next payday.¹

Number of Payday Loan Centers

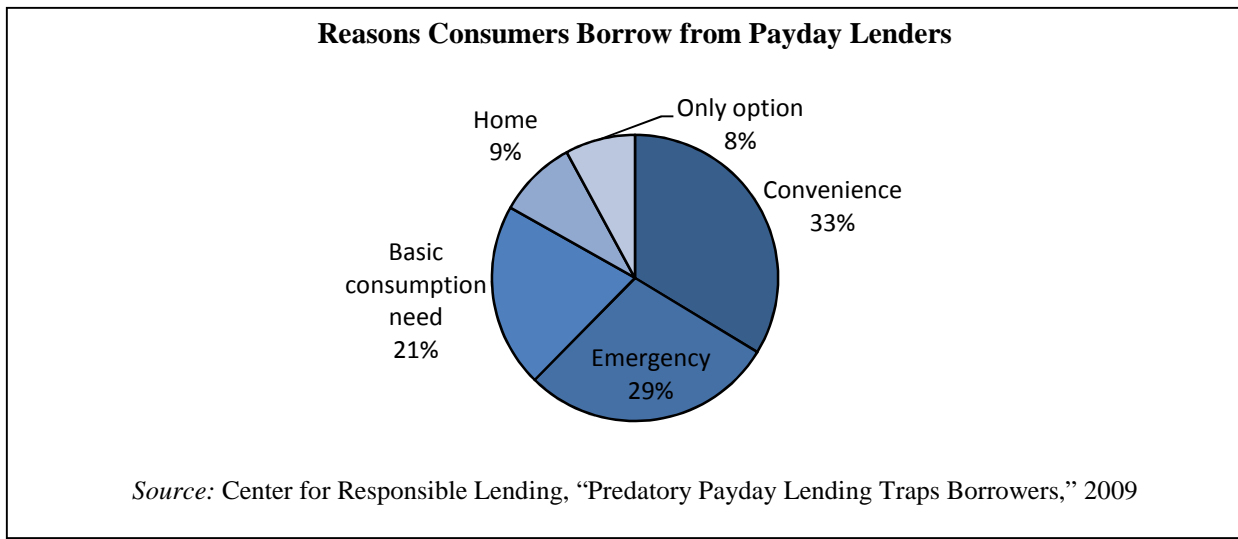
- According to the Center for Responsible Lending, there are approximately 23,000 payday loan centers throughout the United States. That does not include the Internet lending companies.²
- Nationally, there are two payday lending storefronts for every Starbucks location; and in 29 of the 35 states with payday lending, there are more payday storefronts than McDonald’s restaurants.³

Average Interest Rate on Payday Loans

- Twelve million Americans are trapped every year in a cycle of 400 percent interest payday loans.⁴
- Fees charged by lenders accrue costs equivalent to annual interest rates that range from 390 percent to 780 percent, sometimes higher.⁵ The six states with the highest annual percentage rates (APRs) include Missouri (1,955 percent), Montana (652 percent), Mississippi (572 percent), North Dakota (520 percent), Colorado (521 percent), Nebraska (460 percent).⁶

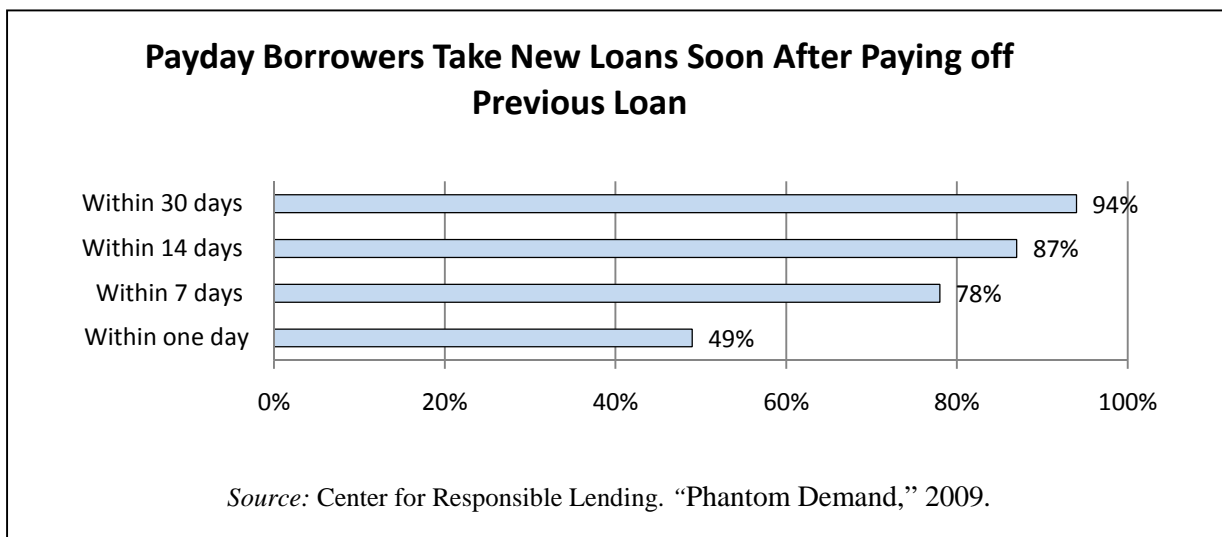
Characteristics of Payday Borrowers

- Payday loans are disproportionately taken out by families headed by single women. Sixty-two percent of payday loan customers are women.⁷
- African American households are 2.5 times more likely to use payday loans than are white households.⁸
- After controlling for socioeconomic characteristics, African Americans are more likely to have multiple payday loans than whites.⁹
- Forty-one percent of borrowers are homeowners.¹⁰
- The average borrower of a payday loan earns an annual income of between \$25,000 and \$50,000, is under the age of 45, and has steady employment.¹¹
- Thirty-nine percent of payday loan borrowers have a high school diploma or equivalent, 27 percent of payday borrowers have some college, and 19 percent have a college degree.¹²



Trapped in the Payday Loan Debt Cycle

- Of the 19 million payday loan borrowers in America, nearly 12 million find themselves trapped in a cycle of at least five payday loan transactions per year.¹³
- The typical payday loan borrower ultimately has to pay \$800 for a \$300 loan.¹⁴ This is because many borrowers are unable to pay off their loan plus the lender fees in full when they are due and still have enough money left to cover their normal expenses until their next payday.
- Among the more than 80 percent of payday borrowers who conduct multiple transactions,
 - nearly nine out of 10 of those repeat borrowers take out their next loan within a two-week pay period;
 - almost half take out their next loan within one day of paying off the previous loan; and
 - only 6 percent of subsequent payday loans are taken out longer than a month after the previous loan was paid off.¹⁵



Interest on Borrowing \$500							
	APR	Principal	One Month	Five Months	Seven Months	One Year	Total Principal + Interest Paid Based on One Year
Payday loan	390%	\$500	\$150	\$750	\$1,050	\$1,950	\$2,450
Credit card advance	28%	\$500	\$11	\$54	\$75	\$140	\$640
Finance company loans	36%	\$500	\$10	\$39	\$54	\$99	\$599
Credit card	15%	\$500	\$6	\$29	\$41	\$75	\$575
Sample credit union	18%	\$500	\$5	\$19	\$26	\$48	\$548

Source: Center for Responsible Lending. "Phantom Demand," 2009.

States Where People of Color Pay a High Price

- **Arizona:** Sixty-five percent of payday borrowers combined were African American, Latino, or Native American compared with 30 percent of the total population.¹⁶
- **California:** African Americans, Latinos, and Native Americans make up 56 percent of all payday borrowers but account for only about a third (35 percent) of the adult population.¹⁷
- **Texas:** African Americans and Latinos make up more than three-quarters (77 percent) of all payday customers but account for just 40 percent of the population.¹⁸

Payday Lending in Majority Black States

Nearly 60 percent of all African Americans in the United States live in 10 states (New York, Florida, Georgia, Texas, California, Illinois, North Carolina, Maryland, Louisiana, and Virginia). The Consumer Union, the National Consumer Law Center, and the Consumer Federation of America assessed how those states protect consumers against abusive interest rates for small-dollar loan products. The table below highlights how the states with the highest African American populations compare with regard to loan products.

State	Loan Type	APR	Grade
New York	\$250, 2-week payday loan	Prohibited	P
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	25	P
	\$1,000, 1-year loan	25	P
	Criminal usury cap	25	P
Florida	\$250, 2-week payday loan	342	F
	\$300, 1-month auto-title loan	30	P
	\$500, 6-month loan	30	P
	\$1,000, 1-year loan	30	P
	Criminal usury cap	25+	F
Georgia	\$250, 2-week payday loan	Prohibited	P
	\$300, 1-month auto-title loan	304	F
	\$500, 6-month loan	44	F
	\$1,000, 1-year loan	31	P
	Criminal usury cap	60	F
Texas	\$250, 2-week payday loan	156	F
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	30	P
	\$1,000, 1-year loan	30	P
	Criminal usury cap	None	NA
California	\$250, 2-week payday loan	460	F
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	45	F
	\$1,000, 1-year loan	30	P
	Criminal usury cap	None	NA
Illinois	\$250, 2-week payday loan	404	F
	\$300, 1-month auto-title loan	No cap	F
	\$500, 6-month loan	No cap	F
	\$1,000, 1-year loan	No cap	F
	Criminal usury cap	20+	F
North Carolina	\$250, 2-week payday loan	Prohibited	P
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	54	F
	\$1,000, 1-year loan	37	F
	Criminal usury cap	None	NA
Maryland	\$250, 2-week payday loan	Prohibited	P
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	33	P
	\$1,000, 1-year loan	29	P
	Criminal usury cap	None	NA
Virginia	\$250, 2-week payday loan	390	F
	\$300, 1-month auto-title loan	No cap	F
	\$500, 6-month loan	36	F
	\$1,000, 1-year loan	36	P
	Criminal usury cap	None	P
Louisiana	\$250, 2-week payday loan	521	F

State	Loan Type	APR	Grade
	\$300, 1-month auto-title loan	Prohibited	P
	\$500, 6-month loan	36	P
	\$1,000, 1-year loan	36	P
	Criminal usury cap	None	NA

Sources: Consumer Union, National Consumer Law Center, and Consumer Federation of America.

Note: Grading scale: The four small-loan products and the criminal usury cap are graded on a pass (P) or fail (F) basis (with some special circumstances as noted here) based on the APR for the loan product. If the loan product's APR \leq 36 percent, the grade is a P. If the state prohibited a payday or auto-title product, the grade is a P. If the loan product's APR \Rightarrow 36 percent, the grade is an F. If there is "no cap" on the loan product's APR, the grade is an F.

Results

- Only one of the 10 states (New York) protects consumers against all four small-dollar loan products included in the scorecard.
- Four of the 10 states (New York, Georgia, North Carolina, and Maryland) protect consumers against abusive lending practices and have instituted APR caps of 36 percent or less on two-week payday loans, making payday lending illegal above that APR.
- Of the remaining six states with the highest population of African American residents not protecting consumers against abusive lending practices, a number of them rank among the nation's leading locations for payday lending. These states hold among the highest overall average APRs and account for more than 40 percent of all payday storefront licenses.

State	Average APR ^a	Number of Storefront Licenses ^b
Louisiana	521%	2,059
California	460%	2,403
Illinois	404%	772
Virginia	390%	769
Florida	342%	1,370
Texas	156%	1,800

Sources: Consumer Union, National Consumer Law Center, and Consumer Federation of America.

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^a E. Renuart, E. Caplan, M. Wroblewski, G. Hillebrand, and J.A. Fox, "Small Dollar Loan Products," 2008, Consumer Union, National Consumer Law Center, and Consumer Federation of America.

^b Center for Responsible Lending, "Phantom Demand."

¹ Center for Responsible Lending, "Predatory Payday Lending Traps Borrowers," 2009, <http://www.responsiblelending.org/search/search.jsp?query=Predatory+Payday+Lending+Traps+Borrowers> (accessed August 24, 2009).

² Center for Responsible Lending, "Phantom Demand: Short-Term Due Data Generates Need for Repeat Payday Loans, Accounting for 76% of the Total Volume," 2009, <http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf> (accessed August 24, 2009).

³ Steven Graves, a geography professor at California State University at Northridge, tracks the number of McDonald's and Starbucks locations in relation to the number of payday lending storefronts. His findings are available at www.csun.edu/~sg4002/research/mcdonalds_by_state.htm and www.csun.edu/~sg4002/research/starbucks_pdlenders.xls.

⁴ Center for Responsible Lending, "A 36% APR Cap on High-Cost Loans Promotes Financial Recovery," 2009, <http://www.responsiblelending.org/payday-lending/policy-legislation/congress/payday-and-the-economy.pdf> (accessed August 19, 2009).

⁵ Jean Ann Fox and Patrick Woodall, Center for Responsible Lending, "Cashed Out: Consumers Pay Steep Premium to 'Bank' at Check Cashing Outlets," Consumers Federation of America. Available at: www.consumerfed.org/.../CFA_2006_Check_Cashing_Study111506.pdf (accessed, August 18, 2009).

⁶ Ibid.

⁷ National Endowment of Financial Education, "The Debt Cycle: Using Payday Loans to Make Ends Meet," 2002, www.nefe.org (accessed August 18, 2009).

⁸ "Reforming Payday Lending in Mississippi: A Project of the Legislative Clinic at the University of Mississippi School of Law," University of Mississippi School of Law, 2005.

⁹ Ibid.

¹⁰ Amanda Logan and Christian E. Weller, *Who Borrows From Payday Lenders? An Analysis of Newly Available Data* (Washington, D.C.: Center for American Progress, 2009).

¹¹ Ibid.

¹² Ibid.

¹³ Center for Responsible Lending, "A 36% APR."

¹⁴ Center for Responsible Lending, "Wealth-Stripping Payday Loans Trouble Communities of Color," 2008, <http://www.responsiblelending.org/payday-lending/research-analysis/az-payday-communities-of-color-10-2-final.pdf> (accessed August 22, 2009).

¹⁵ Center for Responsible Lending, "Phantom Demand."

¹⁶ A survey of Pima County payday borrowers found that 54 percent were Latino, 7 percent were African American, and 2 percent were Native American. For more information, see Amanda Sapir and Karin Uhlich, "Payday Lending in Pima County Arizona," December 2003, Southwest Center for Economic Integrity. Statewide data on payday loan usage by race and ethnicity are not available in Arizona. Census 2000 data for Pima County show that people reporting their race/ethnicity as black alone, Native American alone, or Latino make up about 30 percent of the total adult population.

¹⁷ Center for Responsible Lending, "Wealth-Stripping Payday Loans."

¹⁸ See table 1 of Paige Skiba and Jeremy Tobacman, "Do Payday Loans Cause Bankruptcy?" February 19, 2008, Vanderbilt University, and 2000 census data for Texas population age 18 and older.