

**Payday Lending in the States**  
**October 18, 2012**  
**NCSL Webinar**

Diane Standaert  
Center for Responsible Lending

## Retired Lt. Gen. Ricardo Sanchez

former commander of Multinational Force-Iraq

“Throughout my military career, I witnessed firsthand the destructive effect of these types of loans on the economic welfare of servicemen and women.

Today, many of our troops return to cities like San Antonio after multiple combat deployments to Iraq and Afghanistan only to face huge financial pressures.

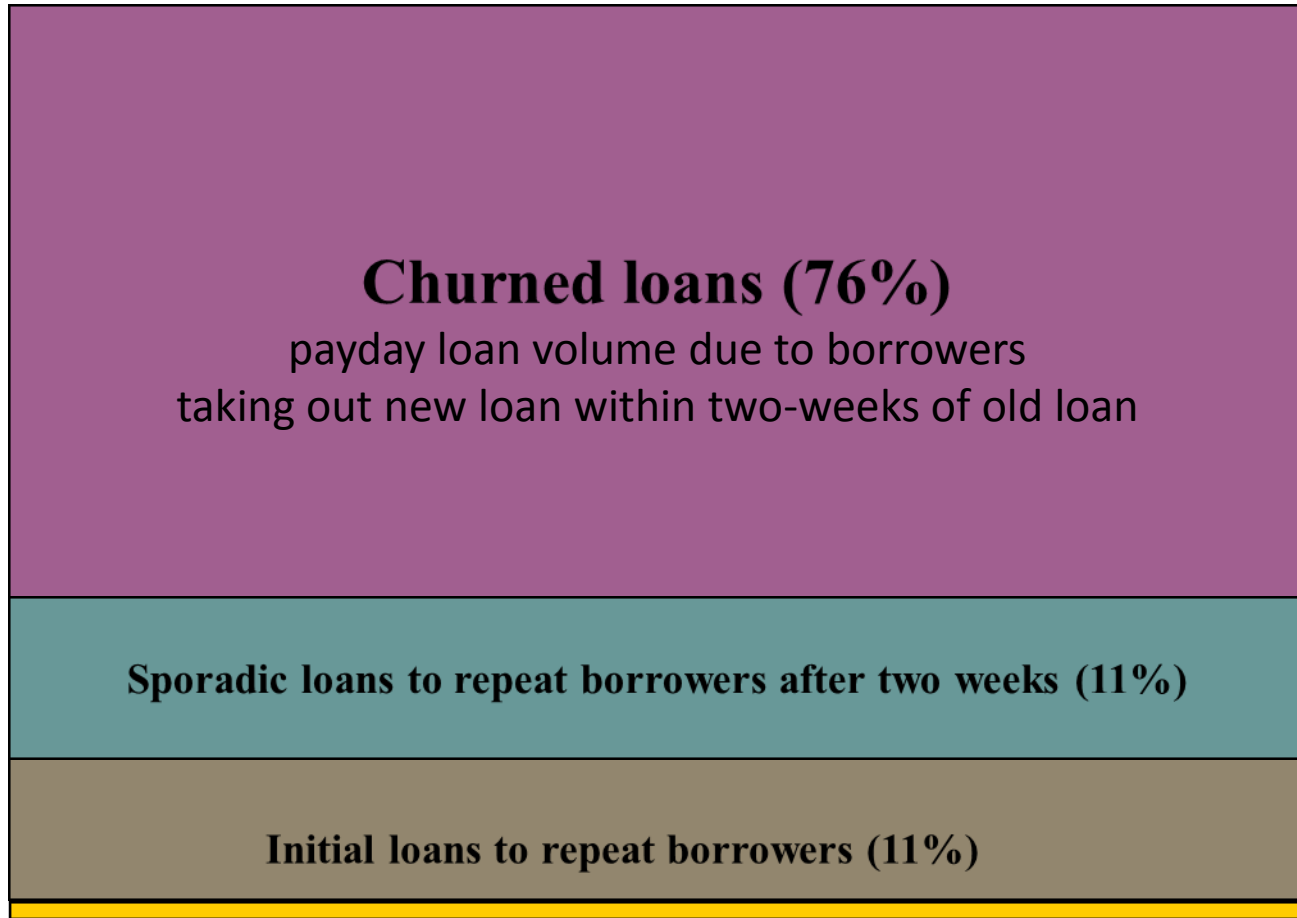
Too many succumb to the lure of “quick cash” and the persistent hard-sell from payday and auto title lenders, which operate out of about 250 locations in our city alone.

The abuse must stop. We owe it to all of our citizens to fight payday and auto title abuses here at home. “

## Payday loans: Create cycle of debt



# Payday loans: Churning drives the business model

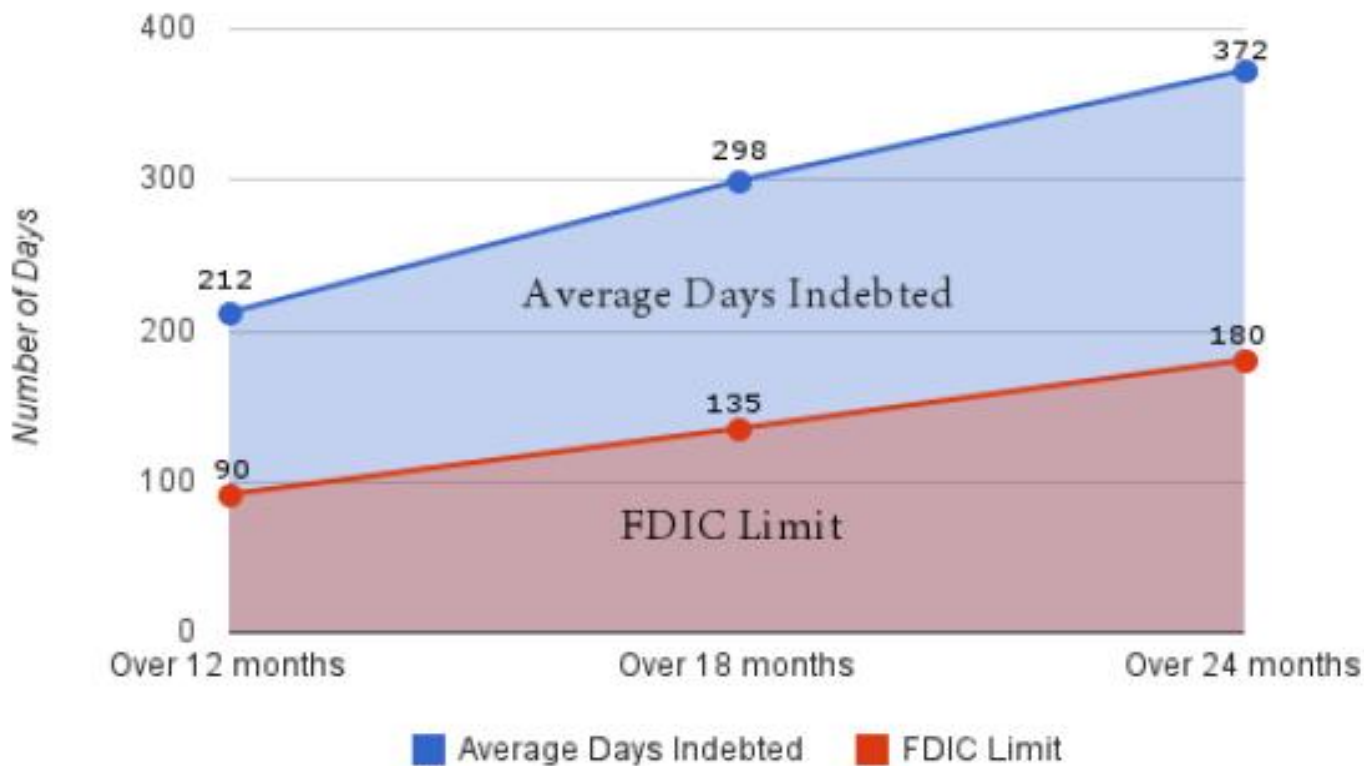


Loans to non-repeat borrowers (2%)

Source: <http://bit.ly.com/CRLPhantomDemand>

# Payday loans: Long-term debt is the norm

The typical borrower is indebted for more than 200 days in a 12-month period, more than twice as long as the maximum FDIC recommends



Source: <http://bit.ly/CRLPaydayLoansInc>

## Payday loans:

Increase likelihood of long-term financial harm

### Using payday loans means the borrower is more likely to...



**Incur overdraft charges and bounced check fees**



**Lose their bank account**



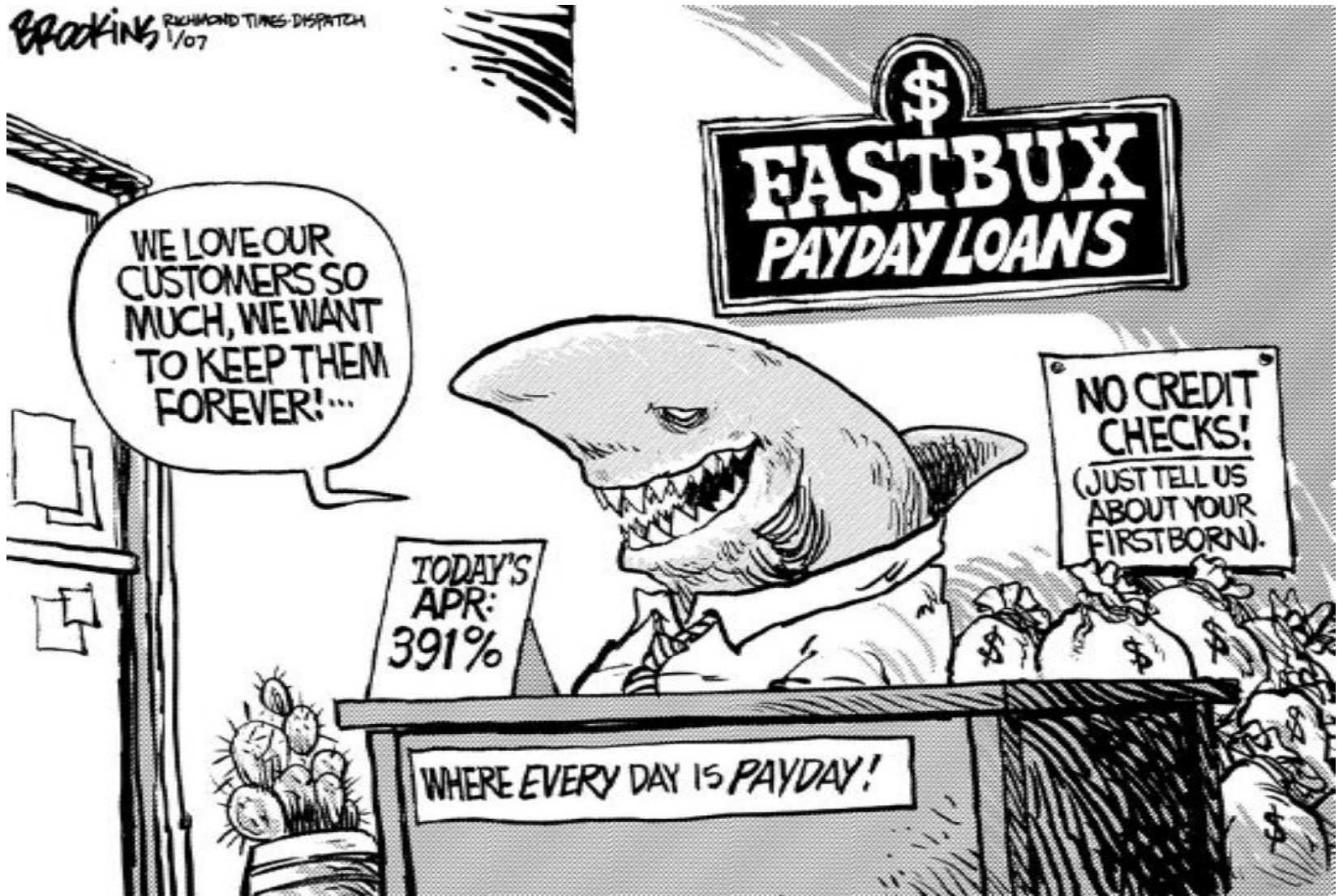
**Default on their credit card**



**File bankruptcy**

Sources: <http://bit.ly/PaydayResearch>

BRACKINS RICHMOND TIMES-DISPATCH  
1/07



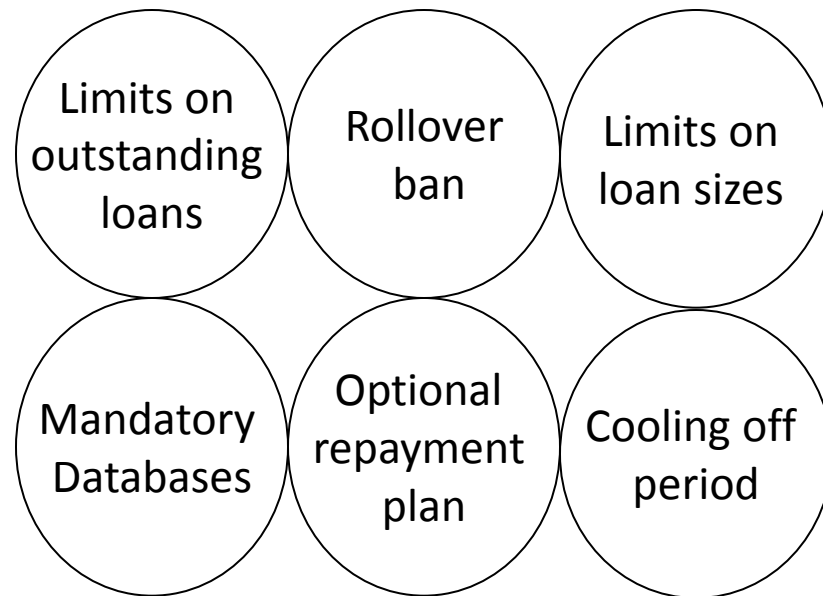
Source: Richmond Times-Dispatch (Virginia, 2007)



# Ineffective reforms: Don't touch loan terms or debt trap

## 400% APR Payday Loans: Debt Trap by Design

- High finance charges
- Require access to bank account
- Quick due date (next payday)
- Due in lump sum payment



**US Department of Defense:** “Even with the addition of all these 'consumer bells and whistles,' these laws do not stop the debt trap.”

Source: <http://bit.ly/DoDPaydayReport>

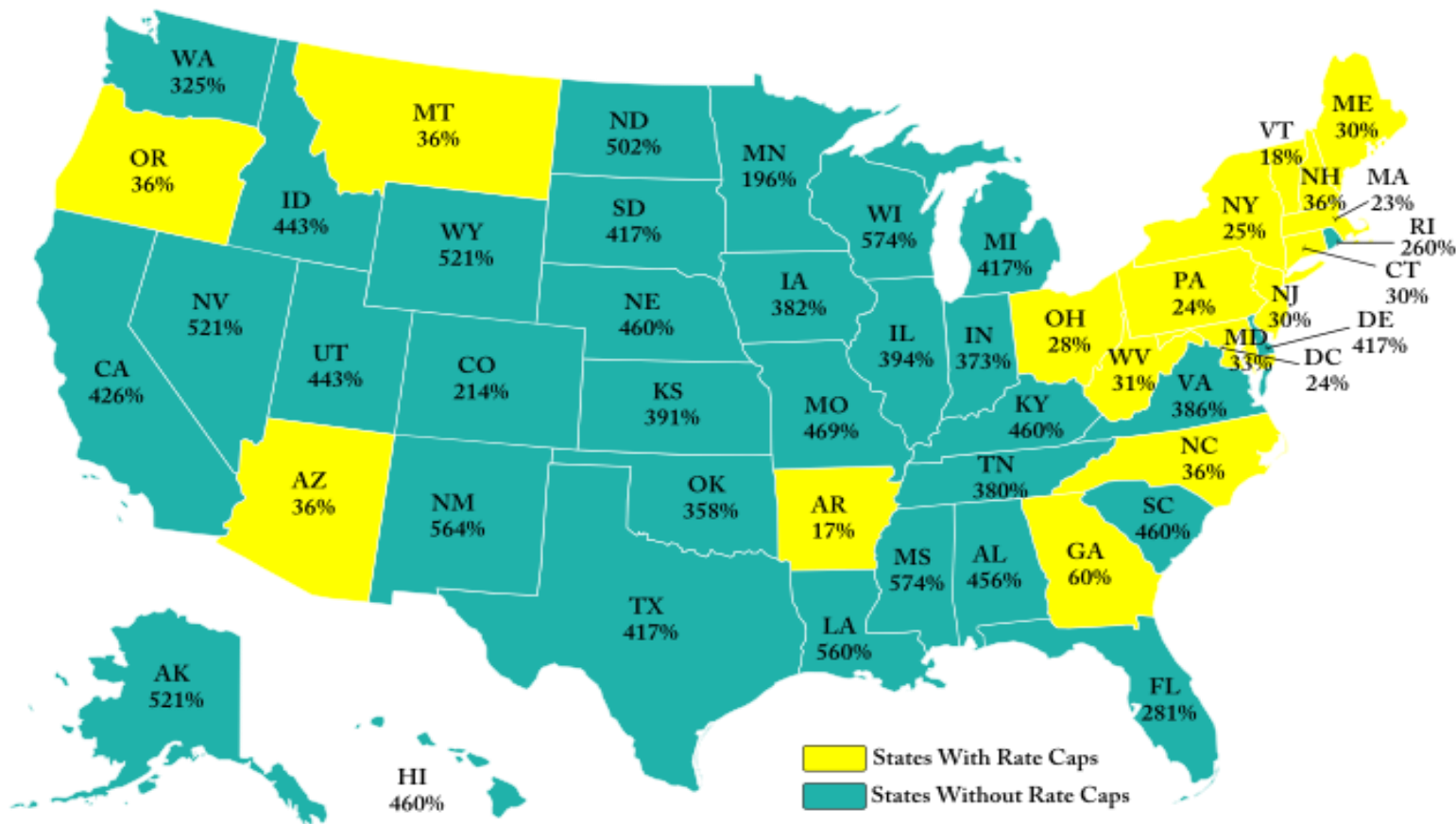


## Effective reform: Military caps payday loan rate at 36% APR

In 2006, 36% APR cap and ban on using soldiers' bank account as security enacted for active duty military families.

Other provisions did not stop the payday loan harms which “undermine military readiness”

# Effective reform: States curbing 400% payday loans



Source: Center for Responsible Lending

## Voters Oppose 400% Payday Loans

- Voters in Arizona, Ohio, and Montana opposed 400% APR payday loans via ballot initiatives by **2 to 1 margins**
- Polls consistently show **strong bi-partisan opposition** to 400% APR payday loans, and voters are more likely to support legislators who also oppose
- **Diverse stakeholders agree 400% payday loans are a bad idea and actively work to stop the debt trap:**  
credit counselors, AARP, military veterans, faith leaders, civil rights organizations, business owners, affordable housing providers, socially responsible investors, United Way agencies, and many more...

## Federal preemption bills: Threat to state laws

- HR 6139: Creates federal charter, OCC rather CFPB oversight, preempt state laws
- Facing broad public opposition, and opposition from OCC:  
“...they are based on a business model that is not sustainable from the perspective of low and moderate income customers – high fees, high defaults, and severely weak compliance.”
- 41 state AG’s issued joint letter of opposition  
“...the bill would eliminate crucial consumer protections in many states and curtail our authority to enforce state laws governing the conduct of financial services companies operating within our borders.”



Source: Philly Daily News, September 2012



Payday loans don't solve a financial crisis they create a new one every two weeks.

Time for reform.

Diane Standaert  
Center for Responsible Lending  
919-313-8550; [dianes@responsiblelending.org](mailto:dianes@responsiblelending.org)