



2011 Agenda FAIR DEAL FOR WORKING PARENTS FACT SHEET: Payday Lending

All Kentucky families need stable income to meet basic needs and provide a positive, healthy start for their children. Yet, working Kentuckians lose millions of dollars annually in fees paid for short-term payday loans. Limiting the amount of interest charged on payday loans will help working families keep more of their hard-earned money.

FACTS:

Payday loans are a long term debt trap, not a quick financial fix. Kentucky payday lenders charge \$15.00 per \$100 borrowed, plus additional fees. This is a minimum interest rate of 391% APR for the typical two week loan! Because of these high fees and short terms, borrowers usually cannot both repay their payday loan in full and meet the rest of their monthly expenses. As a result, a typical payday loan borrower has 9 payday transactions per year, usually on a back-to-back basis.

400% payday loans threaten families' and Kentucky's economic security. In 2009, payday lending drained over \$166 million in fees from families' pockets and into those of mostly out-of-state national payday companies. The industry depends on fees from borrowers stuck in the debt trap. Over 90% of fees come from borrowers stuck in 5 or more loans in a year. It's not just an urban problem. Some of Kentucky's rural counties have a higher per capita concentration of payday lenders than urban counties, even though they have lower incomes and less people.

Ending 400% is good policy for the military, and good for Kentuckians. In 2006, Congress capped the rate of payday loans to military members and their family at 36% APR. Currently, 16 states (including neighbor states Ohio and West Virginia) and the District of Columbia have laws capping rates or do not even authorize payday lending. Families in these states no longer throw good money after bad and collectively save \$2 billion a year that would have otherwise been washed down the debt trap drain.

Capping the rate of payday loans ends an abusive practice, but does not ban an industry. Other states' experiences show reforms short of a rate cap – databases, rollover bans, and loan limits - do not stop the debt trap. In those states, the typical borrower still has 9 transactions a year. In states where payday lending was once allowed, but then capped, borrowers report being glad to be rid a temptation that appeared easy to get into but in reality was very hard to get out of. A range of alternatives already exists: friends and families, signature loans, consumer loans, savings, credit cards, employer advances, to name a few. In fact, these will have more room to work once borrowers are no longer caught in the debt trap.

SOLUTION:

- Cap the triple-digit interest rates currently charged on payday loans at 36% APR