

The payday lending two-week loan term traps borrowers in a repeat borrowing cycle, no matter what fee is charged

	Cost of Two-Week Payday Loan		
	\$10 per \$100	\$15 per \$100	\$20 per \$100
<i>Income and Taxes</i>			
Income per half-month pay period	\$ 1,458.33	\$ 1,458.33	\$ 1,458.33
Taxes	\$ 17.79	\$ 17.79	\$ 17.79
Social Security	\$ 96.33	\$ 96.33	\$ 96.33
Income after tax	\$ 1,344.21	\$ 1,344.21	\$ 1,344.21
Payday loan payment due on \$300 loan	\$330	\$345	\$360
Paycheck remaining after paying back payday loan	\$ 1,014.21	\$ 999.21	\$ 984.21
<i>Household Expenditures per 2 week period</i>			
Food	\$ 193.54	\$ 193.54	\$ 193.54
Housing	\$ 516.21	\$ 516.21	\$ 516.21
Utilities	\$ 128.00	\$ 128.00	\$ 128.00
Transportation	\$ 165.42	\$ 165.42	\$ 165.42
Healthcare	\$ 103.88	\$ 103.88	\$ 103.88
Total Essential Expenditures	\$ 1,107.04	\$ 1,107.04	\$ 1,107.04
Money from paycheck remaining (deficit)	\$ (92.83)	\$ (107.83)	\$ (122.83)

Source: 2006 Consumer Expenditure Survey, Bureau of Labor Statistics, households earning \$30,000-39,999 annually

This example is of a borrower earning \$35,000 a year, and excludes other costs such as childcare, clothing, etc. which are likely applicable to many payday borrowers.

Most borrowers pay back their loan on time, BUT they do not have enough money left over for other expenses, and must take out a new loan immediately or a few days later.

For example, in Florida and Oklahoma¹ (which both employ fee caps, renewal bans, payment plans, cooling off periods, loan tracking databases etc):

- About half (49%) of all subsequent loans are taken out within 24 hours of the previous loan being paid off
- Nearly 90 percent of all subsequent loans are taken out within the same two-week pay period of the previous loan being paid off
- 94 percent of all subsequent loans are taken out within the same month of the previous loan being paid off
- The average borrower has 1.5 transactions every month

¹ See Oklahoma Trends in Deferred Deposit Lending, Veritec Solutions LLC (June 2008) and Florida Trends in Deferred Presentment, Veritec Solutions LLC (July 2008). Subsequent loan data is from a public records request and is on file with CRL.

How does the industry evade renewal bans?

By closing a loan out, and then immediately opening new loan for the borrower (ie: a “back-to back” transaction), lenders evade renewal bans. Because these types of transactions technically do involve paying off the loan—if only for a moment before a new loan is originated—they are not considered renewals.

How are “one loan at a time” provisions evaded?

By sending the borrower to another payday lending company if they want an additional loan, lenders can evade “one loan at a time” provisions. Unless there is a universal database which tracks all payday loan transactions made to a particular borrower (as a few states have adopted), one payday lending company has no way to check whether a borrower has a loan outstanding at another lender.

Why don’t cooling-off periods between loans work?

A few states have instituted cooling-off periods between loans. For example, Florida has a 24 hour cooling-off period between every loan, and other states have short cooling-off periods after multiple loans have been taken in succession. These types of provisions merely delay the inevitable for a day or two, as borrowers still must take out a new payday loan to make it through the pay period.

How many eligible transactions end up taking advantage of payment plans?

Regulator data demonstrates that less than two percent of eligible transactions take advantage of payment plans. Payday lenders discourage their use among borrowers by playing up the fact that a borrower cannot take out another payday loan while they are in a payment plan, nor during the cooling-off period which follows.

Why don’t regulations targeted at just the traditional payday lending product work?

Legislation targeting the payday loan product is entirely circumvented by payday lenders if they can tweak their product so that it does not meet the definition of a payday loan. In Illinois and New Mexico, payday lenders offer installment loan products rather than a traditional payday loan to evade those states’ payday regulation and charge higher rates. In other states, payday lenders offer a payday loan as an open-ended product to avoid payday lending laws that define these loans as closed-ended products. Policymakers can ensure these products are fully covered through interest rate caps covering all small loan products.

For more information, see *Springing the Debt Trap: Rate Caps are the Only Proven Reform* at <http://www.responsiblelending.org/issues/payday/reports/springing-the-debt-trap.html>.