



# INFORMATIONAL ALERT

## Payday Lending

In a standard payday loan, a licensed lender accepts a personal check from the borrower, pays the borrower the amount of the check less any applicable finance charge, and agrees to wait a short time, such as two weeks, before depositing the check.

With demand for small, short-term loans soaring, just about every state is debating whether the accessibility and comparative ease of payday loans outweigh the risk for consumers falling further into debt. The industry, which generates roughly \$40 billion in loans each year, is regulated at the state level.

On March 10, 2008, Wisconsin Catholic Conference offered informational testimony to the Wisconsin Senate Committee overseeing Financial Institutions. To quote from their testimony:

“Payday lending is one of the most prominent of a number of fringe banking practices that have emerged and taken root in communities across Wisconsin over the past several years. Payday lenders market high interest rate, short-term loans to persons in crisis, those desperate for immediate cash, and those who do not, for one reason or another, have access to other traditional sources of credit, or do not believe they qualify for loans from other regulated financial institutions. Inevitably these include many low-income persons and those in vulnerable situations. Accordingly, we encourage efforts to regulate this industry in order to protect vulnerable populations and promote the common good.”

“Staff at Catholic Charities (of the Diocese of LaCrosse) estimates that 2 in every 3 clients on the Debt Management Program has a payday loan. . . In these cases clients don't just carry one payday lending account, on average these clients have 3 accounts and some have up to 6 or 8 accounts with different payday lenders. The average payday lender charges 485% APR and there have been cases where the APR is as high as 1020%. At that rate, the average \$100 loan, paid off one year later, would cost the consumer \$485.”

The League of Women Voters of Milwaukee County has also studied 'convenience lending' including payday loans. To quote from their website:

“Convenient lending, primarily payday lending is also a growth industry. It is growing exponentially. Convenient lending in Wisconsin is unregulated. Convenient lending includes pawn brokers, payday lenders, car title lenders, refund anticipation loans, pay stub loans, holiday loans and check cashing businesses. Pawn brokers are limited to a 36% APR interest rate and are regulated. The other types of convenient lending are not limited to any interest rate.

“Payday lending is the most well-known of the convenient lenders. The people most likely to use payday lenders are single moms. Consumers are encouraged to roll over what they owe into a new payday loan. That typical consumer rolls over the payday loan 8 times (national data). The way that payday lenders operate, the APR (annual percentage rate) interest ranges from 390% to over 700%. It has been suggested that payday lenders are filling the niche formerly held by loan sharks making the kind of small loans that banks won't. It is estimated that payday lenders make 99% of their profit from repeat borrowers.

"There are efforts, with mixed results, to legislate some sort of regulation of payday lenders. Eleven states ban payday lending. Wisconsin does not. Nor does Wisconsin set any kind of interest rate cap on loans."

The link to the League's website, which also connects to numerous other related websites, is <http://lwvmilwaukee.org>.

This Fall, Wisconsin State Senator Jim Sullivan (5<sup>th</sup> Senate District) plans to propose legislation which will create special licensing requirements, limit the fees that can be charged upon expiration of the loan and the total outstanding balance of loans, and introduce zoning requirements. Hearings on the Bill are expected in early 2009.

Watch for more on this topic and what you can do to help as the Bill makes its way into legislation. SVDP/VOP also urges your support of financial institutions which provide the community with responsible alternatives to check-cashing establishments.