Community Concerns . . . from Couleecap

CREATING OPPORTUNITIES, CHANGING LIVES

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"Paycheck Poverty" – The Dangers of Payday Loans

Despite working hard, many families live paycheck to paycheck, struggling to meet day-to-day expenses or to build a cash cushion for emergencies. Geographically isolated and often lacking financial background, they are vulnerable to money traps such as payday loans, a quick growing form of predatory lending in rural America. **Payday loans do not come cheap.** Because these loans are small, short-term transactions, the Annual Percentage Rate (APR) is typically quite high. **Interest rates and fees typically run between 650% or 780% APR** (Consumer Federation of America – CFA, 2004)**.** The average loan ranges from $100 to $500. A typical $500 two-week loan will cost the borrower $650 to repay. At these rates, if a $500 two-week payday loan were rolled over for just three months, it will cost the borrower over $900 in fees and interest – for an entire year it would cost $3,900.

Here's how payday loans work:

- You fill out an application and provide the lender with items such as paycheck stubs and a photo ID.
- You sign a loan agreement, write a postdated check to the lender, and receive your money. The signed loan agreement is a legal document that obligates the borrower to repay the loan.
- On his/her next payday, the borrower must deposit enough money to cover the check. The lender then deposits your check – unless you have replaced the check or have already repaid the loan.

The loan agreement that you are required to sign is a legal document that obligates you to repay the loan. If you cannot or do not repay the loan, the lender can seek a money judgment against you for the face amount of the check and court costs; and, if they were disclosed in the contract, any late charges, interest after maturity, and non-sufficient fund (NSF) fees. Once a money judgment is obtained, a lender may attempt to garnish you wages. Many lenders also list past due accounts with the credit bureau. This may affect your ability to get credit in the future. If you pay the loan in full prior to its due date, you are entitled to a partial refund of the finance charge. If you are married and your spouse does not sign the loan agreement, the lender is required to give your spouse a written notice that you obtained the loan.

According to one study, 91% of payday loans are made to repeat customers, cash-strapped workers who fall into a debilitating cycle of high-cost debt. Unable to repay their loans when their next paycheck arrives, borrowers roll over their payday loans and incur a new round of fees and interest charges. These repeat borrowers often pay far more in interest and fees than they ever received in cash advances.

Why are the disadvantageous, high-cost loans attracting so many borrowers? For many, the answer is urgent need. Because they lack savings, few low- or moderate-income families are financially prepared for setbacks like a lost job, family breakup, illness, or injury. Another key factor has been intensive salesmanship by lenders. The Department of Defense found that soldiers, sailors, and aviators are as many as four times more likely to be victims of payday lenders. These lenders cluster around military bases, make it easy to roll over a loan and discourage borrowers from paying off the principle, maximizing the interest and fees collected.

Startling Trends

- **More than 100:1** - Ratio of "payday lending" outlets currently operating nationwide versus the number of these outlets operating in the early 1990's.
- **488** - Number of Payday lending locations in Wisconsin; 24 locations in Couleecap's four county service area of Crawford, La Crosse, Monroe, and Vernon counties. Visit www.wdfi.org/fi/lfs/licensee_lists/ to view listing.
- **470%** - Average annualized interest rate of a payday loan.

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The Department of Financial Institutions (DFI) is a state agency that licenses and regulates companies that make consumer loans in Wisconsin where the interest rate is over 18% per annum. Wisconsin lenders (other than banks and credit unions) must obtain a license from the Department of Financial Institutions (DFI) Division of Banking in order to charge interest greater than 18% APR. There is no statutory maximum on the interest rates or fees charged by these licensed lenders. This includes the payday loan companies.

During the summer of 2000, the DFI conducted a review of 17 Wisconsin payday loan operations to determine how they were used and who used them. For loan applicants reporting net income, the average was $18,675 annually. For those who reported gross income, the average was $24,673. Renters constituted more than 60% of loan applicants in the study. DFI determined that the average loan length among those reviewed was 14 days, and that the average disclosed annual percentage rate of all reviewed loans was 542.2%.

The DFI also licenses and regulates adjustment service companies, commonly referred to as debt counselors or consumer credit counselors. These companies' help debtors set up and keep on a budget. You can contact DFI Licensed Financial Services at 608-261-9555 for the name of the service company nearest you. Another resource is Money Smart Wisconsin, a public awareness initiative designed to help better manage finances and provide awareness of financial education programs available on topics such as budgeting and using credit wisely. Their website can be found at www.moneysmartwi.org.

Across the country, financial institutions are working to bank the unbanked and under banked by providing products and services that address low-come families' immediate needs for cash and their long-term need for savings. Innovative examples include an Asset-Builder Loan of up to $3,000 at 15% interest, offered by ASI Federal Credit Union in Harahan, Louisiana. Borrowers deposit $15 into an interest-bearing savings account, accumulating savings for themselves while paying the loan, and there's no weekly fee. ASI also offers a Payday Rebuilder Loan of up to $2,500 at 15% interest, designed to help people pay off payday lenders over a period of up to 18 months. Borrowers must take a financial education class. Stretch Loans-part of a broader package called the Stretch Plan, which costs $4 a week; include overdraft protection, a free refund anticipation loan at tax time, inexpensive money orders, free life insurance, and a free checking account. Although financial institutions risk losing money on a payday-type loan because of defaults, to minimize defaults, only members with a six-month history of direct deposit participate. The loans are easily renewable and require little service. The result is a win-win situation. Members get affordable help managing between paychecks and ASI Federal Credit Union increases loans with minimal cost.

Payday loans are not an effective solution for your monetary needs. If you already have one payday loan outstanding, you may find it very difficult to pay the required finance charge payments, much less paying all or a portion of the amount financed when the loan comes due. If you need a larger, longer-term loan, you should seek other, more traditional, lending sources.

Couleecap, Inc. is a private non-profit 501(c) 3 charitable organization created in 1966. Our four-county service area includes Crawford, La Crosse, Monroe, and Vernon counties in Wisconsin. For more than 40 years, we have been helping low-income people build on their strengths and become more self-sufficient. We operate over 30 programs in the areas of housing, family and youth services, and emergency services. For more information regarding Couleecap, Inc. and its programs go to www.couleecap.org, or visit our State association at www.wiscap.org.

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