

# Coalition Against Abusive Lending

Victor Elias, Child and Family Policy Center • 1021 Fleming Building • Des Moines, IA 50309  
Telephone 515-280-9027 • e-mail victore@cfpciowa.org • Cell 515-778-8187

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*“And the theory in the business is you’ve got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that’s really where the profitability is.”*

Dan Freehan, CEO of Cash America, from remarks at the Jefferies Financial Services Conference, June 2007.

Payday lenders say they offer a solution to families who face a financial crisis but can’t get a regular loan. But instead payday loans almost always lead these families further into financial crisis. Research shows that payday lending fails to help families solve their financial crises. There are many more payday borrowers trapped in loans than there are occasional users—ninety-nine percent (99%) of payday loans go to repeat borrowers. A 2003 study found that borrowers with five or more loans per year account for 91 percent of payday lenders’ business. Instead of benefiting borrowers payday loans place them in high-cost debt trap.

Payday loans generally come due in two weeks and borrowers frequently find they cannot come up with the cash to pay back their loan so quickly. Without adequate funds in their bank account, the payday lender’s possession of a signed check becomes a major problem for the borrower. If the lender deposits the check the borrower will be assessed bounced check fees from the lender and from their own bank. The borrower may even fear going to jail for “writing a bad check.” To avoid default the borrower agrees to renew the loan and pay the interest fee again. The lender either keeps the same loan outstanding, or reopens it in a back-to-back transaction. Payday borrowers get trapped in this cycle of debt, forced to pay the interest every two weeks to avoid default, often for months or even years.

**The only proven effective way to avoid families from falling into the payday loan debt trap is to set reasonable limits on the maximum interest, fees, penalties, or other charges on payday loans. Iowa’s limit should be 36% APR on payday loans. This is the maximum limit allowed for other consumer loans in Iowa.**

*The Iowa Independent* ran a payday lending story last August. In that story a woman named Terry from Newton opposed banning payday loans. The story said she was paying off a \$125 loan along with \$19.44 in fees amounting to a 405.46% APR. While she started taking out payday loans on an occasional basis she now relies on them year-round, taking out 25 loans a year or almost one for each paycheck. Doing the calculations on that \$125 loan for a year, Tammy would have paid \$486 in fees and still owed the lender \$125. That is

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not a helping hand out of a financial crisis, that is a debt trap. It is like giving an anchor to a drowning swimmer.

The payday lending industry's "best practices" now includes extended payback plans. Evidence shows this does not work. Repayment plans are not a solution to the payday loan debt trap. Fewer than one or two percent of borrowers take advantage of optional extended payment plans. Since lenders make less money when borrowers use these plans lenders have little incentive to cast them in a positive light. As Colorado regulators found, many lenders tweak their practices so that borrowers cannot become eligible for the plans even if they wanted to. In most extended payment plans the borrowers payment for rolling over the loan is less than that for the payment plan.

- ◆ Congress found the high interest payday loan debt trap harmed military personnel and their families and passed legislation limiting payday loan interest rates to 36% APR. New Hampshire, Ohio, and Washington DC also adopted similar limits last year.
- ◆ According to the Iowa Banking Division which regulates payday lenders in Iowa, the average Iowa borrower takes out about 12 loans per year.
- ◆ In 1995 when payday lending was first made legal in Iowa there were 7 licensed payday lenders. In September of 2007 there were 290 licensed payday lenders in Iowa.
- ◆ North Carolina capped payday loans at 36% APR in 2006 with payday lenders forecasting dire consequences for consumers. The North Carolina Commissioner of Banks commissioned a study of consumers to see how they fared since the payday lenders left North Carolina. The study found:
  - The absence of payday lenders had no significant impact on the availability of credit for households in North Carolina.
  - More than twice as many former payday borrowers reported that the absence of payday lending has had a positive rather than negative effect on their household.
  - The ban on payday lending has made no difference to most, and helped more households than it has harmed.
  - Payday borrowers gave first-hand accounts of how payday loans were easy to get into but very difficult to get out of. They universally agreed the cost of payday loans was excessive.
  - Almost 90% of households surveyed said payday lending was a bad thing.

*"If one of your brethren becomes poor, and falls into poverty among you, then you shall help him, like a stranger or a sojourner, that he may live with you. Take no usury or interest from him; but fear your God, that your brother may live with you. You shall not lend him your money for usury, nor lend him your food at a profit.*

Leviticus 25:35-37