

# The Facts on Iowa Payday Lending

## What Are Payday Loans?

Payday loans are cash advances that borrowers get by showing lenders that they get a paycheck, then signing a postdated personal check or authorization for automatic withdrawal from the borrower's checking account. In Iowa, borrowers are limited to a maximum of two loans for a total of \$500 per location. Lenders do not look into a borrower's ability to repay the loan. The borrower then receives the amount of the loan minus the fee, which in Iowa is capped by statute (see the reverse side for finance charge charts). The lender then holds the check for about 14 days (until the borrower's payday), at which point the borrower can (1) repay the money, (2) allow the lender to deposit the check, or (3) renew (rollover or "flip") the loan by paying the lender's fee again. As very often occurs, the borrower is unable to repay the loan, meaning these loans are often flipped multiple times.

## What Is the Intended Purpose of Payday Loans?

Legislation authorizing payday lending was enacted in 1996. Payday lenders were intended to provide emergency one-time loans to people with, unexpected expenses. The payday lending companies advance this as the purpose of their industry. It is clear however that this is not how these loans are marketed by the industry, nor used by borrowers.

## What Is So Bad About Payday Loans?

Even with Iowa's fee restrictions in place, these loans can still have an effective **APR of over 400%**. These outrageously expensive loans are targeted towards the lowest income working citizens of the state, who lenders know they can flip multiple times. In 2006 payday lenders in Iowa made **917,200 loans** at an average of more than **\$290 per loan**. This is more than half of a bi-monthly paycheck for someone working full time at minimum wage, making payday loans very difficult to repay within the typical 14 day loan term. Iowa Division of Banking data indicates that the average number of loans per year for Iowa borrowers is about **12**, which greatly exceeds the national average of 8.7. More than **6%** of Iowa borrowers flip their loan every two weeks (25 or more times a year). Many repeat borrowers are people whose loans are flipped numerous times, and who end up paying more in fees than their original loan amount. Additionally, many payday lenders are owned by out-of-state companies, so much of the revenue from the industry leaves the state.

While the idea of making short-term loans available to Iowans sounds good, the facts show that the payday lending industry makes significant profits off of working Iowans who get caught in a cycle of debt. Instead of providing a service, they take advantage of Iowans living paycheck to paycheck by providing an attractive short-term solution to financial problems which eventually leads to financial ruin.

## Quick Facts:

**Actual Use:** Payday loans are meant to be used for one time emergencies. In reality only about 1% of loans are made to one time borrowers. The average borrower in Iowa takes out about 12 loans a year, significantly higher than the national average of 8.7 loans per borrower. More than 6% of borrowers take out a loan every 2 weeks.

**APR:** By law, Iowa payday lenders can charge effective APRs of over 400% on a 14 day loan.

**Licensed Iowa Locations:**  
2002: 144  
2004: 171  
2007: 277

**Borrower Impact:** A borrower who is unable to repay their loan within four months will often pay more in fees than their original loan amount.

**Iowa Code:** Payday lenders are governed by Section 533D.

2007 IDOB Survey Data:  
Avg. Amount Financed: \$303  
Avg. Finance Charge: \$38.84  
Avg. APR: 287%  
Avg. Loan Term: 16.77 days  
Borrowers with 12 or more loans per year: 46.73%  
Borrowers with 25 or more loans per year: 6.3%

## Payday Lenders by City

According to information on active licenses provided by the Iowa Division of Banking, as of the end of 2007, there were the following number of payday lenders licensed in each of the following cities. Only cities with more than one payday lender are listed, but there are many cities with only one lender.

|                    |               |                    |                    |
|--------------------|---------------|--------------------|--------------------|
| Des Moines: 32     | Iowa City: 9  | Bettendorf: 4      | Newton: 3          |
| Cedar Rapids: 20   | Ames: 9       | Burlington: 4      | Altoona: 2         |
| Davenport: 20      | Clinton: 8    | Creston: 4         | Centerville: 2     |
| Council Bluffs: 16 | Ottumwa: 8    | Marshalltown: 4    | Fairfield: 2       |
| Waterloo: 15       | Mason City: 7 | Oskaloosa: 4       | Glenwood: 2        |
| Sioux City: 12     | Ankeny: 5     | West Des Moines: 4 | Indianola: 2       |
| Dubuque: 11        | Fort Dodge: 5 | Carroll: 3         | Perry: 2           |
|                    | Keokuk: 5     | Cedar Falls: 3     | Spencer: 2         |
|                    | Muscatine: 5  | Coralville: 3      | Storm Lake: 2      |
|                    |               | Fort Madison: 3    | Urbandale: 2       |
|                    |               | Marion: 3          | West Burlington: 2 |

## APR Rates Allowed by Iowa Law

The Iowa Banking Division promulgates the following information on fees and APRs that can be charged on 14 day payday loans.

| <u>Amount Financed:</u> | <u>Finance Charge:</u> | <u>APR</u> |
|-------------------------|------------------------|------------|
| \$100                   | \$16.67                | 434.61%    |
| \$200                   | \$27.78                | 362.13%    |
| \$300                   | \$38.89                | 337.97%    |
| \$400                   | \$50.00                | 325.89%    |

## Example of How Payday Loans Are Advertised

This advertisement was picked up from the counter of a restaurant in the Drake neighborhood in February 2008. It says nothing about the supposed proper purpose of these loans – one time emergency expenses. Instead it advertises free money and clearly contemplates repeat business.

**FREE MONEY!**  
For A Limited Time,  
New Customers Will Get  
**50% OFF YOUR  
FIRST CASH ADVANCE\***

VISIT ANY OF OUR LOCATIONS. UPON APPROVAL, YOU WILL GET 1/2  
OFF YOUR FIRST CASH ADVANCE FOR GIVING OUR SERVICE A TRY!

**Hometown Cash Advance**  
1335 E. University • Des Moines, IA 50316 • 515-265-5556  
#150 (Corner of East 14th and University next to Family Video)  
4212 Douglas Ave. • Des Moines, IA 50310 • 515-255-0400  
#101 (In Beaverdale, just East of Beaver Road on Douglas Avenue)  
3001 SW 9th St. • Des Moines, IA 50315 • 515-243-2930  
#109 (On the corner of SW 9th Street across from McDonald's)

**CASH ADVANCE**  
PAYDAY LOANS WIRE TRANSFERS MONEY ORDERS CHECK CASHING