ALLIANCE
FOR A JUST SOCIETY

January 2013

PAST DUE

Payday lenders promise easy money, but instead snare countless low-income Idahoans in an interest-laden trap.

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Acknowledgements

This report would not have been possible without the contributions of Ben Henry, Fernando Mejia, Haylee Morse-Miller and Terri Sterling.

Introduction

When the electric bill becomes too heavy of a burden; when gas prices render a trip to work unaffordable; or when insurance fails to cover the expenses of a health care crisis, for many, few options exist. Some will ask friends and family for help. Others may apply for a small loan at a local bank. However, for many Idaho residents located in low-income areas or communities of color, these are not viable options. Instead, MoneyTree, Quik Cash, EZMONEY, and other payday loan centers line the sidewalks with open doors waiting for the opportunity to profit from the financial hardship of consumers in need.

The allure of financial relief is appealing: Payday loans are a quick solution to temporarily tide the cash borrower over for a week or two until the next paycheck. The loan is short-term, it is easy money, and there is no credit check. Simply provide photo identification, proof of income, and a post-dated check or electronic account information as collateral, and anywhere from $300 to $1,000 will magically appear within minutes.

Most, lenders will not accept partial payments on the debt, so if the amount borrowed cannot be paid off in its entirety, then borrowers are encouraged to renew, or "rollover" their loan. For an increased fee, borrowers can stave off repayment for an additional week or two. Once the borrower reaches the end of the loan extension, he or she is again presented with the option of renewing it. The consumer accepts the extension, and the service fees are increased again. This cycle repeats itself until the consumer is in way over his or her head in debt. The borrower becomes trapped in paying the high-interest fees, leaving little opportunity to afford paying off the principal balance.

According to the Center for Responsible Lending, 90 percent of payday loans go to repeat borrowers — five or more loans per year.

Nationwide, the number of payday lender locations more than doubled from 10,000 to 22,000 between 2000 and 2004 alone.[1] Today, payday lenders are more than fringe businesses. Rather they are a powerful, multi-billion-dollar industry that has completely transformed lower- and middle-income American consumer finance.

As families struggle to meet their daily financial obligations, short-term loans have become an increasing necessity. Contrary to its intended purpose, payday loans are rarely used for unexpected expenses, like a car repair or emergency medical need; instead, consumers are using the loans to deal with recurring expenses such as utilities, credit card bills, rent or mortgage payments, or food. While no one prefers to pay interest rates as high as 520 percent, payday loan centers are often selected as the last and only resource available.

The stories shared in this report identify the problems caused by payday loan centers and the communities affected. Their first-hand testimonials reveal the need for adequate lending alternatives and best practices for Idaho to utilize in protecting borrowers from predatory loans.

Payday lending has grown into a multi-billion-dollar industry by aggressively offering its services to cash-strapped borrowers without access to mainstream credit.

An Industry that Harms Communities

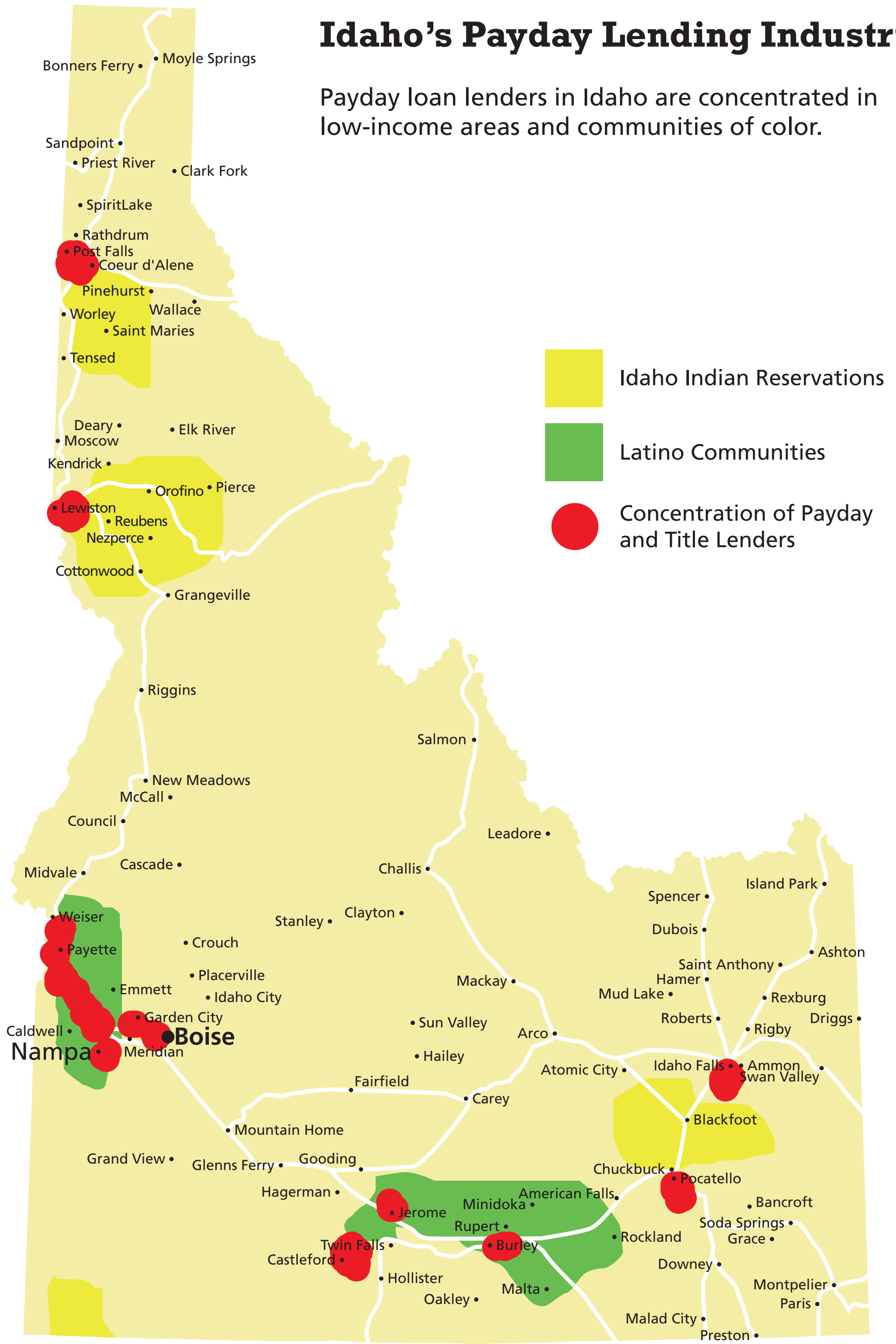
Payday lending centers began in 1993 in the United States when Check Into Cash, Inc. opened its first store in Tennessee.[2] The industry developed by exploiting the loopholes in usury laws that promoted itself as a less costly and more desirable alternative to bank charges for insufficient fees, late charges on credit cards, or utility reconnect fees.[3] The centers maintained that it was not a loan, but instead a form of check-cashing services or sale of a check.[4] If that wasn't convincing, it alternatively contended that even if it was a loan, the small loan laws exempted them from state usury laws.[5] It worked. The industry grew as regulators and state legislatures sought ways to deal with reports of high-cost credit. By 2005, payday loan centers outnumbered McDonald's restaurants nationwide.[6]

With 25,000 stores producing payday loans, the industry generates $6.75 billion annually in fees alone.[7] The industry reports a return on investment of 24 percent and gross margins of 30 percent to 45 percent of annual revenue. In comparison, banks that are not part of the fringe-banking sector average a 15 percent return on investments.[8] Advance America, the country's largest payday lender, generated $630 billion in revenue in 2005,

By 2005, payday loan centers outnumbered McDonald's restaurants nationwide.

Idaho's Payday Lending Industry

Payday loan lenders in Idaho are concentrated in low-income areas and communities of color.



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a 10.5 percent increase from the previous year.[9] Thus, payday loans produce exorbitant profit margins for lenders, thereby inducing rapid market growth.

Payday Loan Centers Target Communities of Color and the Poor

Idaho's economic crisis has had devastating effects statewide; hardest hit are low-income communities and people of color. The growth in the payday loan industry took root when deregulation and the elimination of interest rate caps spurred large banks to move out of low-income areas in search of larger, more profitable loans.[10]

Traditional loan providers abandoned these communities and left them open and vulnerable to the alternative financial services of payday lending. Without the competition of traditional lenders, consumers with poor credit ratings or low to moderate incomes became easy prey for payday loan centers.

Predatory lenders acquire huge gains by targeting low-income populations who struggle from paycheck to paycheck to make ends meet and have been denied access to mainstream institutions.[11] The communities affected most heavily are those consisting of African-Americans, Latinos, and members of the military.[12]

The map (see Page 3) illustrates the location of the loan centers in Idaho. It is clear that the majority of centers are located in low-income communities of color.

Let us take the city of Caldwell as an example to illustrate the point of a targeted community. As of the Census of 2010, the Hispanic population in Caldwell was 35 percent.[13] There were 14,895 households, out of which 42 percent had children under the age of 18 living with them, 51 percent were married couples living together, 16 percent had a female householder with no husband present, 6 percent had a male householder with no wife present, and 28 percent were non-families.[14] Twenty-two percent of all households were made up of individuals and 9 percent had someone living alone who was 65 years of age or older. The median age in the city was 28. Thirty-three percent of residents were under the age of 18; 12 percent were between the ages of 18 and 24; 28 percent were from 25 to 44; 18 percent were from 45 to 64; and 9 percent were 65 years of age or older. The gender makeup of the city was 49 percent male and 51 percent female.[15]

The median income for a household in the city was $37,336. The per capita income for the city was $15,731. About 20 percent of the population was below the poverty line.[16]

While payday lenders give the impression that they are providing a valuable product to savvy consumers, a recent report by The Pew Charitable Trusts indicate that lenders target vulnerable customers who do not have access to information or to credit alternatives that would allow comparison shopping. Contrary to what payday lenders purport, the actual demographic of the average consumer are: those without a four-year college degree; home renters; African-Americans; those earning below $40,000 annually; and those who are separated or divorced.[17]

Strengthening Regulations

States take various approaches to payday lending regulation. Some require all licensed short-term lenders to comply with state usury laws — the same laws that regulate banks. These rates are often under 30 percent APR, which effectively bans payday lenders from operating.[18]

Other states allow exemptions from usury laws for short-term lenders, but cap interest rates at a point that makes it unprofitable for payday lenders to operate. These rates are often under 36 percent.[19]

Idaho is nearly unregulated, with no limits on interest rates or fees. The state sets its only restriction on the maximum loan amount of $1,000. Idaho does not have limits on any other area.

Creating Alternatives to Payday Loans

To meet the short-term loan needs of low-income and communities of color, the Community Reinvestment Act should be used to enforce federal bank participation so that borrowers in these underserved areas will not have to rely on payday lenders.

The Community Reinvestment Act is a federal law designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.[20]

Banks are examined and given performance ratings based on three factors: (1) lending, which assesses the number and dollar amount of loans, the amount of lending in the underserved area, the geographic distribution of loans to borrowers of different income groups, and community development lending; (2) service, which assesses the effectiveness of bank marketing to the communities; and (3) investments, which looks at grants and investments to community organizations for affordable housing, economic development, and other community projects.[21]

Borrowers Share Their Stories

PATRICK D. LIGHT

Lewiston, Idaho

My wife and I have two daughters. When our youngest daughter was a few months old, my wife went back to work and we both had decent-paying jobs. Within a few months, I got a call from my ex-wife informing me that our son was getting into trouble and running away frequently. We agreed that it would be best for him if he came and lived with my family. Getting him here to Lewiston meant that I had to rent a moving van, pay for gas to cover the trip, and drive 200 miles to pick up him and his belongings.

Because my wife and I were between paydays, I went to MoneyTree for a short-term loan that would cover these unexpected costs. A payday loan was our only option because our credit wasn't good enough to

'The payday loan was supposed to be a quick, temporary solution to an important life event, and it ended up ruining my credit.'

get a loan from our bank. We took out an amount of $300. The service charge of the loan was $110. If we could not pay the total of $410 by the end of the loan period, we had the option of paying $60 a month on the interest. It didn't cover the principal of the loan at all; it was only the interest.

I kept up on my payments for three months and my loan was almost paid off. Then, tragically, I lost my job. I found another job as quickly as possible, but by the time I could start paying off my loan again, the payoff amount had doubled and interest was still accumulating.

The loan was supposed to be a temporary solution to an important life event, and it ended up ruining my credit and leaving me in debt. If the interest rates were reasonable I would not be in this situation today.

SUSAN E. STEENSEN

Couer d 'Alene, Idaho

My husband is epileptic and cannot work, so I pick up the slack and work full-time at a fairly good-paying job. Our bills are paid, but we don't have any extra room in the budget to plan for unexpected costs.

Last year, while driving home from work, my car died and I had no idea what I was going to do. I rely on my car to get back and forth to work, to take my husband to his medical appointments, and to get my kids back and forth from school, soccer, and basketball games. Fortunately, I have a friend who is a mechanic, and he told me that if I bought a new part, he would install it.

I've had a checking and savings account with my bank for years. I tried to get a small loan from them to help pay for my car repair, but they said no to my application. Desperate, I took out a payday loan for $350.

'When … I had to be late on a payment, I called the lender and explained the situation, but they were never friendly and never would agree to work with me on my payment. It seemed that they only cared about getting their greedy hands on more money.'

As in anyone's life, unexpected things come up, and many of those things cost money. I did pretty well at making my payment, but there were a couple months that I missed or was late making the payment. I was able to pay off my loan, just last month. It took a year to pay off the loan with all that interest. What made it harder for me was that when other things came up and I had to be late on a payment, I called the lender and explained the situation, but they were never friendly and never would agree to work with me on my payment. It seemed that they only cared about getting their greedy hands on more money.

These places don't care about their customers at all. It's all about getting as much money as possible. It is truly offensive to know that payday and title lenders take advantage of people when they are in tough situations, just so they can make money off the struggles of others.

WILMA DARBY

Hauser, Idaho

My teen son and his girlfriend had a baby together. At the time they were living with my husband, me, and our 13-year-old son.

‘Even though I was able to show months of consistent payment history with them, once I missed one payment, the loan center would not allow me to make any arrangements to get current on the debt. … Once I couldn’t pay it on the date they specified, they immediately took my car. Without a car I lost my job and without a job, I lost my home.’

Within six months of my granddaughter’s birth, an unexpected hardship came our way. My husband was no longer employed and I had to become the sole provider. Overnight, I was left supporting myself and four kids, while preparing for a baby who was on the way. We struggled for awhile and tried to get by, but when things became impossible and I couldn’t make the monthly bills, I borrowed $500 against my car title at a title loan lender.

I worked hard, and for the first few months I kept up on the loan payments. But with the high interest rate, I didn’t see how I could ever afford to pay it off. Every month, there were tough choices and I had to choose between paying the electric bill or rent over paying on my payday loan. The high interest on the payday loan increased the amount so high that it became too expensive. There was no way that I could afford to pay the loan off and keep up with my other financial obligations.

I continued to search for higher wages, but as I struggled along falling further behind, my car was repossessed. Even though I was able to show months of consistent payment history with them, once I missed one payment, the loan center would not allow me to make any arrangements to get current on the debt. They wanted the money when it was due, and once I couldn’t pay it on the date they specified, they immediately took my car. Without a car I lost my job and without a job, I lost my home.

By the time my granddaughter was a year-and-a-half old, we were all homeless and it was all because I didn’t realize the negative impact and the debt cycle created by these title loans. It was awful for me, yet far more devastating for my children.

JUAN ORTEGA

Times have been hard on everyone, but even more so for me. I struggle just to meet my basic everyday needs. I make around $25,000 a year. It’s not enough to cover all of my expenses. I don’t live outside of my means. I don’t purchase things that I cannot afford. I just try to cover the basic stuff like food, bills, and gas. I do pretty good for the most part of making my dollars stretch.

There was a time when I couldn’t work out a payment plan for my bills. They refused to wait for more money, so I needed a small loan. I didn’t need to borrow much. I just needed a few hundred to get me by until I got paid. I tried to borrow the money from my bank, but they said my credit score was too low.

I was desperate, so I turned to a title loan center. My car wasn’t worth much, so they only gave me $300. It was all that I needed.

I ended up paying almost $900 for the loan. I made the monthly payments for a few months, but fell behind. Then they took my car.

The title loan industry took more than what was borrowed in my original loan, and then turned around and took my car. I needed help, but left worse off than when I came to them.

CHERLE LYNETTE BRAY

Post Falls, Idaho

I am 22 years old and expecting my first child in January. My fiancé is in school and works part-time at a minimum-wage job. Due to some unexpected health issues with the pregnancy, the doctor ordered bed rest for the remainder of my term. Sadly, some of my medications and extra testing are not covered by my insurance. Our credit isn't good enough to get a small loan from our bank. We had no other place to go to help us out financially, so my fiancé went and got a payday loan to help cover some of my extra medical expenses. The loan was in the amount of $200. We wanted to be responsible and only took out what we needed.

We continue to make small payments of $50 each month, but our payments barely cover the interest, never mind paying off the principal. We didn't realize how easy it can be to fall behind on payments. The commercials you see on TV for places like MoneyTree, Check into Cash, and EZ Money make it all look so easy and simple, when really we now know that they charge so much interest that they trap you in debt and reap the benefits from your mistake.

Now, the baby will be here in just a couple months, and we still don't have everything we need for the baby. Worse still, we are struggling to keep a roof over our heads and I don't know how we are ever going to pay off this loan.

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JOLENE WOLFORD

Downey, Idaho

We thought that my husband's liver cancer was bad enough. This past April, what was supposed to be outpatient surgery turned into a four-day hospital marathon for me. We could manage his medication alone, which costs us $800 a month, but, after my hospital stay, the bills started piling up.

We had to drain our bank accounts and max out our credit cards. We wanted to hold onto our good credit any way we could, but no one would grant us a traditional loan with our maxed-out credit cards. We even considered refinancing our house, but, because it is a manufactured home, few lenders would touch it.

To keep creditors off our back, we turned to payday loans. Our most recent loan came with an interest rate of almost 500 percent. We fell into a payday lending trap, where we simply roll any remaining payment off of one loan and onto the next. It isn't only low income families that are caught in this scenario; my husband makes $4,000 a month and we still cannot afford all of our bills.

CINDY STAGER

Lewiston, Idaho

I was a single mom for 15 years. The last eight years, I haven't received child support. It's been really hard to make ends meet. When I was married before, it wasn't so hard to get money when we needed it. Loans had single-digit interest rates. But when I turn to my bank for a small loan and fair rates, I am denied each time. Now, I feel like I'm being punished because I am poor.

The first time I went to borrow money, I had a personal family situation and needed gas to travel. I didn't need much, so I borrowed merely $100. I was trapped for two years with a "short-term" loan, with consistent re-borrowing. I got out of it the first time when I received a back child support payment from my ex-husband's tax return money in September 2011.

I swore to myself that I would never return to a payday loan center. But I ended up having to borrow again when our car broke at Christmastime and my neighbor offered me his van if I would buy it out from a title loan place. I didn't quite have enough money to buy it, so I borrowed $161. Now I am trapped again. Without more affordable short-term loans, I don't see how I can get out.

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LINDA MOCK

Lewiston, Idaho

After my husband died, my finances were a bit of a mess. Waiting for his Social Security to arrive to pay bills was a long stretch and I was facing several shut off notices. Combined with the expenses of his death, even affording food was a challenge. I knew that if I could just get a little money until the check came in that I would be OK.

Because my husband had been the worker, he had the credit. After being turned down by our local bank, I was reduced to taking out a payday loan. I didn't realize how impossible they really were until the deal was done. Once trapped, a $300 loan turns into $900 of interest at 12 months and still leaves a pay-off balance. It never ends.

It's frustrating that our bank wouldn't help me out, and it's sad that there are places like these payday and title loan stores that hurt people and our communities. Capping their interest rates is a start, but, personally, I think these places shouldn't exist. I think that our local banks should lend money to us fairly.

RICK STAGER

Lewiston, Idaho

I am disabled and live on Social Security income. I had a family emergency and had to go to Colorado. I tried to get a loan from my bank but was denied. Having no other place to turn to, I took out a title loan on our car so I could have money to make the trip. I borrowed $250 and owed $350 in 30 days. It was a steep price, but it was an emergency.

I was gone for about a month, but I returned home and made the first payment. Then the car broke so I fixed the car and made only a partial payment the next month.

The following month, I struggled with money to pay the rent, so I missed the payday loan payment completely and made only a partial payment on the rent. Immediately, the car was repossessed. The payday lending center refused to work out a repayment plan that would allow me to get current on the loan. They insisted on full payment of the loan and wouldn't accept anything less.

If the payments had been more reasonable, I might not have had to live on the streets. If they would have worked with me, at least I could have slept in the car. A back alley broken leg would have been better than what they put me through. These places need to be regulated so they learn to play fair.

MIRANDA DAVIS
Lewiston, Idaho

I am a single mom and I work hard to take care of my two young children. When I was 19 I had health issues that caused a stroke. I had to re-learn many things and it was very hard work.

Although I remain disabled, I pay the way for my family. Sometimes it's hard and the kids have to learn that they can't have all the things they may want. I consider myself to be responsible and able to manage a budget. Sometimes I have to make tough choices. When the power bill goes up in the winter or the price of gas drastically increases, I have less money for something else. It happens and most of the time I can manage. However, not too long ago, I found myself trapped with payday loans. I applied for a small loan through my bank. Despite having years of banking history with them, they denied my loan application. So, I turned to the payday loan center and borrowed $200.

It started harmlessly, I thought: just a little extra money to cover some monthly expenses and everything would be OK. Wrong! I became trapped and then every bill became harder to pay.

Once trapped, I was infuriated when I tried to make a payment arrangement with my electric company, and the person on the phone suggested I take out a payday loan to avoid shut off. Seriously? I couldn't believe she would even suggest such a stupid thing. I mean, really, did she not care at all about the next month's payment? Did she not realize that I would be trapped and that would only make it harder for me? I couldn't admit that I had already done the "dumb deed" and allowed myself to be taken advantage of, but I did let her know that her advice was lousy and that would only make things worse. Then I hung up the phone and called a local social service program. They helped me with a payment on my electric bill, which, in turn, is helping me get back on the right track.

I still owe on my small loan. I have tried to work out new payment options with the lenders, but they will not budge. The interest is impossible to keep up with. I cannot afford the loan. The payday center tries to cash the check from my account even when I tell them ahead of time that I do not have the funds to cover the amount. Each time they try to cash the check, my bank charges me a $37 service fee. They run the check multiple times. I racked up so many charges in service fees that I was forced to close my bank account just to keep them from processing the check. I am currently unbanked and am challenged with even cashing a check.

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SYDNEY JOHNSON

Lapwai, Idaho

I am 25, and recently single with a 4-year-old son. With child support and my wages, I do have an income better than many of my friends. We get through the month, but still struggle to save money to get ahead and can get behind quickly with a major unexpected expense.

I recently took out my first and only payday loan ever! What a total ripoff and nightmare it has turned out to be. It seemed harmless enough; I had to pay my water bill, but it was a few days before my payday so I followed the signs to “easy money” and borrowed $200 until my next payday. Sadly, my car broke on my way to work on payday, and although I made it to work I had to pay $100 to get my car fixed. When I went in to pay my loan off I mentioned what a rotten day it was with the car breaking down. The lady was very nice and told me that I could borrow an additional $100 and pay the loan off next payday.

At first, it seemed reasonable and I signed the papers. I walked out of the store with $300 to pay my other bills. Later, when I got home, I realized that the next payday I would have to give them $375 all at once or continue to borrow. I did discover that each payday I could give them $125, but at that rate it will take more than five months to get out of this trap.

I felt stuck, so I went to my bank to see if I could get a small loan with a better interest rate. The guy at US Bank laughed, he really did. He said they don’t offer small-dollar loan products like that, but that they do sell car loans if I needed a new car. It really seems ridiculous now that I think about it. If I could have made a payment arrangement with my water company for just a few days, the savings to me would have nearly equaled another whole water bill. I’ve decided the next time I need an extension of a few days on a bill I will inform the business that a short-term payday loan will not be an option.

BECKY AMES

Blackfoot, Idaho

My husband and I live in Blackfoot. Our children have grown and now it is just my husband and me at home. I just took out a payday loan because I had to travel out of state. I borrowed $500 for the trip. My loan is an installment loan from the Cash Store in Pocatello. The papers say if I make my 12 monthly payments of $135 the loan will be paid off in one year. Under their repayment schedule I would be giving them back $1,620 for a $500 loan.

I knew I was making a deal with the devil when I took the loan, but my repayment plan is a little different than what they expect. This week I will make the first payment of $135. In addition, I will also pay $200 directly toward the principal. It will be tough, but I am not going to let them take advantage of me. Next month when the payment is due again I will do the same thing and the loan should be paid off in full.

The payday loan places are now doing these installment loans to downplay their reputation for the high interest, but the high interest is still there, it is just packaged differently. I may not have another option for a short-term loan, but I am not going to let them get any more out of me than I have to. We really need more affordable options for short-term loans.

STEVE MERRIOTT

Orofino, Idaho

I am a single man living on a fixed income in Orofino. I took out a $200 loan two months ago to have some work done on my truck. After two months, I realize I may be trapped. I don't have any extra money at the end of the month, so I don't know what I was thinking.

I now have to pay back $50 a month, but that is just for interest. If I pay any more, I not only won't be able to pay my monthly bills, but I'll never pay off the loan. I decided to use the money I got from energy assistance to pay off the loan. I received $285 in an assistance check that was supposed to buy firewood for the winter. After paying off the loan, I might be able to squeeze enough money for one load of wood, but that won't get me through the winter.

I'm not sure how I will get through the winter, but I did learn an important lesson: Those places are a total ripoff and what they do should be against the law.

JOSE MIRAMONTES

Burley, Idaho

Recently, I took a loan of $700 and every 14 days I have to pay $140 in interest; the name of the company is "Cash Loan." I used the loan to pay for a trip and to pay bills for my house.

I tried to get a loan from my credit union, but they said no. I travel out of the state a lot for work, and my bank is afraid that I will leave and will not come back to pay off the loan. Payday centers are my only option.

The first time I got a loan it was for $1,000, and they charged me $254 a month. It took me a year to repay it. At the end I ended up paying $3,048. The purpose of the loan was to provide for my family.

Three months ago, I got a loan of $1,000; I am paying $299 on a monthly basis. The purpose of this loan is to pay for my truck — which I use to work. We build cars. And we travel throughout the country to do this work.

I've taken out three loans this year. I cancelled one and I am paying two of them. For the $700 one, I am paying $140 every 14 days — I need to pay this one soon; and the other loan that I have is for $1,000 and I am paying $299 per month.

Last year, I made $25,000. It feels like all of my income is going toward paying off my loans. At the moment you need the money, you don't think about it. You may think that getting money fast will help you, but, in the long run, they screw you over. We do it for necessity. If they are going to give a loan, they should be fairer.

‘Using our only vehicle as collateral, we took out a title loan for $300. For the first few months we made the $75 payments not realizing that we were only paying the interest. When the payments began to increase and we struggled, the company rewrote the loan for more. … After a year and a half they repossessed our van and now we have no transportation.’

KATHY MCNARY

Caldwell, Idaho

My husband and I live in Caldwell. I am a Native American. Our two children are grown and we are both disabled. I am studying to be a Veterinarian Technician and hope to graduate in the next year or so. Times have been hard and because we live on a fixed disability income, any change to our monthly bills is a problem. If one of us has even a slight change in medication, it can mess up our budget for months.

One month that happened and things backfired because we spent our money for the power bill on medications, but we needed money to keep the power on. Using our only vehicle as collateral, we took out a title loan for $300. For the first few months we made the $75 payments not realizing that we were only paying the interest. When the payments began to increase and we struggled the company rewrote the loan for more. The payments went down again, and for the first few months we were fine, but as they increased the company just kept rewriting the loan for more and more money.

In October we couldn’t make that payment of $165 and, after a year and a half, they repossessed our van and now we have no transportation.

Conclusion and Recommendations

The solution to protect Idaho consumers from payday lending is simple: Provide access to credit with reasonable terms. If given alternatives, borrowers would not be forced to accept payment terms with triple-digit interest rates.

In the meantime, it is necessary for Idaho to adopt regulations to protect borrows from predatory lending practices. Idaho can look at the best practices that have been utilized in other states. These practices include the following:

REQUIRE A REPAYMENT PLAN IN MULTIPLE INSTALLMENTS

Washington State currently requires payday lenders to offer installment repayment plans for borrowers who request them prior to default. Such repayment plans make a payday loan similar to traditional loans in structure and may allow borrowers to pay down the principal and interest over time, rather than making large, lump sum payments that are more difficult to afford.

VERIFY REPAYMENT ABILITY

Idaho should require that payday lenders verify and document a borrower's ability to repay the loan. Using credit scores, income, or assets to verify a borrower's ability to repay and to set allowable loan amounts may maintain access to essential credit while requiring the lender and borrower to consider repayment ability. Many banks and credit unions that participated in the FDIC pilot program used more stringent underwriting, such as credit reports, to verify ability to repay and to set loan amounts, without actually requiring high credit scores for the loan — this will likely cut default costs to lenders and thus allow lenders to offer more competitive products.

RESTRICT AGGREGATE AMOUNT OF TIME WITH PAYDAY LOANS

Restricting the total time that a single borrower is in debt over a specified time period will allow borrowers to access necessary credit when it is urgently needed, but to cut down on repeat borrowing that outlasts loan terms. Idaho should mandate limitations on the total amount of time a borrower is indebted per year, on loans with interest rates higher than 36 percent, as recommended by FDIC guidelines.

As Idahoans endure the heaviest economic recession seen since the Great Depression, payday loan centers attain record profits off the backs of the poor. Payday loan centers have found an easy target to capitalize upon the economic hardships and misfortune of others. Their pockets and profits increase, while the wealth of the poor decrease. It is imperative that Idahoans are protected. ■

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