



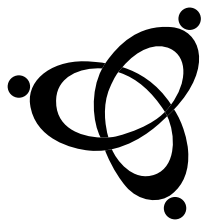
**PAST DUE**

PREDATORY LENDING PRACTICES NEGATIVELY IMPACT  
LEWISTON VALLEY RESIDENTS AND THE LOCAL ECONOMY



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## ACKNOWLEDGMENTS

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This report was written by Chris Pierce-Wright and Ben Henry of the Alliance for a Just Society, and Terri Sterling from Idaho Community Action Network.

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# Past Due

Predatory lending practices negatively impact Lewiston Valley, Idaho, residents and the local economy.

## INTRODUCTION

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**A**cross Idaho, families are increasingly struggling to make ends meet. Affordable small scale loans, which could tide families over, are hard or impossible to come by. Finding no alternative, families are turning to “payday” and title loans that come with high interest rates and often wind up trapping them in a cycle of debt.

Payday and title loans are big business for corporations representing the country’s wealthiest one percent. This includes many of the same Wall Street banks, such as Wells Fargo and Bank of America, that were bailed out after crashing our economy in 2008. These large financial institutions receive money from the Federal Reserve at interest rates now at almost zero percent and lend money out to payday lenders at higher rates. The payday lenders, in turn, lend money to consumers at a rate several hundred times larger, at more than 400 percent.<sup>1</sup> Meanwhile, payday lending corporations and their CEO’s pour hundreds of thousands of dollars into political contributions.

Idaho lawmakers need to level the playing field for the Idahoans they represent. This storybook shares the experiences of everyday Idahoans who have found themselves cheated by predatory lending and trapped in a cycle of debt. These stories underscore how important it is for Idaho lawmakers to reverse the financial and political advantage held by these

corporate giants and introduce measures that protect Idahoans from predatory payday and title lending.

## THE BIG BUSINESS OF PAYDAY LENDING

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### ASTOUNDING PROFITS FOR PAYDAY LENDING GIANTS

Nationwide, the payday loan industry has ballooned in the past two decades, accounting for an estimated 10,000 stores nationwide in 2000 and 22,000 as of 2004.<sup>2</sup> The industry extended about \$42 billion in loans in 2006.<sup>3</sup>

Payday and title lending giants have been successful while the rest of the country suffers from the economic downturn. As evidence of this disparity, Advance

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America doubled its profits for the first nine months of 2011 compared to 2010, from \$20 million to \$41.1 million.<sup>4</sup> Meanwhile, Cash America reported a 21 percent increase in net income over the same period, from \$80 million to \$98.1 million.<sup>5</sup> For the fiscal year ending September 30, 2011, EZCorp reported a net income increase of 33 percent over the prior year.<sup>6</sup>

Payday and title lending giants have a strong presence in Idaho. Three of the country's payday giants — Advance America, QC Holdings, and EZCorp — have a combined 42 registered licenses out of 214 throughout the state.<sup>7</sup> The other largest Idaho lenders include Cottonwood Financial, Moneytree Inc. and XPress Cash Financial, all big national organizations.<sup>8</sup>

## **TIES TO WALL STREET BANKS**

These large payday and title lenders receive financial backing from even bigger institutions — Wall Street banks. For example, before starting operations in 1997, Advance America borrowed between \$40 million and \$50 million from Wells Fargo, NationsBank (now part of Bank of America), and Wachovia (now part of Wells Fargo).<sup>9</sup>

Just as payday and title lenders profit from cash-strapped borrowers, the big banks profit from the payday lenders. In 2009 alone, publicly traded payday lenders returned almost \$70 million of interest to their big bank creditors.<sup>10</sup> Payday lending organizations are so dependent on Wall Street banks that EZCorp has stated that, "If one of those lenders is unable to provide funding in accordance with its commitment, our available credit could be reduced by [that] amount."<sup>11</sup> Payday lending organizations "require continued access to capital. A significant reduction in ... the availability of credit could materially and adversely affect [their] ability to achieve [their] planned growth and operating results."<sup>12</sup>

## **PAYDAY AND TITLE LENDING CUSTOMERS ARE NOT FARING AS WELL**

While payday and title lending giants reap considerable profits, their customers are doing less well in the current economy, with median annual income of \$35,000, according to the industry.<sup>13</sup>

Indeed, to qualify for a loan, not only does the borrower need a checking account, but 84 percent

have graduated from high school and 42 percent own their own home.<sup>14</sup> Even so, payday lenders specifically target communities of color,<sup>15</sup> and active-duty military personnel have historically been especially vulnerable to payday lenders, taking out payday loans at three times the national rate in the early 2000s.<sup>16</sup>

## **PAYDAY AND TITLE LENDING TRAPS BORROWERS IN A CYCLE OF DEBT**

The cost of getting an advance on a paycheck — the service payday lending is intended to provide — runs very high for borrowers, often trapping them in a cycle of debt. Ostensibly, the payday loan is an advance on a paycheck in exchange for high fees. By giving a lender a check for \$250, for example, a borrower receives \$200 in cash and agrees for the check to be deposited on his or her next payday, usually a couple of weeks away.

This, however, is often only the beginning of the process. For many borrowers, paying back the loan in full immediately would leave them with no funds for living expenses. Many lenders encourage rollover loans, charging additional fees for the option to delay payment for another two weeks. With annual percentage rates running upwards of 400 percent, a borrower can soon owe more in fees than the original amount borrowed.

These lenders may also offer another predatory loan product in the form of "title loans," small loans that require a borrower's car title as collateral. These loans are usually made for a short period, where the borrower pays back the loan and interest rates upwards of 300 percent for a period of about 30 days. If after that period the loan is not paid off, the lender then has the option of taking the borrower's car, which can make keeping a job, attending school, or seeing a doctor difficult if not impossible.<sup>17</sup>

## **PAYDAY INDUSTRY A DRAIN ON LOCAL ECONOMIES**

The payday industry has a deleterious effect on Idaho's local economies, in terms of job losses and lost productivity. A report by the Insight Center for Community Economic Development finds that, in the 33 states analyzed in its study, the economic impact

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of predatory lending amounts to 14,000 jobs lost in 2011. The study also measured that predatory lending resulted in \$774 million in net economic losses, and, when combined with the increases in bankruptcies linked to the industry, total economic losses reached almost \$1 billion.<sup>18</sup>

In Idaho, the report finds that nearly \$32.9 million was spent in lending fees and interest payments alone, as reported by the state regulator. The report estimates that the net economic losses to Idaho related to the payday industry to be nearly \$7.7 million and 112 jobs in 2011.<sup>19</sup>

## IDAHO'S INADEQUATE OVERSIGHT OF PAYDAY AND TITLE LENDERS

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In 2007, the federal government took steps to protect the military from payday lending. Federal legislation protecting military personnel from payday lending went beyond basic restrictions to limit fees and rollovers, stop the use of vehicle titles to secure loans, and ban the practices of mandatory arbitration, rights waivers, and prepayment penalties.<sup>20</sup> Many states have failed to similarly protect their citizens. Idaho is among the laxest in the country. Idaho's failure to protect borrowers mean that payday and title lenders are free to subject Idaho residents to practices that are illegal in many other states. There is no limit on interest rates payday lenders can charge in Idaho, compared to an interest-rate cap on short-term loans of an adjusted 36 percent across the border in Montana.<sup>21</sup> The state also has a limit on outstanding loans of \$1,000 (compared to Montana's \$300 limit), providing almost no protection at all for Idahoans at risk of getting trapped in a cycle of debt.<sup>22</sup>

The Idaho Legislature did pass new regulations, effective July 1, that limit the size of a payday loan to 25 percent of the borrower's gross monthly income or \$1,000, whichever is less. It also requires written

disclosure to borrowers before funds are dispersed, and the borrower is allowed a one-time extended repayment for 12 months.

However, without an interest rate cap and analysis of a borrower's ability to repay, existing regulations allow for the continuation of the cycle debt.

## PAYDAY AND TITLE LENDING COMPANIES SPEND MONEY TO INFLUENCE POLITICS

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Payday and title lending is about nothing if not money, and the industry has spent millions of dollars on political campaigns throughout the country. Between 2003 and 2011 alone, Advance America spent nearly \$2.4 million on contributions to state campaigns across the country. During the same period, Check Into Cash spent over \$920,000, ACE Cash Express spent over \$385,000, and Dollar Financial Group spent over \$360,000.<sup>23</sup>

Idaho has not been immune to the effects of industry money. In the period between 1996 and 2006, the payday lending industry gave \$93,400 to state-level candidates in Idaho. Virtually all of this money (97 percent) came from outside of the state.<sup>24</sup>

These dollars have paid off for the payday lending giants. In 2000 and 2003, payday lending bills were introduced in the Legislature, one opposed by the industry and one favored. The first, S.B. 1405, attempted to set a 36 percent annual interest rate cap and died in the Commerce and Human Resources Committee.

The second, H.B. 206, was favorable to payday lenders — failing to restrict interest rates or curtail extension of debt — and passed nearly unanimously, with only two legislators out of 105 daring to stand up against this industry.<sup>25</sup>

**Payday lenders specifically target communities of color, and active-duty military personnel have historically been especially vulnerable to payday lenders, taking out payday loans at three times the national rate in the early 2000s.**

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## AARON HOWINGTON • 'I GOT REALLY DESPERATE'

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I live in Lewiston, Idaho. I struggled to make ends meet working full-time and making \$11 an hour. Nearly half of each of my paychecks went to child support. This left me less than \$800 per month to live on. The hardest part was having enough food. Several months ago, I got really desperate. The day before payday I couldn't take it anymore. Out of gas, out of food and hungry, I went to Quick Cash and took out a loan for \$100 with an agreement to pay it off the next day.

Unfortunately, the next day, I was laid off from my job without the possibility of a rehire. Devastated, I rushed out to sign up for unemployment and come up with a plan to get by on even less money. I forgot about the loan, but they didn't and they began calling me daily demanding the full \$120. I told them I lost my job, but they were insistent. They did not offer any repayment plan or other terms beyond the full repayment. I know these places are a rip-off, but I was desperate. Now I know, I can get help other places.

“ I told them I lost my job, but they were insistent. They did not offer any repayment plan or other terms beyond the full repayment.”

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## LINDA MOCK • 'THEY TOOK ADVANTAGE OF ME WHEN I COULD LEAST AFFORD IT AND IT ALMOST COST ME MY LIFE'

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I have been trapped in a payday loan since my husband passed away nearly two years ago. After he passed, it took a while for his Social Security to process and come to me. During that time I was desperate to cover both his final expenses and maintain my home. After paying on the loan and getting nowhere for months, I asked for a way to get out of the loan. They set me up with an installment loan and, after 12 payments (including 500% interest), I would be done, but I had to make sacrifices every month that was detrimental to my health.



About six months ago, I suffered a heart attack. I am told it was the result of a combination of not taking my prescribed medicine and not eating properly. I just can't afford it all, but now I realize that I must find a way to pay for my prescriptions and I must eat right. I can't afford to pay off the loan, but after two years of paying the interest only, I really don't feel bad. They took advantage of me when I could least afford it and it almost cost me my life.



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## ALISON SMITH • 'OUR GOVERNMENTS HAVE A RESPONSIBILITY'

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I am a disabled woman, raising three adopted children. Because of the family situation, I receive limited support for these children, so I try and stretch my Social Security as far as I can. It never goes far enough though, so I also do tax preparations in the spring to help my budget. We meal-plan and conserve energy, but, no matter what I do, we still struggle.

With me, the children are in a stable and loving home environment. The community helps make things better by helping with scholarships for the Salvation Army's Summer Camp and community members "adopting" the children at Christmas. We are definitely blessed by a wonderful community in Lewiston.

If only money-lenders here in Lewiston, were community-minded in the same way, we would truly have the best place to live. As an accountant, I know what interest rates mean. As a poor woman, I know what struggle means. Desperation will force you to make choices you would otherwise never consider.

I struggle with payday loan debt, and I think that our local and state governments have a responsibility to restrict the harmful businesses in our community. They are bad players — taking our money out of our community. Lewiston has a large number of these high-interest payday and title loan companies. This indicates that we have a high number of working poor. These facts contribute to the lack of new industry and the death of small businesses.

We need to stop the growth of these predatory loan businesses in Lewiston and we need to work to create fair lending for all working families in our community. It's really a win-win when families have fair lending, communities bloom and local economies thrive.



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## SYDNEY JOHNSON • 'IT SEEMED HARMLESS ENOUGH'

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I am recently single, and have a 4-year-old son. I live in Lapwai, Idaho. With child support and my wages, I do have an income better than many of my friends. We get through the month, but I still struggle to save money to get ahead — and I can get behind quickly with a major unexpected expense. I recently took out my first and only payday loan ever! What a total rip-off 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.

**“ 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.”**



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## STEVE MERRIOTT • 'I REALIZE I MAY BE TRAPPED'

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I am a single man living on a fixed income in Orofino, Idaho. 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 won't be able to pay my monthly bills. I will never be able to 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 did learn an important lesson: Those payday loan places are a total rip-off and what they do should be against the law.

**“ 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 did learn an important lesson: Those payday loan places are a total rip-off and what they do should be against the law.”**

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## CINDY STAGER • 'REALLY HARD TO MAKE ENDS MEET'

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My name is Cindy Stager and I live in Lewiston. I have been a single mom for 15 years. The past eight years, I haven't received child support. It's been really hard to make ends meet. When I was married, it wasn't so hard to get money when we needed it. Loans had single digit interest rates. 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 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.

I ended up having to borrow again when our car broke at Christmas 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, so I borrowed \$161. Now I am trapped again. Without more affordable short-term loan products I don't see how I can get out. My ex-husband still owes me more than \$25,000 in child support, but my best hope to get out of the debt trap is winning regulation on payday loans.

**“ When I was married, it wasn't so hard to get money when we needed it. Loans had single digit interest rates. Now I feel like I'm being punished because I am poor.”**

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## MIRANDA DAVIS • 'ONE EMERGENCY AWAY FROM BIG TROUBLE'

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I am a single mom and I have two beautiful children. My ex-husband is unstable and doesn't pay any child support, so I am left to raise my children on my own. I work hard, although I am disabled. My disability alone isn't enough for my family to live on, so I work as much as I can as a preschool teacher. Still, raising two children, I struggle to get by each month. In fact, I am one emergency away from big trouble.

Over the winter, my car broke down, right after an unexpectedly large power bill. I was desperate because I need my car to get to work and to get my children to school. With no other options available, I took out a payday loan. I knew it was going to cost me, but I couldn't afford to lose my job. It seemed like the lesser of two evils. I've since realized that without a large lump sum payoff, I will be trapped paying the interest only forever. I tried to get out of the loan, and I closed my checking account. The loan went to collections and now my wages are garnished each month, taking even more of my paycheck. The hardest part now is worrying that one more emergency will arise — and I don't have a backup plan.



“With no other options available, I took out a payday loan. I knew it was going to cost me, but I couldn't afford to lose my job. ... I've since realized that without a large lump sum payoff, I will be trapped paying the interest only forever.”

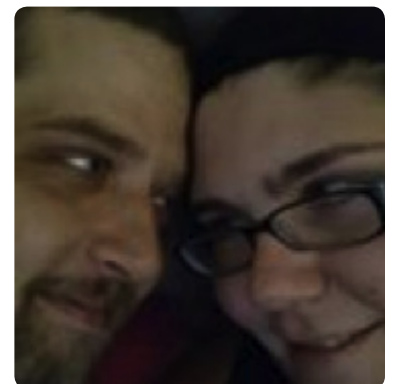
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## SHELBY HARGETT • 'THESE BUSINESSES DO MORE HARM THAN GOOD'

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Last winter I was living with my boyfriend and his young daughter. I was working hard to support us both after he lost his job. Times got really hard and our electricity was shut off. I couldn't get any other assistance, so I took out a payday loan. Our bills were already more than we could afford with my boyfriend unemployed. I kept getting farther behind and took out a second payday loan to pay for the first one. Before I knew what I was doing, I had three loans and no way out. I used my tax return this year and paid off all the loans.

I work really hard and have two jobs, but not having good credit keeps me from getting a loan at a decent rate. These businesses do more harm than good.



# CONCLUSION & RECOMMENDATIONS

While payday and title lenders rake in profits, everyday Idahoans are still struggling to make ends meet. Payday and title lenders prey on people who are in crisis and have nowhere else to turn, leading cash-strapped borrowers into a cycle of high debt from the time they sign the loan documents. Some people will never get out of the debt cycle.

As local economies suffer from the presence of the payday loan industry, municipalities need to step up and protect their communities.

Idaho lawmakers should show that they stand with Idahoans, not with payday and title lenders backed by Wall Street. Lawmakers should:

## LIMIT THE ANNUAL PERCENTAGE RATE CHARGEABLE BY PREDATORY LENDERS IN IDAHO TO 36 PERCENT

- ▶ Thirty-two states already restrict the annual percentage rate that can be charged on a payday loan.

## LOWER THE MAXIMUM LOAN AMOUNT FROM \$1,000 TO \$300

## LIMIT THE GROWTH OF PREDATORY LENDING LOCALLY THROUGH CITY ORDINANCES

- ▶ Cities and towns can mitigate the harm of payday lenders in their communities by passing a city density ordinance that restricts the growth of payday lenders to one lender per 10,000 residents of the community.

### BY THE NUMBERS

Source: Center for Responsible Lending

232

Number of payday lenders in Idaho

3,643

Number of payday loans annually per store

\$350

Average amount of loan

582%

Average interest on loan

\$295.8M

Total payday loan volume

\$224.8M

Total payday loan volume by churning

\$64.2M

Total payday loan fees paid annually





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# NOTES

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