Payday Loan Stores Shouldn't be Utility Bill Payment Centers

Last month, the Missouri Public Service Commission joined Arizona and Nevada as states where utilities, as a result of pressure from consumer advocates, have been compelled or voluntarily agreed to cut contractual ties with payday lenders. Some utilities enter into contracts with payday and other short-term predatory lenders to accept bill payment from customers. Payday lending practices entrap lower-income individuals into a long-term cycle of exorbitantly-priced debt that often brings serious financial security consequences.

In June of this year the Consumer Financial Protection Bureau issued a draft proposed rule intended to rein in the most egregious payday lending practices and require that these lenders conduct basic ability to repay analysis before making loans. However, NCLC, Center for Responsible Lending, National Council of La Raza, NAACP, People's Action Institute, Consumer Federation of America, and numerous other advocacy groups issued a statement urging CFPB to close various loopholes and address other concerns with the proposed rule. There is the additional concern that the proposed rule may be weakened prior to adoption of final regulation over payday lenders. Unfortunately, state level advocates interested in working to keep utilities from using predatory loan storefronts as payment centers may not be able to fully rely on federal regulation to effectively address this problem.

Here are some payday lending stats and facts:

- Payday lenders typically offer their borrowers high-cost loans, typically with a short, 14-day term. The loans are marketed as a quick fix to household financial emergencies with deceptively low fees that appear be less than credit card or utility late fees or check bounce fees. (National Consumer Law Center, *Consumer Credit Regulation*, 2012, p. 403.) The loans are marketed to those with little or no savings, but a steady income.
- The cost usually ranges from $15 to $30 for every $100 borrowed. Fifteen dollars per $100 borrowed is common among storefront payday lenders. The payday loan business model entails the borrower writing a post-dated check to the lender – or authorizing an electronic withdrawal equivalent – for the amount of the loan plus the finance charge. On the due date (payday), the borrower can allow the lender to deposit the check or pay the initial fee and roll the loan over for another pay period and pay an additional fee. The typical loan amount is $350. The typical annual percentage rate on a storefront payday loan is 391%. (Saunders, et al., *Stopping the Payday Loan Trap: Alternatives that Work, Ones that Don't, National Consumer Law Center*, June, 2010, p. 4.)
- Rollover of payday loans, or the "churning" of existing borrowers' loans creates a debt trap that is difficult to escape: The Consumer Financial Protection Bureau found that over 75% of payday loan fees were generated by borrowers with more than 10 loans a year. And, according to the Center for Responsible Lending, 76% of all payday loans are taken out within two weeks of a previous payday loan with a typical borrower paying $450 in fees for a $350 loan. (Consumer Financial Protection Bureau, "Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings," April 24, 2013, p. 22; "Payday Loan Quick Facts: Debt Trap by Design," Center for Responsible Lending, 2014.)
- A 2008 Detroit Area study compared payday loan borrowers with low-to moderate income households that did not use payday loans. In that study researchers found that payday loan borrowers experienced nearly three times the rate of bankruptcy, double the rate of evictions, and nearly three times the rate of utility service disconnections. (Barr, "Financial Services,

Savings and Borrowing Among LMI Households in the Mainstream Banking and Alternative Financial Services Sectors," Federal Trade Commission, October, 2008.).

For general information on payday lending, visit NCLC's website. For more information about engaging in a state campaign to break utility-payday lender links, contact John Howat at jhowat@nclc.org.