

Payday Loans

What are they? Why should I avoid them?

- Payday loans are small, short term loans meant to be used to cover expenses until the borrower's next payday.
- Payday loans come with much higher interest rates than normal loans. In Rhode Island, they carry 280% interest rates.
- Rhode Island is the only state in New England where payday lending is fully legal. Payday lending is illegal in 14 states and strictly regulated 7 others.
- Payday lending has been federally outlawed for members of the United States military and their families.

The Debt Trap

High interest rates and fees trap borrowers and force them to take out another payday loan to pay off the first one.



76% of Rhode Island's payday loans are taken out by borrowers trapped in the debt cycle.

Reform Efforts Timeline

- 2009 – Laura gets trapped in a payday loan
- 2010 – Bill introduced by Rep. Ferri. But it disappears??
- 2011 – Coalition Formed, Bill introduced by Rep. Ferri & Sen. Metts
- 2012 – Lots of Press! Mayors are on board, Bill introduced by Rep. Ferri & Sen. Pichardo
- 2013 – Lots of Data! We have funding! Bill introduced by Rep. Ferri (75 sponsors) & Sen. Pichardo (38 sponsors)
- 2014 – We almost made it! But something bad happened... Rep. Ferri & Sen. Pichardo
- 2015 – There is no hope. Reps. Almeida & Barros & Sen. Pichardo
- 2016 – But we keep trying! Reps. Almeida & Barros & Sen. Pichardo
- 2017 – And trying...
- 2018 – And trying...

Bill Summary

A 36% cap stops 260% interest rate loans, ends the debt trap and is essential to Rhode Island's economic recovery

- ✓ Repeals payday lenders' special exemption which allows them to charge 260% APR
- ✓ Restores RI uniform usury laws at 36% APR for small loan lenders.
- ✓ Mirrors the protection in places for members of the military and their families.

What do Rhode Islanders think?

- PPP polled 507 Rhode Island voters over March 6-7, 2012.
- **76% of Rhode Islanders supporting capping payday loan interest rates.** Only 11 percent oppose for a 7-1 difference.
- Support for the rate cap barely erodes after hearing the lender argument that stores will close and lay off employees- 74 percent still support the cap.
- 98 percent of those polled say they intend to vote in November and 63 percent said they would be more likely to vote for a candidate that supported a rate cap.
- Finally, those polled that have actually taken out a payday loan overwhelmingly support an interest rate cap (75 percent) even if means the store closes (73 percent)!

FAQ: What is the alternative? Where will people go?

- Capital Good Fund!
- Borrower-reported options include signature loans, credit cards, credit unions, friends, families, churches, relief societies, and savings, all at a fraction of the cost of payday loans.
- Most borrowers have stated that they could have avoided the loan in the beginning.

FAQ: Don't payday loans help people?

- Payday loans are a stepping stone into long term debt.
- The typical Rhode Island payday borrower pays hundreds of dollars in fees and is stuck in 9 payday transactions per year. That's a lot of money that could be used for food, clothing, or savings.
- Studies find that payday loans are more likely to cause bankruptcy, default on rent and utility bills and involuntary bank account closures.

FAQ: Why should the cost of the loan be in terms of annual percentage rate (APR) if it is just a two week loan?

APR matters for payday loans. This is the only way consumers can compare the cost of credit. It allows apple-to-apple comparisons and protects free market competition. Moreover, a payday loan is typically not just a two week loan.

FAQ: Isn't a 36% rate cap a ban on payday loans and small loans?

Capping payday loans rates doesn't ban small loans, it reforms a defective product. As has happened in other states, payday lenders certainly have the choice to keep their doors open by offering other products and services which comply with Rhode Island's laws.

FAQ: Aren't payday loans better than overdraft fees?

- No. Overdrafts are caused by small accidental purchases often \$20, not large amounts such as \$300 like payday loans. When someone defaults on a payday loan they will incur both insufficient fund fees from the payday lender and overdraft fees from their bank. Payday loans don't ease the burden of overdraft fees, they increase them.

Pew Takes on Payday Lending

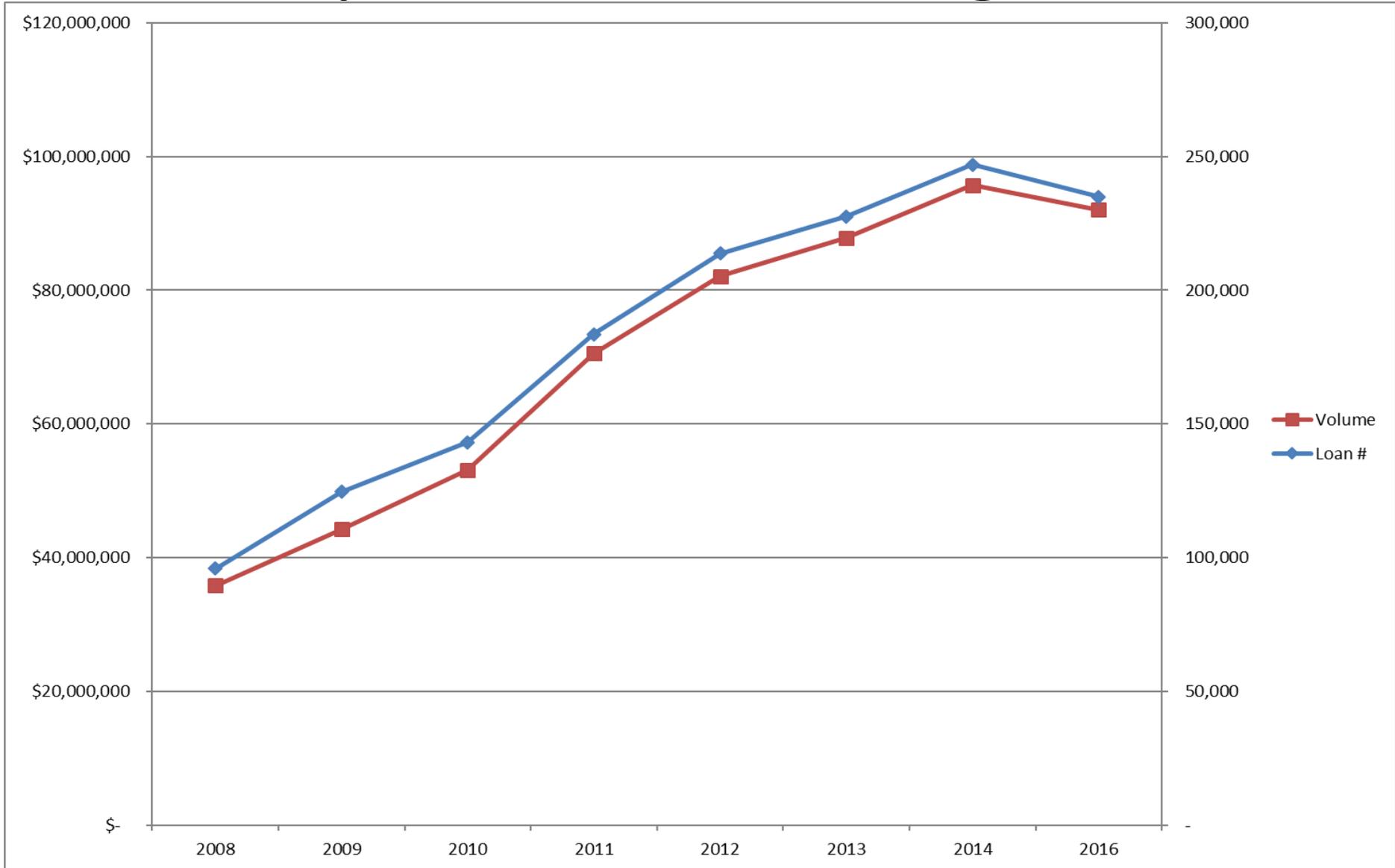
- If faced with a cash shortfall and payday loans were unavailable, 81% of borrowers say they could cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.
- Single, female, African-Americans with families who are low-income renters are more likely to take out a payday loan.
- The typical payday borrower takes out 8 loans of \$375 each year and spends \$520 on interest.
- The average borrower is indebted about 5 months of the year.
- In states that enact strong legal protections, the result is a large net decrease in payday loans usage. Borrowers are not driven to seek payday loans online or from other sources.

Insight Report: The Net Economic Impact of Payday Lending in the U.S.

Rhode Island loses \$1.6 million dollars a year!!!
(As of 2011)

Total Payday Lending Interest Payments	Net Value	Estimated Jobs Lost
\$7,054,999	-\$1,649,522	24

RI Dept. of Business Regulation



How can I help to protect my community?

- Tell your friends and families to avoid payday lending. Encourage them to spread the word.
- Call your state Senator and Representative to tell them that you do not want payday lending in your community.
- Get involved with State House hearings and action alerts.
- Join the Coalition



LENDING REFORM Coalition Members

- AARP
- AFSC-SENE
- Amicable Congregational United Church of Christ
- Black Political Action Fund
- Boyajian Harrington Richardson
- Capital Good Fund
- City of Central Falls
- City of Cranston
- City of Providence
- City of Warwick
- **The Economic Progress Institute**
- George Wiley Center
- Gloria Dei Lutheran Church
- Hassenfeld Family Foundation
- Housing Network of RI
- International Union of Painters and Allied Trades, DC 11, LU 195
- Jewish Federation of RI
- NAACP
- National Coalition of 100 Black Women
- **NeighborWorks Blackstone River Valley**
- Office of the General Treasurer
- ONE Neighborhood Builders
- Providence Community Action
- Providence En Espanol
- RI AFL-CIO
- RI Building and Construction Trades Council
- RI Chapter of National Association of Bankruptcy Attorneys
- RI Coalition for the Homeless
- RI Latino PAC
- RI Progressive Democrats
- **RI State Council of Churches**
- Society of St. Vincent de Paul
- St. Michael's Church
- ULMAC
- United Way of RI
- West Elmwood Development Corporation
- Working RI

Stay in Touch!

Margaux Morisseau

Director of Community Engagement
NeighborWorks Blackstone River Valley

www.NeighborWorksBRV.org

mmorisseau@neighborworksbrv.org

(401)257-6233

@margauxmor

<https://www.facebook.com/margaux.morisseau.7>