



ACTION AGAINST HUNGER

JUST THE FACTS:

Payday Lending

What are payday loans?

Whether you call them “payday loans”, “deposit advance loans”, “micro-loans” or “extended short-term loans” – the legislation being proposed by advocates of these loans have a few things in common: *high fees, short loan terms, and predatory debt traps.*

Bad for the Economy:

Predatory loans **drain nearly \$1 billion a year in economic activity** in states where they are legal, resulting in a **net loss of more than 14,000 jobs.**¹

Households with access to payday lending are significantly more likely to use food stamps and become delinquent on child support payments.²

Predatory:

Payday loans are structured to be easily and quickly obtained. Lenders often use loose lending practices that do not take a borrower’s ability to repay into consideration when making a loan, but rather on the lender’s ability to access payment.⁶

Storefronts are usually placed in low-income neighborhoods.

Studies from Pew Charitable Trusts show that, despite the rhetoric of lenders, 95% of borrowers would be able to find other means and would not borrow online or elsewhere. **Borrowers have other options.**⁵

Debt Trap:

Because lenders collect full repayment automatically, the borrower may not be left with enough money for expenses such as rent or groceries – leading them to return to the lender and pay a fee for re-borrowing the money they just paid back to the lender.

Many borrowers are caught in a revolving door of debt where they could pay as much or more in fees as the loan amount they initially borrowed. **The average borrower pays \$458 in fees** (not including the loan principal) **and spends nearly 200 days in debt.**³

The Department of Defense found that even if a gap between consecutive loans of 3 business days or one week were in place, it would not prevent this cycle of debt.⁴

Loan Sharking:

The practice of lending money at exorbitant rates of interest – Merriam-Webster

With typical fees of \$15 per \$100 borrowed, a 14-day payday loan will carry a **390% annual percentage rate (APR) yield.**⁷

In addition, because loan agreements typically permit the lender to cash the borrower’s check or electronically debit their account to obtain repayment, **65% of consumers using deposit advances accrued overdraft or nonsufficient funds fees.**⁸

Pennsylvania should be proud that it already has one of the strongest payday lending laws in the country. Currently, all Pennsylvanians are protected against incredibly high interest loan rates.

Oppose current efforts in the PA Senate to legalize payday lending.

Contact your state senator and urge him/her to NOT cosponsor Sen. John Yudichak’s (D-14th) bill to legalize a new high-interest loan product called the “Pennsylvania Financial Services Credit Ladder”.

Sources:

¹Tim Lohrentz, The Insight Center for Community Economic Development. “The Net Economic Impact of Payday Lending in the U.S.” <http://bit.ly/Xer9Qu> The study finds that if consumers were bale to spend the \$3.3 billion in loan fees that were paid on goods and services, there would have been \$6.34 billion in economic activity, where payday lending only produced \$5.56 billion in economic activity. In addition, the study finds another \$159 million in economic losses due to an increase incidence of Chapter 13 bankruptcies.

²Brian T. Melzer, “Spillovers from Costly Credit” <http://qje.oxfordjournals.org/content/126/1/517.abstract>

³ “Consumer Financial Protection Bureau Study Finds Debt Trap Concerns With Payday And Deposit Advance Loans” http://files.consumerfinance.gov/f/201304_cfpb_payday-factsheet.pdf

⁴ U.S. Department of Defense, “Report on Predatory Lending Practices Directed at Members or the Armed Forces and Their Dependents.” http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf

⁵ Pew Charitable Trusts, “Who Borrows, Where They Borrow, and Why.” <http://www.pewstates.org/research/reports/who-borrows-where-they-borrow-and-why-85899405043>

⁶ “Consumer Financial Protection Bureau Study Finds Debt Trap Concerns With Payday And Deposit Advance Loans” http://files.consumerfinance.gov/f/201304_cfpb_payday-factsheet.pdf



⁷ “Consumer Financial Protection Bureau Study Finds Debt Trap Concerns With Payday And Deposit Advance Loans” http://files.consumerfinance.gov/f/201304_cfpb_payday-factsheet.pdf

⁸ Ibid



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