

# JustSouth QUARTERLY



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## Six Myths of Payday Lending

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In Shakespeare's *Hamlet*, Polonius instructs his son Laertes: "Neither a borrower nor lender be, for loan oft loses both itself and friend, and borrowing dulls the edge of husbandry." The wisdom in Shakespeare's time was that too often one would lose both money and friend through borrowing or lending. Even worse, borrowing or lending would dull one's ability to make a living (husbandry). Ultimately, Polonius instructs his son: "To thy own self be true."

Shakespeare's wisdom endures in the case of predatory payday lending. Although payday lenders advertise as if they were friends in your moment of need, payday loans throw most borrowers into a cycle of debt, dulling their ability to make a living.

The payday loan industry thrives upon a web of myths. In a recent letter to the *Baton Rouge Advocate*, the CEO of Community Financial Services of America (CFSA), a payday industry association,

claimed, "The truth is consumers across demographic lines (gender, race, income level) have a need for short-term credit, and payday loans are often the best option to meet that need."<sup>1</sup> There is truth in the fact that "credit has become so central to our lives that job applicants can now expect to have theirs checked as a proxy for responsibility and trustworthiness."<sup>2</sup>

However, contrary to the industry insinuation that everyone uses payday loans across all income levels, 68 percent of all payday loan borrowers have income below \$30,000.<sup>3</sup> Only 16 percent of all payday borrowers have incomes over \$40,000.

The industry digs deeper into half-truths for its second myth. A national survey by the CFSA reports that customers understand payday loan products, feel in control, express satisfaction with their lender, and want to make their own decisions, i.e., do not want government regulation of payday loans.<sup>4</sup>

In fact, the CFSA survey was scientifically flawed. CFSA only surveyed people who made their final payments and excluded people who are still repaying loans.<sup>5</sup> They surveyed less than 1 percent of CFSA customers, excluding more than 19 million payday loan borrowers nationwide.

A third myth the payday industry perpetuates is that Americans do not want government regulation of payday loans. In fact, according to a recent study by the AARP, the majority of Louisianians want state lawmakers to prohibit annual interest rates above 36 percent. Sixty percent of respondents to the AARP survey said lawmakers should prohibit APR (annual percentage rates) above 36 percent.

The AARP survey also found that 69 percent of Louisianians indicate APR of less than 30 percent should be the highest rate these lenders should be able to charge.<sup>6</sup>

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Nearly six in 10 Louisianans over age 18 indicate they would be more likely to vote for a state candidate who supports capping loans at 36 percent APR.

If one has ever seen or heard payday loan advertisements, one might easily and mistakenly believe payday lenders are charitable institutions. Securing a loan is so effortless one might easily overlook the loan's costs and feel like the product must be good.



The promises of advertising are, indeed, too good to be true. This fourth myth promotes the lie that payday loans benefit borrowers. Indeed, as the Consumer Financial Protection Bureau and the Center for Responsible Lending (CRL) find, payday lenders enjoy lending to the same borrowers over and over again.

CRL reports that repetition, or “churning,” of loans costs cash-strapped families 2.4 billion per year. Loans to non-repeat borrowers account for only two percent of payday loan volume.<sup>7</sup> The payday loan business model relies upon borrowers getting caught in a cycle of debt. That is predatory; that is usury.

A fifth myth is that payday loans are well-regulated in Louisiana. In fact, Louisiana law currently allows payday lenders to charge more than 400 percent for a two-week, \$350 loan. Payday lenders counter that they only charge 16.75 percent interest. However, if calculated by APR, the

standard measure of credit consumers use to compare different loans, payday lenders charge from 400 to 800 percent APR in Louisiana.

A sixth myth of payday loans is that borrowers do not have access to other forms of short-term credit. In fact, there are many alternatives to payday lending that are readily available to Louisiana residents. Many financial institutions, including banks and credit unions, offer responsible products to meet unexpected expenses.

Additionally, credit unions and other community service organizations offer credit counseling to establish a credit plan with creditors, request payment assistance from utility companies, or create a paycheck advance from their employer to help individuals make ends meet.

Catholic Charities and many other religious and social service agencies also provide multiple forms of assistance that help families address a full spectrum of needs in difficult times. Finally, if there really are no other options, it is far better

to ask for help from family and friends than to fall into the payday loan debt trap.

The fact is that Louisiana can do far better without predatory payday loans. Payday loans drained at least \$46 million from Louisiana in 2011 according to a rigorous study by the Insight Center for Community Economic Development.<sup>8</sup> Moreover, in states that enact strong legal protection against payday loans, only 5 percent of would-be borrowers choose to borrow from payday lenders online, while 95 percent choose not to use payday loans at all.<sup>9</sup>

Pope Francis condemned all forms of usury in his January 29, 2014, General Audience. At the end of his prepared comments, Pope Francis urged concern for the plight of workers and their families. The Pope said: “When a family has nothing to eat because of loan sharks, that is not Christian! It is inhuman! It is a dramatic social evil that wounds the inviolable dignity of the human person.”<sup>10</sup>

The wisdom of Catholic social teaching and Shakespeare endures. We need to cap APR on payday loans at 36 percent. That would be true to ourselves and the common good of Louisiana.

## ENDNOTES

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- 2 Shaila Dewan, “How Credit Card Debt Can Help the Poor,” the *New York Times*, February 11, 2014, available online at [www.nytimes.com/2014/02/16/magazine/how-credit-card-debt-can-help-the-poor.html?emc=eta1&r=0](http://www.nytimes.com/2014/02/16/magazine/how-credit-card-debt-can-help-the-poor.html?emc=eta1&r=0)
- 3 Consumer Financial Protection Bureau, “Payday Loans and Deposit Advance Products,” April 24, 2013, available online at [files.consumerfinance.gov/f/201304\\_cfpb\\_payday-dap-whitepaper.pdf](http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf)
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- 5 Harris Interactive, “Payday Loans and Borrower Experience,” see page 2, “Research Method and Presentation Notes,” available online at [cfsaa.com/Portals/0/Harris\\_Interactive/CFSA\\_HarrisPoll\\_SurveyResults.pdf](http://cfsaa.com/Portals/0/Harris_Interactive/CFSA_HarrisPoll_SurveyResults.pdf)
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- 7 Center for Responsible Lending, “The State of Lending: Payday Loans,” available online at [www.responsiblelending.org/state-of-lending/payday-loans/](http://www.responsiblelending.org/state-of-lending/payday-loans/)
- 8 Tim Lohrentz, “The Net Economic Impact of Payday Lending in the U.S.” Insight Center for Community Economic Development, March 2013, available online at [www.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf](http://www.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf)
- 9 The Pew Charitable Trusts, “Payday Lending in America: Who Borrows, Where They Borrow, and Why,” July 2012, available online at [www.pewstates.org/uploadedFiles/PCS\\_Assets/2012/Pew\\_Payday\\_Lending\\_Report.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Report.pdf)
- 10 Iacopo Scaramuzzi, “Francis: Usury is not human, it is a social evil,” *La Stampa* (Vatican City, January 29, 2014) online at [vaticaninsider.lastampa.it/en/the-vatican/detail/articolo/31630/](http://vaticaninsider.lastampa.it/en/the-vatican/detail/articolo/31630/)