



Protect Wyoming Children and Families from Payday Lenders

By Marc Homer, KIDS COUNT Coordinator/Policy Analyst

On days when your paycheck won't stretch quite far enough, the local payday loan office may look like the gate to short-term financial salvation, but actually it's more like a revolving door that can put you on a treadmill of never-ending debt. Payday loan offices are conveniently located, the application process is easy, the employees are friendly and helpful, they won't nose into your credit history, and taken at face value, the numbers don't look too frightening—oh yeah, and of course, the prospect of being able to pay your utilities or medical bills, repair your vehicle so you can get to work, or feed your family looks pretty good too when you're cash-strapped and feeling desperate.

Payday lenders market themselves as providers of short-term cash advances for one-time users dealing with short-term financial emergencies. A short term post-dated check loan is pitched as short-term credit that is to be repaid by the borrower upon receipt of his or her next paycheck. In reality, the payday lending industry relies on a business model that encourages chronic borrowing. What the data shows is that payday loans are designed to be renewed. Payday lenders make most of their profits by trapping borrowers in a cycle of revolving debt, collecting 90% of their revenue from borrowers who cannot pay off their loans when due. While 90% of borrowers took out 5 or more loans annually, 62% of payday loans were to borrowers who had 12 or more loans per year. While the average payday loan amount in Wyoming is \$325, the average annual percentage rate (APR) was 521 percent! The typical payday borrower ends up paying an average of \$855 in interest and fees to borrow \$255!

Posing as a friend in your neighborhood who is there to help struggling families get from paycheck to paycheck, the payday loan industry presents a problem nationwide. But what does this "friend" cost the public? Using a conservative methodology, the *Center for Responsible Lending* estimates that predatory payday lending costs American families \$4.2 billion in fees annually, with Wyoming's workforce accounting for \$10 million of that. These loans typically go to folks who are already up to their ears in debt. An Arkansas study took a look at what drives people to seek out payday loans. Eighty-two percent of focus group participants could not keep up with the monthly rent or utilities at the time they applied for these loans, 79% were receiving calls demanding money from creditors, 61% had credit card debt they could not pay off, 50% of participants had been denied a conventional loan because of bad credit, 67% applied because they had no other way to raise money to pay their debts, and 43% had filed for bankruptcy. Is it ethical or moral for our society to let scavengers lead the working poor deeper into financial quicksand, only to pick their bones clean?

The *Wyoming Department of Audit* has taken notice of this game of Three Card Monte that is being played out in payday lending offices across the state. In April of 2006, the Department sent a memo to post-dated check lending organizations (payday lenders) indicating a concern, "...we are seeing a trend where the amount financed in many loans is rising to alarming levels. The nature of a post-dated loan is short-term credit that is to be repaid by the borrower upon receipt of his/her next paycheck...Post-dated check loans in Wyoming were designed to provide small dollar, short-term financing for consumers who need a little extra to manage until their next paycheck."

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It's nice to state the obvious, but the payday lending industry is an avaricious creature that operates legitimately within the state, and its handlers are already familiar with their own business plan. This industry has grown 55% over 5 years, with \$25,682,256 loaned in the year 2000 to \$57,687,579 loaned in 2005. Payday loan shops continue to pop up in communities all over Wyoming, increasing from 43 to 77 in the same period.

The *Wyoming Bankers Association* supports legislation that would protect consumers against the abuses of the payday loan industry. Wyoming's lawmakers should stand up and take notice as well. Our legislative leaders can build equity in Wyoming by passing laws that protect hardworking families from "payday" lending practices. Without legislative action, the industry will continue unchecked in its practice of extracting impossibly high fees from the most vulnerable segment of society.

While fourteen states currently prohibit payday loans through small loan interest rate caps, usury laws, or specific prohibitions on check cashing, only three states prevent local companies from partnering with out-of-state lending institutions, a loophole that allows for the circumvention of prohibitions on payday lending. In 2004, the state whose motto is "Wisdom, Justice and Moderation", Georgia, enacted the strongest payday lending law to date. Wyoming should follow suit. Georgia's law was upheld in federal court in 2005. The Peach State's law caps small loans at 60 percent APR, hands down harsh penalties for violators of the state's lending and consumer protection laws, and prohibits non-bank lenders from partnering with out-of-state institutions.

Saying that a family may be vulnerable to the payday loan industry does not suggest that they are weak or unworthy of legislation that would protect their vital interests. Many of those serving in the US military have fallen prey to payday lenders. In fact, the Pentagon reported that payday lenders were targeting US servicemen and women, and military personnel were frequently losing security clearances due to resulting debt problems. In response to this problem, the US congress produced model legislation that the President signed into law. The law designed to protect military families puts a 36% annual rate cap for consumer loans made to military personnel, and it outlaws the taking of a security interest in a live check, thereby prohibiting payday lending.

As advocates for Wyoming's children and families, the *Wyoming Children's Action Alliance* supports policies designed to protect the average citizen from lending institutions that prey upon the working poor—more than 34% of Wyoming's children live in families that are poor, struggling to get by, or just barely making it. Research shows that children have a better chance for success when they are raised in families that own their own home and have stable financial assets. This coming year, Wyoming lawmakers of every political stripe should band together and take a stand to help the hardworking people of Wyoming secure a foothold on their climb toward financial independence.

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