Payday Lenders Bury Colorado Families in High-Cost Debt

Center for Responsible Lending

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Executive Summary

Six years after Colorado enacted a payday law reform bill in 2010, payday lenders in Colorado continue to trap their customers in long-term, high-cost debt. The promises of a quick-and-easy cash infusion draw consumers in, and the rapidly mounting costs keep them from getting out. This report uses data published by the Colorado Attorney General's Consumer Credit Unit (Demographical and Statistical report, 2016), other prior reports by the Center for Responsible Lending (CRL), and a recent CRL report on the disproportionate impact of payday lending on communities of color in Colorado. In our analysis, we find:

- **The average customer pays $367.29 to borrow $394.77**, paying in interest and fees almost the same amount as the principal borrowed.
- Long-term debt is driven by back-to-back transactions where the customer pays back the loan and re-borrows the same day – **accounting for 40% of payday lending in 2015.**
- **The average customer spends 299 days in debt** by taking an average of 3.3 loans in a 12-month period.
- **Payday lenders target communities of color.** Majority-minority neighborhoods are twice as likely to have a payday lending store in their community as in all other areas, and seven times more likely to have a store than white neighborhoods.

The Move towards Long-Term Loans

Each year, thousands of working families in Colorado get ensnared in high-cost debt to payday lenders.

The Colorado legislature took steps to address this problem in 2010 by enacting a payday reform law that lowered some of the costs the payday lenders were imposing on consumers. The law banned the typical two-week payday loan, and instead, required lenders to give borrowers at least six months to repay. The law has succeeded in lowering costs and easing some of the burden on cash-strapped customers. Nevertheless, payday loan customers continue to find themselves in on-going high-cost debt from which many find it difficult to escape.

Payday lenders in Colorado acknowledge that payday loans are "not intended for repeated use" and "not intended to be long-term." Yet these lenders violate these principles regularly. These violations are not merely occasional missteps; they constitute the majority of the payday loans made in Colorado.

The Back-to-Back Transaction Loophole

Six years after the Colorado payday reform law was enacted by the legislature, payday loans continue to trap moderate-income Coloradans in long-term, high-cost debt. According to the Demographic and Statistical report published by the Office of the Colorado Attorney General, on average, payday customers pay a staggering 117% annual percentage rate on their loans, and the average customer pays $367.29 to borrow $394.77.[1]

Table 1: Average Cost of a Payday Loan in Colorado

Average payday loan principal	$394.77
Average actual loan term	90.1 days
Average interest and fees	$367.29
Total payback	$762.06
Annual percentage interest rate	117%

Colorado law contains protections designed to keep customers from spending extended time in payday debt. It is illegal for payday lenders to renew a loan more than once—and the law requires the lender to lower the cost of the loan to 45% annual percentage rate upon renewal. But lenders have found a way to skirt the law. Rather than renew a loan, payday lenders have the customer pay off the existing loan and immediately take out a new one.

This practice is so widespread in the payday lending industry that almost 40% of payday loans in Colorado in 2015 were back-to-back transactions where the customer pays off the original loan and immediately takes out a new loan the same day.[2] For loans between $400 and $500—which is the most common loan size—almost 50% of the loans were same-day back-to-back transactions.[3]

Table 2: Back-to-Back Transactions Indicating Repeat Borrowing

All CO payday loans	40% back-to-back transactions
Loans from $400 to $500	50% back-to-back transactions

As a result of these back-to-back transactions and other re-borrowing, Colorado payday customers spend, on average, 299 days per year in payday debt. In 2015, the average customer took out almost 3.3 loans in the prior 12 months. This represents a worsening of payday lending practices in Colorado from what they were in 2012—re-borrowing has increased by 12.7 percent since that year. Almost 15% of loans in 2015 went to customers who were in payday debt **every single day** for the prior 12 months.

These loans are not just expensive; they derail the financial stability of Colorado working families. Customers who get a payday loan are **more likely to file for bankruptcy** than customers who were **turned down** for a payday loan.[4] Similarly, they are **more likely to incur over-draft fees**, insufficient fund fees and, consequently, bank account closures.

Communities of Color and the Economy

Prior research by CRL found correlations between payday store addresses and neighborhoods with higher percentages of communities of color, specifically African-American and Latino neighborhoods in the states of North Carolina,[5] California,[6] and Florida.[7] Research CRL just completed in the state of Colorado found a similar result: payday stores are more likely to be located in a majority-minority neighborhood.[8]

The research shows that payday lending storefronts tend to locate in communities of color. Majority-minority areas, that is, areas where African-Americans or Latinos make up more than 50% of the inhabitants, were twice as likely to have a payday store than other areas, and seven times more likely to have a store than white neighborhoods with similar factors.[9]

Not only do payday lenders disproportionately locate in communities of color, they also go after low-income individuals that are already trying their best to stay afloat. Recent data by the Colorado Attorney General showed that a payday customers' income is, on average, $2,833 a month, with over half of the customers earning less than $2,500[10]. These numbers are gross income, before taxes and other deductions are considered; actual take home pay is less. At this income level the costs of payday loans are particularly difficult to bear.

But low-income individuals and communities of color are not the only ones harmed by payday lending. The payday loan industry drains money from households, producing negative ripple effects throughout the economy. A 2013 study by the Insight Center for Community Development (commissioned by CRL), attempted to quantify these effects. The study notes that "the money payday lending interest payments take out of households…also takes away from the ability to pay for household expenses like rent, transportation, health care, food, etc." [11] This loss of economic opportunity drains local economies. In Colorado, the study estimates the payday lending industry had a $12.6 million negative impact on the state economy in the year 2011, resulting in an estimated loss of 184 jobs that year.[12]

It is time for Colorado to stop the payday debt trap. Fifteen states and the District of Columbia have eliminated payday lending by capping interest rates at 36% or less for small dollar loans. Colorado should do the same.

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[1] State of Colorado, Department of Law, 2015 Deferred Deposit/Payday Lenders Annual Report, https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2015_ddl_composite.pdf

[2] State of Colorado Attorney General, *Colorado Payday Lending – Demographic and Statistical Information: July 2000 Through December 2015*, Colorado Consumer Credit Unit, Page 24. https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/DemoStatsInfo/ddlasummary2000-2015.pdf

[3] Id.

[4] Skiba, P. and Tobacman, J., *Do Payday Loans Cause Bankruptcy?*, March 2015. http://assets.wharton.upenn.edu/~tobacman/papers/rd.pdf

[5] King, Uriah, Wei Li, Delvin Davis, and Keith Ernst, *Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina*, Center for Responsible Lending, Mar 2005.

[6] Li, Wei, Leslie Parrish, Keith Ernst, and Delvin Davis, *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California*, Center for Responsible Lending, Mar 2009.

[7] Coleman, Brandon, and Delvin Davis, *Perfect Storm: Payday Lenders Harm Florida Consumers Despite State Law*, Center for Responsible Lending, Mar 2016.

[8] Davis, Delvin, *Mile High: Payday Stores Target Colorado Communities of Color*, Center for Responsible Lending, August 2017.

[9] Id.

[10] State of Colorado Attorney General, *Colorado Payday Lending – Demographic and Statistical Information: July 2000 Through December 2015*, Colorado Consumer Credit Unit. Page 8.

[11] Lohrentz, Tim, *The Net Economic Impact of Payday Lending in the U.S.*, Insight Center for Community Economic Development, March 2013 at 6, available at http://ww1.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf

[12] Id. at 10.