Testimony of Uriah King, Center for Responsible Lending
before the Ohio Senate
Finance and Financial Institutions Committee
May 7, 2008

Chair Carey, Ranking Member Cafaro, and members of the Committee, thank you for holding this hearing and inviting me to speak about payday lending.

The Center for Responsible Lending (www.responsiblelending.org) is a nonprofit, nonpartisan research and policy organization which is dedicated to protecting homeownership and family assets by working to eliminate abusive financial practices. We strive to promote responsible lending and access to fair terms of credit for low-wealth families. CRL is an affiliate of Self-Help Credit Union, which is one of the nation's largest community development financial institutions with a mission of helping underserved people and communities build wealth and assets.

Payday loans have come to our attention because, although the dollar amount of each loan is relatively small, their impact on low- and moderate-income borrowers is quite significant. Today I will share with you what we've learned about how payday lending fails to help cash-strapped borrowers through a tight spot, but rather engages them in a system which strips money from their paychecks repeatedly.

I will also discuss the challenges other states have had in addressing the problem and how a dozen states protect their citizens from predatory lending by keeping payday lenders under a 36 percent interest cap (or thereabouts) that applies to all small loan products. Congress has also implemented this 36 percent cap for loans to military families after the Pentagon reported the threat to military readiness posed by payday lending.

Payday loans are a somewhat unique loan product, in that a customer needs only identification, a checking account, and proof of income from a job or government benefits such as Social Security or Temporary Assistance to Needy Families (TANF). Payday lenders do not require the borrower to disclose debts or other obligations that would allow the lender to fully assess the borrower's ability to repay the loan, nor is the borrower's credit history taken into account. The borrower provides the lender with a personal check for the amount of cash they are receiving that day plus the fee. For the average $325 loan, a check might be written for $377 (the $325 principal plus a $52 fee). The lender promises not to cash the check until the loan comes due, usually on their next payday.

The day the loan comes due the borrower can return to pay it off or simply allow the lender to cash the check. But if the borrower cannot pay back his or her payday loan and get by until the next paycheck, which is frequently the case, the borrower must renew the loan, paying an additional $52 fee to extend the loan another two weeks. In states like Ohio, where renewals are not allowed, borrowers pay off the loan in full and can then take out another payday loan either immediately or within a few days, commonly called a back-to-back transaction. Either way, the cost to the borrower is the same, and since more

fees are collected each payday with no reduction in the principal, it gets evermore difficult for the borrower to pay off the loan.

A Brief History of the Payday Lending Industry

Ohio was one of the first states to be populated by payday lending storefronts as they begin appearing in the mid- to late-1990s, but the practice has its roots in the long-illegal practice of "wage lending" or "salary buying," in the late 1800s.

In those days, wage lenders would lend money in exchange for the borrower relinquishing their right to collect a certain portion of their future wages. A typical borrower might receive $5 on a Monday in return for promising to pay the lender back $6 on Friday.[1] This 20 percent fee on a one-week loan translated to triple-digit annual interest rates well in excess of states' interest rate caps on small loans.

Wage buyers argued that they were not subject to these caps because they were purchasing future wages at a discount in return for the immediate "sale" of the borrower's next paycheck – in other words, charging a fee for a service as opposed to originating a loan. Similar to today's payday borrowers, workers assigning their future wages often could not pay back the entire loan amount when due, and instead had to roll over their debt repeatedly.

States put an end to these lending practices in the early and mid 1900s by enacting strong regulations for small loans with interest rate caps ranging from 24 to 42 percent. These usury caps largely remain in place for consumer lending, with a median rate of 36 percent among all states.[2]

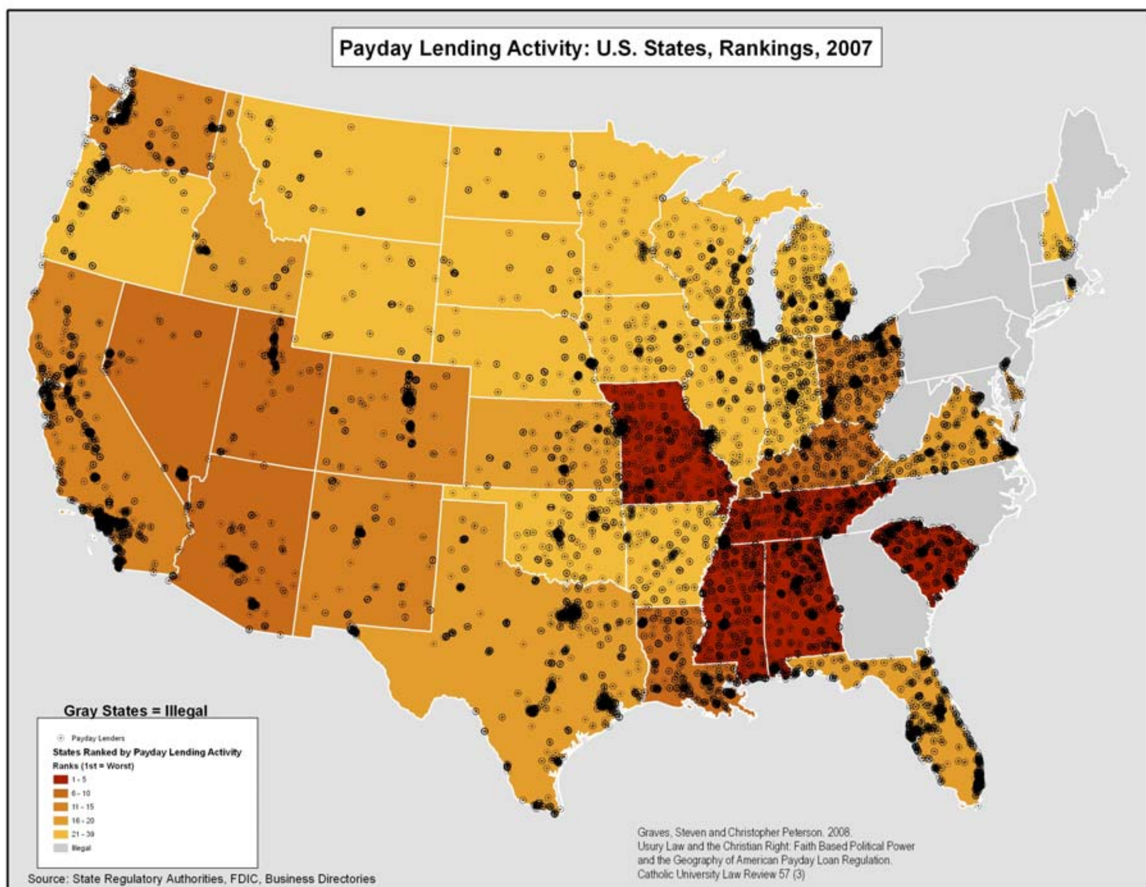
Payday Lending Today

Like their predecessors a century ago, payday lenders argue state interest rate caps on small loan products should not apply to them. In many states, including Ohio, payday lenders have received special exemptions that allow them to charge about 400 percent APR.

Our 2006 *Financial Quicksand* report estimated that there are nearly 25,000 payday lending storefronts across the country. In 2005, payday lenders made over $28 billion in loans and collected approximately $4.6 billion in fees from borrowers. Though the payday industry claims this shows high demand for their product; this argument does not bear out. Borrowers go to payday lenders the first time out of desperation for cash. Thereafter, they go back because they cannot afford to retire this original debt for good. Ninety percent of fees (or $4.2 billion) were collected from borrowers trapped in debt—those borrowers with five or more transactions a year.

The average cost nationally for a payday loan is $16 per $100 every two weeks, which equates to an APR of about 400 percent. Payday lenders often dismiss the importance of quoting an annual percentage rate on a two-week loan; however, the Federal Reserve requires all loan products regardless of their term to make this disclosure to allow consumers a way to comparison shop among credit options. For example, APR allows borrowers to directly compare the costs of a two-week payday loan, a credit card cash advance, and a six-month installment loan on an apples-to-apples basis.

Payday loans are widely available in the 37 states where payday lenders are permitted to charge triple-digit interest rates.[3] In twelve states and the District of Columbia, where more reasonable interest rate caps in the range of 36 percent apply to all small loans, lenders have chosen not to offer payday loans. In addition, a recent federal law prohibits payday lenders from offering small loans to all active-duty military families at rates above 36 percent APR.[4]



The Problem with Payday Lending

Payday loans are marketed as short-term, two-week loans for an occasional unexpected expense. The industry says that the borrower simply takes out a loan at around $16 per $100 borrowed, pays it back with their next paycheck, and is free of payday loan debt.

Unfortunately, payday lending only works this way about two percent of the time. State regulator data indicates that only one to two percent of transactions are made to borrowers who take out one loan, pay it off on time, and do not need to borrow again that year.[5] The high price of a payday loan and the fact that it must be paid off in one lump sum two short weeks later virtually ensures that cash-strapped borrowers will be unable to meet their basic expenses and pay off their loan with a single paycheck. Consequently, they are forced to flip the loan over and over.

The table below illustrates how a payday borrower earning $35,000 a year would be hard pressed to pay back the typical $325 loan, plus its $52 fee, in just one pay period. Instead, if this borrower pays back his payday loan the day he is paid, he will most likely need to take out another payday loan before his next paycheck two weeks later. This is the beginning of the debt trap cycle.

Income and Taxes	
Annual income before taxes	$35,000
Income per 2-week period	$1,346
Minus taxes	$25
Minus Social Security/pension contributions	$95
Net Paycheck	$1,227
Household Expenditures over 2 weeks	
Food	$175
Housing (including utilities)	$459
Transportation	$238
Healthcare	$91
Total Expenditures	$962
Amount Remaining from paycheck after expenditures ($1227-$962)	$265
Amount due to repay a $325 payday loan plus $52 fee ($377 total)	$377
Pay period deficit	**-$112**

Source: Expenditure data from the Bureau of Labor Statistics, 2005 Consumer Expenditure Survey

Borrowers remain trapped in this cycle of continually paying back and originating new payday loans for months or even years. The average payday borrower has over eight payday loan transactions every year[6] and an industry researcher recently noted that the typical borrower uses payday loans for 18 to 24 months.[7] Between a third to one half of all borrowers ultimately cannot afford to continue paying on their payday loans and end up in default.[8]

This cycle can have a devastating impact on the financial status of borrowers who are, by definition, already living paycheck-to-paycheck. Recent academic research find that borrowers approved for a payday loan are 90 percent more likely to file bankruptcy than those denied a loan.[9]

The payday lending business model depends on trapping borrowers in loans. Regulators report that 90 percent of business is generated by borrowers with five or more transactions per year, even in states that have attempted to reform the practice. In addition, over 60 percent of business is generated by borrowers with 12 or more transactions per year. In other words, over half of payday lenders' revenues are derived from borrowers taking out at least one loan every month.

	Loans to borrowers with five or more transactions per year	Loans to borrowers with 12 or more transactions per year
Colorado[10]	Not Available	65%
Florida[11]	89%	58%
Michigan[12]*	94%	77%
Oklahoma[13]	91%	64%
Washington State[14]	89%	56%
Average	**90%**	**61%**

*Michigan figures are for a 13-month period and are not included in the average

Reforms to Address the Debt Trap Have Failed

Seeking to strike a compromise with state legislators who want to protect their constituents from the negative effects of payday loans, the payday lending industry has agreed to a variety of regulations that appear to rein in abuses. However, data from state regulator reports demonstrate that industry-supported protections do not stop the central problem of payday loans: the debt trap.

Since payday lenders are dependent on trapped borrowers for their business model to be profitable, it reasonably follows that any regulations that garner industry support would leave the debt trap intact. The section below provides a few examples of industry-supported protections enacted in several states, and describes why they do not end the debt trap.

Renewal bans and cooling-off periods

Almost every state allowing payday lending has some sort of restriction on the renewal of payday loans. Twenty states—including Ohio—ban all renewals and others allow only one to six renewals of the original loan.[15] Only five states—Kansas, Nevada, Texas, Utah, and Wisconsin—allow unlimited renewals. Many policymakers enact renewal bans to address concerns that these ostensibly short-term loans are repeatedly rolled over into long-term debt.

Payday lenders routinely circumvent the intent of renewal bans by having borrowers pay off their loan and immediately take out another; this process is termed a "back-to-back" transaction. Because these types of transactions technically do involve paying off the loan—if only for a moment before a new loan is originated—they are not considered renewals.

Some states have sought to enforce renewal ban provisions with a “cooling-off” period of a business day or two between loans.[16] In some states, this cooling-off period is enforced between each loan, but in others it is only activated once the borrower takes out a certain number of consecutive loans. This type of provision merely delays the inevitable as borrowers must still take out another payday loan to make it through the pay period. Rather than taking out a new payday loan on the same trip to the payday lending store in which the borrower paid the previous loan off, they simply pay off their current loan and come back to the same payday lender in a day or two to take out a new one.

Regulator data from Florida and Oklahoma—two states with both of these measures—shows their lack of effectiveness. Nearly half (45 percent) of repeat payday transactions in Florida occur as soon as the 24-hour cooling-off period expires, and 88 percent of these are originated before the typical borrower receives their next paycheck.[17] Data from Oklahoma reveals a similar trend with 87 percent of loans taken out during the same pay period that a previous loan is paid off.[18] So, while a brief pause in lending does occur, the borrower is still flipped into another loan and continues to be in long-term debt.

Percent of loans made during the same pay period as previous loan is paid off

	Florida[19]	Oklahoma[20]
Within one day	45%	59%
Within one week	79%	79%
Within the same two-week pay period	88%	87%

The experiences in Florida and Oklahoma are similar to data from the nation’s largest lender, Advance America, which shows 46.5 percent of transactions were originated on the same date as a previous loan was paid off.[21]

Payment plans

Some state laws provide payday borrowers with an option to request an extended payment plan.[22] These payment plan provisions generally require the borrower to be in debt to a payday lender for a certain period of time or to be in default to be eligible. In some states, there is an additional fee associated with entering into the plan and the borrower is barred from taking additional loans while the payment plan is in effect. There may also be a cooling-off period once the payday loan debt is fully repaid. Usually, borrowers must formally request the payment plan in advance of the loan’s due date.

Lenders have little incentive to cast these plans in a positive light to borrowers, because they make less money if the borrower enters a payment plan, rather than continuing to take a new loan each pay period. Specifically, one state regulator reports that lenders have tweaked their product slightly after implementation of a payment plan measure so that borrowers do not become eligible for the plan.[23] In addition, borrowers must take the initiative (often before the day their loan is due) to enter into a payment plan since the option is voluntary, not automatic. These are likely explanations for the extremely low usage of payment plans, which is detailed in the table below.

	% of Eligible Transactions Employing Payment Plan/Grace Period	Payment Plans as % of Total Transactions
Florida[24]	0.42%	0.42%
Michigan[25]	2.42%	1.33%
Oklahoma[26]	1.84%	1.14%
Washington State[27]	Not Available	1.20%

Caps on loan size based on borrower's income

Nearly anyone with a checking account and a source of income can qualify for a payday loan, but a few states[28] have enacted limited "ability to repay" measures that aim to prevent borrowers from getting more money than they can afford to pay back. Even in these states, however, key elements in determining a borrower's true ability to repay are absent. These state measures do not require the lender to take into account the borrower's other obligations, such as a mortgage or rental payment, car loan, or minimum credit card payments. Without knowing the extent of a borrower's other expenses, it is impossible to truly assess their ability to repay the loan.

These regulations generally limit the total amount of payday loan debt to 20-25 percent of the borrower's gross (pre-tax) monthly income. However, the way this is structured causes additional problems. First, the average payday loan borrower takes out a payday loan for two weeks, rather than a month. This means that only half of their monthly income is available to pay back the loan. In addition, these provisions only consider pre-tax income. Therefore, even in states with ability to repay provisions, payday borrowers have a very hard time paying back a payday loan without taking out another a short time later.

Databases

A handful of states that require renewal bans, cooling-off periods, payment plans, or caps on loan size based on income enforce these provisions through a live database that tracks every payday transaction conducted in the state. States such as Florida and Oklahoma have had a centralized database tracking system for several years, with Michigan, Illinois, and North Dakota implementing systems more recently.[29] While these centralized, real-time database systems are necessary to enforce certain regulations, they do not reduce the risks of high-cost, long-term debt that payday loans pose for borrowers. This is because they merely enforce ineffective provisions. Analysis of the data from state regulators shows that borrowers in states with various combinations of these provisions remained trapped.

Experiences from States without Payday Lending

Nearly a quarter of the U.S. population lives in a state without triple-digit interest payday loans.[30] Some of these states never had payday lending, while payday loans were available in others for several years.

North Carolina is one example of a state which once had many payday lending locations charging triple-digit rates because of an exemption to its 36 percent rate cap. After four years, the legislature declined to keep this exemption in place, and—faced with the prospect of having to charge no more than 36 percent annual interest—payday lenders chose to no longer offer their product. In their place, other financial institutions offering small loans at 36 percent or less have flourished.

One institution that stepped in to fill any void that may have existed in North Carolina's small loan market was the consumer finance companies. From 2002-2006, the number of consumer finance loans made for $600 or less has increased by 37 percent.

	Number of Loans, $600 or Less
2002	23,768
2003	23,667
2004	24,412
2005	29,400
2006	32,586
Percent Change (2002-2006)	**37%**

Source: North Carolina Commissioner of Banks

Credit unions have also developed small loan products for those who once took out payday loans. The largest credit union in the state—the North Carolina State Employees Credit Union (NCSECU)—created an alternative payday loan product at 12 percent APR with no additional fees. The Salary Advance Loan also includes a savings feature where borrowers must put five percent of the loan amount into a savings account to help them weather financial emergencies in the future without needing additional credit. Not only has this product saved borrowers $33.6 million annually in excessive interest charges, between 2003 and June 30, 2006, the savings component generated $9.7 million in new savings for its estimated 53,000 salary advance borrowers.[31]

A recent study conducted by the University of North Carolina for the North Carolina Commissioner of Banks found that people use a myriad of credit and other options for dealing with financial crises. These include credit products such as credit card cash advances and consumer finance loans; informal loans and other assistance from a friend, employer or family member; as well as non-loan options such as putting off a purchase for a few days or negotiating with creditors.[32] This notion that a variety of options exist is also confirmed in surveys conducted for the payday lending industry. In a 2001 study conducted by the Credit Research Center (then at Georgetown University), only 6.4 percent of payday loan borrowers stated that they had no other alternative to a payday loan.[33] Similarly, in a 2004 survey conducted by Cypress Research Group, just nine percent of borrowers noted that they chose a payday loan because they had no other alternatives.[34]

Other states once home to payday lenders have had similar experiences. For example, Georgia also has a vibrant consumer finance market, with nearly 1,000 storefronts (the majority of which are locally-owned) making over 600,000 loans of $600 or less each year.

	Loans of $600 or less	$600-1000 Loans	Total Loans of $1000 or less
Number	657,422	279,382	936,804
Volume	$247,046,988	$225,938,650	$472,985,638

Source: Georgia Industrial Loan Commissioner

Finally, in Pennsylvania, the State Treasurer has taken an active role in spurring responsible small loans offered by credit unions by keeping state funds on deposit at these institutions. In just the first year, over 50 credit unions are participating in this initiative, and have made over 1,600 loans.[35]

Springing the Debt Trap with a 36% Cap

In states that have regulated aspects of payday lending while allowing triple-digit interest rates, regulator data shows that borrowers continue to be trapped in debt. The only proven way to ensure consumers have access to more affordable credit without abusive features is to enforce a comprehensive rate cap on all small loans products in the range of 36 percent.

The negative effects of long-term payday loan debt on borrowers has served as an impetus for several states to decide not to allow payday lenders to charge triple-digit rates, even if that decision means that payday loans will no longer be offered in their state. North Carolina was one of the first states that decided, after finding that payday lenders were doing its residents more harm than good, to allow the exemption to expire that payday lenders enjoyed from the state's 36 percent interest rate cap. Other states, such as Georgia and Pennsylvania reached similar conclusions. Most recently, Oregon and the District of Columbia have implemented comprehensive rate caps which have led payday lenders to leave those states. The New Hampshire legislature passed a rate cap this session, and in Arkansas, the Attorney General is taking legal action to enforce the 18 percent interest rate cap in the state's constitution. These states join eight others which never authorized payday lending, or never granted payday lenders an exemption from their small loan rate cap.

Experiences from states without payday lending show that there are a variety of reasonably-priced credit products, as well as non-credit options available to people experiencing a financial shortfall. Therefore, the real result of payday loans no longer being offered at triple-digit rates is that people save money. In our recent *Springing the Debt Trap* report, CRL estimates that citizens of the 12 states and the District of Columbia which do not have payday lending save nearly $1.5 billion each year in fees that would have gone to pay for repeated payday loan borrowing.

Momentum has gathered at the federal level to rein in abusive small loans as well. The Department of Defense found that soldiers were getting so deep into payday loan debt that it was causing them to lose security clearances and threatening deployment schedules overseas. Congress responded to these concerns by passing a law which prevents active-duty military families across the country from being charged more than 36 percent annual interest on payday loans.

Upon passage of the Military Loan Act, the FDIC quickly followed suit, actively encouraging banks under its purview to craft and market small loan products at 36 percent or less to the general population.

Conclusion

While payday loans are marketed as short-term loans to address financial shortfalls between paychecks, they typically end up trapping borrowers in a cycle of long-term debt. Because payday loans are offered at triple-digit APRs, with the entire amount due in two short weeks, borrowers who pay back their loan are often unable meet their other obligations without taking out a new payday loan during the same pay period. This is the start of the debt trap, which can leave borrowers indebted to payday lenders for several months or years. Many states have tried to address this problematic cycle of debt through provisions such as renewal bans, cooling-off periods, caps on the size of loans based on the borrower's income, payment plans, and databases. However, because lenders depend on repeat borrowers for the vast majority of revenues, they have found ways to evade the intention of these laws.

Twelve states and the District of Columbia have taken a different approach—applying a two-digit interest rate cap to all small loan products. While payday lenders have chosen not to offer their product in these states, residents instead access lower-cost, responsible credit products.

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[1] Christopher Peterson, *Taming the Sharks: Towards a Cure for the High Cost Credit Market*. University of Akron Press (2004).
[2] For a comprehensive discussion on the history of usury laws in the United States and their impact on small loans, see Christopher L. Peterson, *Usury Law, Payday Loans, and Statutory Sleight of Hand: Salience Distortion in American Credit Pricing Limits*, Minnesota Law Review (forthcoming Winter 2008) and Lynn Drysdale & Kathleen Keest, *The Two-Tiered Consumer Financial Services Marketplace: The Fringe Banking System and its Challenge to Current Thinking About the Role of Usury Laws in Today's Society* (2000).
[3] Payday loans with triple-digit interest rates are not offered in Connecticut, the District of Columbia, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Vermont, and West Virginia. In many states, payday lenders have been granted an exemption from existing small interest rate caps. In others—including Delaware, Illinois, New Hampshire, New Mexico, Wisconsin, and Utah—there is not an interest rate cap on small loans.
[4] The Military Lending Act, which caps interest rates on small loans of 91 days or less to active duty military and their dependents was part of the John Warner National Defense Authorization Act for Fiscal Year 2007 signed into law in October 2006. The interest rate cap took effect October 1, 2007.
[5] See Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (December 2007). Depending on the state, one to two percent of all transactions go to borrowers who take out one loan, pay it off, and do not have another payday loan transaction for the remainder of the year.

[6] See Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (December 2007). The average payday borrower takes out 8.7 payday loans per year. This is likely a conservative estimate, as many states do not account for borrowers receiving loans from more than one payday lender.
[7] In testimony to the Ohio House Committee on Financial Institutions, Real Estate and Securities, January 31, 2008, Pat Cirillo of Cypress Research noted that borrowers tend to remain in payday loans for 18 to 24 months.
[8] Using transaction data from one of the largest payday lenders in Texas, Paige Skiba and Jeremy Tobacman estimate default rates on payday loans per borrower. See *Do Payday Loans Cause Bankruptcy?* and *Payday Loans, Uncertainty, and Discounting: Explaining Patterns of Borrowing, Repayment, and Default*. Papers available at http://www.law.vanderbilt.edu/faculty/faculty-personal-sites/paigeskiba/index.aspx.
[9] Ibid.
[10] *Payday Lending Demographic and Statistical Information, July 2000 through December 2006*, Administrator of the Colorado Uniform Consumer Credit Code. (March 8, 2007). Available at http://www.ago.state.co.us/UCCC/PDF/ddlasummary2006.pdf.
[11] *Florida Trends in Deferred Presentment*, Prepared by Veritec Solutions LLC for the Florida Department of Banking and Finance. (August 2007). Available at http://www.veritecs.com/FL_trends_aug_2007.pdf.
[12] *Michigan Trends in Deferred Presentment*, Prepared by Veritec Solutions LLC for the Michigan Office of Financial and Insurance Services (July 31, 2007). Available at http://www.michigan.gov/documents/cis/OFIS_DPST_REPORT_204749_7.pdf.
[13] *Oklahoma Trends in Deferred Deposit Lending*, Prepared by Veritec Solutions LLC for the Oklahoma Department of Consumer Credit. (May 2007). Available at http://www.veritecs.com/OK_Trends_05_2007.pdf.
[14] Data is based on reporting from 92% of the industry. See *2006 Payday Lending Report*. Washington State Department of Financial Institutions (2007). Available at http://www.dfi.wa.gov/cs/pdf/2006_payday_report.pdf. Regulator data from Washington State assumes that borrowers only take loans from a single lender. An industry survey conducted by the Georgetown Credit Research Center concludes that the average payday borrower visits 1.7 lenders. CRL has applied a multiplier to account this; for methodology see Appendix 1 of *Financial Quicksand*, available at http://www.responsiblelending.org/pdfs/rr012-Financial_Quicksand-1106.pdf.
[15] States' renewal policies are as follows:
Renewal ban: Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Minnesota, Montana, Nebraska, New Hampshire, New Mexico, Ohio, Oklahoma, South Carolina, Tennessee, Virginia, Washington, and Wyoming
One renewal allowed: Alabama, Colorado, North Dakota, and Rhode Island
Two renewals allowed: Alaska
Three renewals allowed: Arizona, Idaho
Four renewals allowed: Delaware, South Dakota
Six renewals allowed: Missouri
Kansas, Nevada, Texas, Utah, and Wisconsin do not have limits on renewals. In Texas, payday lenders do not follow the statutes which apply to payday lending, but rather operate under the Credit Services Organization (CSO) model, which does not have limitations on renewals.
[16] States with cooling off provisions include Alabama, Florida, Illinois, Indiana, North Dakota, Ohio, and Oklahoma.
[17] Response to public records request of Florida data collected by Veritec, provided by the Florida Office of Financial Institutions and Securities Regulation on June 16, 2003, on file with CRL.
[18] Response to public records request of Oklahoma data collected by Veritec, provided by the Oklahoma Department of Consumer Credit on August 29, 2007, on file with CRL.
[19] Response to public records request, of Florida data collected by Veritec, provided by the Florida Office of Financial Institutions and Securities Regulation on June 16, 2003, on file with CRL.
[20] Response to public records request of Oklahoma data collected by Veritec, provided by the Oklahoma Department of Consumer Credit on August 29, 2007, on file with CRL.
[21] Advance America Prospectus. December 17, 2004, pg 37-38. 42.3 percent of transactions were consecutive transactions defined as loans entered into on the same day as a previous payday loan was paid

and 4.2 percent were direct renewals, defined as simple extensions of an outstanding payday loan by paying only the applicable finance charge.

[22] States with payment plan provisions include Alabama, Alaska, Colorado, Florida, Illinois, Indiana, Michigan, Nevada, New Mexico, Oklahoma, and Washington State.

[23] For example, borrowers are eligible for Colorado's payment plan after taking out four consecutive loans (defined as loans taken within five days after a previous loan is repaid). The state regulator office reports that lenders have made their borrowers ineligible for payment plans in the following ways: (1) requiring at least a six day cooling off period after the third consecutive loan, (2) offering an interest free loan after the third consecutive loan (loans without finance charges do not count towards payment plan eligibility under the law), and (3) refusing origination of a 4th consecutive loan, which would presumably drive borrowers to another payday lender. See *Springing the Debt Trap* by the Center for Responsible Lending for more details.

[24] *Florida Trends in Deferred Presentment*, Prepared by Veritec Solutions LLC for the Florida Department of Banking and Finance. (August 2007). Available at http://www.veritecs.com/FL_trends_aug_2007.pdf. Payday borrowers in Florida may request a 60 day grace period the day before their loan is due and must make an appointment with a credit counselor within 7 days.

[25] *Michigan Trends in Deferred Presentment*, Prepared by Veritec Solutions LLC for the Michigan Office of Financial and Insurance Services (July 31, 2007). Available at http://www.michigan.gov/documents/cis/OFIS_DPST_REPORT_204749_7.pdf. Payday borrowers are eligible for a payment plan in Michigan after eight transactions over a 12 month period. The lender may charge a $15 set up fee. The borrower can then pay back their debt over three installments.

[26] *Oklahoma Trends in Deferred Deposit Lending*, Prepared by Veritec Solutions LLC for the Oklahoma Department of Consumer Credit. (May 2007). Available at http://www.veritecs.com/OK_Trends_05_2007.pdf.. Payday borrowers may request a payment plan in Oklahoma prior to the due date of their 3rd, 4th, or 5th consecutive loans. The lender may charge a fee of 10% or $15, whichever is less. The borrower then pays back their debt over the next four paydays in equal installments and must wait 15 days after paying the loan off before taking out a new payday loan.

[27] Data is based on reporting from 92% of the industry. See *2006 Payday Lending Report*. Washington State Department of Financial Institutions (2007). Available at http://www.dfi.wa.gov/cs/pdf/2006_payday_report.pdf. Payday borrowers in Washington State are eligible for a payment plan after taking out four successive loans and before the default of the last loan. Lenders may charge a one-time fee of up to 15 percent of the first $500 of principal owed and 10% of the remaining principal balance. Borrowers are given at least 60 days to pay back their debt in three or more installment payments.

[28] States with limits on loan size based on the borrower's income include Illinois, Indiana, Montana, New Mexico, and Nevada.

[29] Note that other states—such as Alabama and Indiana--have multiple databases, which do not talk to each other, New Mexico's new law calls for a database but it has not yet been implemented.

[30] Payday loans with triple-digit interest rates are not offered in Connecticut, the District of Columbia, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Vermont, and West Virginia.

[31] For savings to borrowers due to the Salary Advance Loan product's low interest rate see http://www.ncsecu.org/PDF/Press/022206_SalaryAdvance.pdf. For the total deposits by borrowers into share accounts through the savings component of the Salary Advance Loan, see *State Employees Credit Union 2006 Annual Report*, available at http://www.ncsecu.org/Resources/Publications/PDF/Annual/2006.pdf.

[32] *North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options*, University of North Carolina Center for Community Capitalism, November 2007.

[33] G. Elliehausen & E.C. Lawrence, *Payday Advance Credit in America: An Analysis of Consumer Demand*, (Monograph 25), Georgetown University, McDonough School of Business, Credit Research Center (2001)

[34] *Payday Advance Customer Satisfaction Survey*, Cypress Research Group (May 2004).

[35] Moed, Joyce. CUs Save Pennsylvanians More the $600K with Alternatives to Payday Loan Program, *The Credit Union Journal*. September 10, 2007.