Payday Lending and the Debt Trap in California

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Payday lending—the provision of 459% APR loans to cash-strapped borrowers—drains more than $450 million from California's pockets every year.

Payday lending requires borrowers to supply a post-dated check as collateral and typically only their identification and proof of income to obtain a loan at nearly 459% APR. These loans are marketed as "emergency" loans for borrowers who are having a tough time between paychecks, and the industry claims that they are not for repeated use. Yet, women living paycheck to paycheck can't afford to pay back the full amount of their payday loans and cover other necessary expenses. **The payday business model almost requires chronic borrowing, and in the process strips wealth from California's most vulnerable populations.**

According to the Department of Corporations, nearly 75% of borrowers have incomes of less than $50,000 per year, and more than 1 in 10 payday borrowers cite government assistance as their source of regular income. Additionally, while less than five percent of payday loan-eligible adults in California are African American, they make up 18.7 percent of all payday borrowers. Similarly, 25.6 percent of payday loan-eligible adults are Latino, but they represent about 37 percent of payday borrowers.

The Payday Lending Debt Trap

Income and Taxes	
Income before tax	$30,000
Income per 2 week period	1250
Taxes	228
Income after tax	1022
Essential Household Expenditures per 2 week period	
Food	106
Housing (including utilities)	410
Transportation	205
Healthcare	129
Total After Expenses	**172**
Typical Payday Loan ($255) + Fee ($45)	300
Pay period deficit if payday loan paid in full	**-$128**

Nearly 2,500 payday loan stores crowd California's cities and towns; these stores and the payday industry as a whole make considerable profit by trapping borrowers in debt.

As illustrated in the accompanying table, most borrowers will be hard-pressed to repay their first loan and be able to cover other expenditures. The table shows that an earner with an annual income of $30,000 will be $128[1] short of the amount necessary to pay off a payday loan and meet all other essential household expenses. Because they are unable to repay their loan and still have funds available for other needs, they must renew that payday loan by paying $45 to borrow back the original $255. **In California, only 4 percent of payday loans went to borrowers who just took out one loan during the year.** Payday loans are not intended to be one-time loans as the industry suggests, and are designed to trap borrowers in a costly and profitable cycle of debt.

CRL research indicates that the most effective reform to protect borrowers from being victims of predatory payday loans is a cap limiting all small loans to a reasonable two-digit interest rate. Other reforms— such as offering repayment plans to repeat borrowers—do nothing to eliminate the cycle of debt.

In 2007, the federal government enacted a law limiting to 36% the interest rate on loans to members of the military. If this basic protection is appropriate for our women and men in uniform, it should be provided to all of California's women and men too.

[1] Data from California Budget Project *Making Ends Meet: How Much Does it Cost to Raise a Family in California,* October, 2007, http://cbp.org/pdfs/2007/0710_mem_003.pdf