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## Payday Lenders Continue to Put Coloradoans Into High-Cost Debt

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### Executive Summary<sup>1</sup>

Almost eight years after Colorado enacted a payday law reform bill in 2010, payday lenders in Colorado continue to ensnare customers in a cycle of high-cost debt. Customers are drawn in by promises of easy cash. But as the high costs mount, the struggle to cover monthly expenses is compounded by the struggle to cover the cost of the payday loan. The resulting cycle of debt is often difficult to escape. This report analyzes data published by the Colorado Attorney General's Consumer Credit Unit (2016 Deferred Deposit/Payday Lenders Annual Report),<sup>2</sup> and the Attorney General's Demographic and Statistical Report released in August 2016.<sup>3</sup>

### Key Findings

- Colorado payday loan customers in 2016 paid an average **annual percentage rate (APR) of 129%**. The average loan was for \$392, cost \$119 in interest and fees, and was repaid in 97 days. Payday loan customers took out an average of two loans per year. In some cases, customers likely took out two or more loans simultaneously from two or more lenders. Customers borrowing sequentially ended up paying an average of \$238 to borrow \$392 for 194 days. The majority of all payday loans in Colorado were at an APR over 100%. Some loans were at an APR over 200%.
- **Default occurred in 23%** of all loans taken in 2016.
- Payday loans continue to drain nearly **\$50 million per year** from struggling Coloradans.

### Payday Lenders Continue to Ensnare Coloradans in High-Cost Debt

Almost eight years after Colorado's payday lending reform law, thousands of working families in Colorado continue to get caught up in triple-digit interest rate loans from payday lenders.

The Colorado legislature took steps to address the payday lending problem in 2010 by enacting a reform law that lowered some of the costs the payday lenders were imposing on their customers. The law also eliminated the typical two-week payday loan, and instead required lenders to give customers at least six months to repay, typically in bi-weekly or monthly installments. Additionally, the 2010 law gave customers the opportunity to lower the cost of their loan by repaying in full before the due date. For this reason, the actual cost of the loans varies based on the amount of time the loan is outstanding.

The Attorney General's most recent Annual Report shows that in 2016, the average APR on a payday loan was 129%.<sup>4</sup>

Customers in 2016 took out an average of two payday loans in the prior 12 months, spending an average of 194 days in debt if borrowing sequentially.<sup>5</sup> The chart below demonstrates the average Colorado payday customer's costs.

**Figure 1. Average payday customer loan amounts costs and terms in 2016**

Average number of loans per customer in 2016	2
Average actual loan term	97 days
Average loan size	\$392
Average cost per loan	\$119
Fees paid per year by average payday borrower	\$238 (\$119/loan x 2 loans)
Average APR	129% per loan

Source: 2016 Annual Report, all amounts are rounded to the nearest dollar

**The averages tell only part of the story because, in Colorado, there is wide variation in the amounts customers pay for their loans.** In many states, the total cost of borrowing is largely driven by the number of new or refinanced loans that result in a new finance charge, fully earned at origination. In Colorado, the cost of a payday loan varies widely depending on when a loan is repaid or refinanced. Customers who repay quickly pay a lower APR than those who repay over the course of the loan's six-month term. In Colorado, each of the three components of the loan cost is impacted by the timing of the loan repayment.

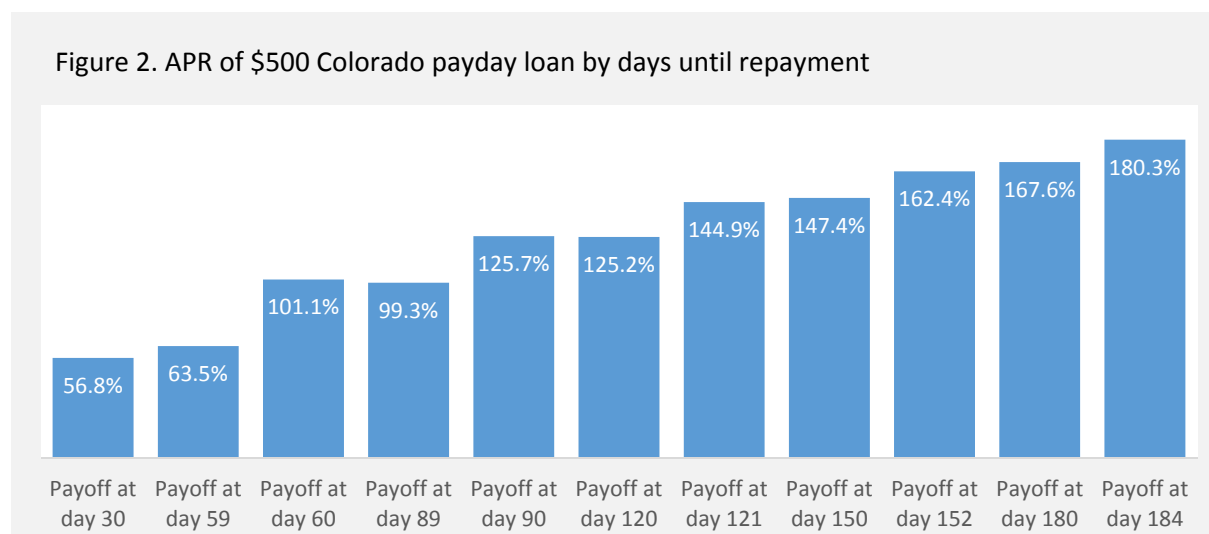
The three components of the total cost of borrowing are:

1. origination fee also called a "finance charge";
2. monthly maintenance fee; and
3. interest charges.

The monthly maintenance fee is charged in a lump sum every month, starting with the end of the second month of the loan term. A customer can avoid some or all of this fee by repaying the loan before the fee is assessed.<sup>6</sup> The finance charge is reduced where the customer repays in full before the loan is due. In such cases, the customer gets a pro-rata refund of the finance charge. The interest rate is charged only for the period while the loan is outstanding.

To illustrate the wide variance in cost with just a single day's difference in the loan repayment date, consider the example of a customer who takes out a \$500 payday loan over a six-month term. If she repays exactly 120 days after origination, her total loan cost will be 125% APR. If instead, she repays one day later, she will incur another monthly maintenance fee, and her total loan cost will be 145% APR (Figure 2).

The chart below demonstrates the variation in the cost of a \$500 loan based on duration:



Source: APR estimates based on \$500 loan example detailed in Appendix 1 of the Demographic and Statistical Report, 2015

As shown in Figure 2, loans that are repaid after the second month result in APRs greater than 100%, and loans that are repaid after five months result in APRs greater than 150%. Based on the APRs disclosed by three major lenders in Colorado, smaller loans between \$100 and \$400 repaid six months after origination result in APRs of around 200% or more (See Figure 3).<sup>7</sup>

**Figure 3. Interest rates published by three large payday lenders in Colorado**

Loan Amount	\$100	\$200	\$300	\$400	\$500
ACE Cash Express	211.20%	211.24%	211.26%	202.83%	177.30%
Check into Cash	214.79%	***	214.82%	***	180.20%
Speedy Cash	196.22%	208.16%	***	199.51%	***

Source: Company website advertising for a 6-month loan. An “\*\*\*” symbolizes the APR was not reported for the corresponding loan amount.

Even for customers repaying their loans early and subject to lower interest rates, payday loans may exacerbate financial distress. The Attorney General’s 2015 Demographic and Statistical Information Report, which analyzed a sample of payday customers, found that customers’ average gross monthly income was \$2,833. Fifty-two percent of customers in the sample had gross monthly incomes of \$2,500 or less.<sup>8</sup> At this income level, to repay a \$500 loan with interest and fees within thirty or sixty days may be a struggle, requiring customers to delay or default on other expenses, or to immediately re-borrow. The Attorney General’s 2015 Demographic and Statistical Information Report found that a significant number of loans in the sample that were “same-day-as-payoff loans (made by the very same lender, on the very same day that these same customers paid a previous loan in full)”.<sup>9</sup>

Consequently, paying higher payday loan rates may be unavoidable for anyone that cannot afford to repay the loan as a lump sum within the first or second month. It also creates a dynamic where customers who are indebted longer and pay higher rates and fees subsidize those customers that repay quickly and pay less.

Finally, these data do not fully describe the extent of some customers' struggles because they do not account for the customers who obtain several loans simultaneously from more than one lender.<sup>10</sup> While Colorado law limits the amount of payday loan debt a lender can extend a customer to \$500 at a time, there is no limit on the amount of debt a customer can obtain from multiple lenders at once. Some customers borrow from two or more payday lenders over the course of a year and sometimes take multiple loans simultaneously. There is no public record of the total number of loans individual customers obtain throughout the year. While this doubling of loans may provide more cash up front, it further exacerbates the struggle of repayment.

### **High Default Rates Remain a Problem**

Twenty-three percent or nearly one in four loans made in 2016 resulted in default.<sup>11</sup> Loan default may give rise to a cascade of related problems. For example, in 2016, customers paid payday lenders \$702,413 in "NSF fees" (fees for having insufficient funds in their bank account to cover a check or payment authorization processed by the lender).<sup>12</sup> Loan default may also lead to overdraft fees, and in some cases loss of bank account.<sup>13</sup> Additionally, defaulted loans may lead to collection efforts by the lenders, including lawsuits and wage garnishment.

### **Payday Loans Continue to Drain Nearly \$50 Million Per Year from Struggling Coloradans**

In Colorado, high-cost payday lending results in a cumulative, statewide fee drain of \$49,490,367. This estimate is determined by multiplying the average amount of interest and fees per loan in 2016 (\$119.49) by the number of payday loans originated (414,284). Nationally, high-cost payday lending drains over \$4.1 billion in fees a year from people in the 35 states that allow triple-digit interest rate payday loans.<sup>14</sup>

### **Conclusion**

Payday loan customers in Colorado continue to pay a hefty price for the use of payday loans, both in terms of cost, and in the high instances of default. Customers who pay the most are those who remain in their loans for the full contractually permitted term, while those who pay the least do so by making a substantial balloon payment within thirty days of loan origination. The latter is a challenging strategy given the low-to-moderate incomes of most payday customers and may lead to other financial difficulties, such as delays or defaults on other bills. Payday loans continue to drain nearly \$50 million each year from financially-stretched Coloradans.

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<sup>1</sup> This report supersedes our August 2017 report, *Payday Lenders Bury Colorado Families in High-Cost Debt*.

<sup>2</sup> State of Colorado, Department of Law, *2016 Deferred Deposit/Payday Lenders Annual Report* ("2016 Annual Report"), available at

[https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2016\\_ddl\\_composite.pdf](https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2016_ddl_composite.pdf). The Colorado Attorney General publishes Annual Reports based on data submitted annually by all licensed payday lenders operating in the state. All Annual Reports issued by the Attorney General since 2011 can be found at <https://coag.gov/uccc/info>.

<sup>3</sup> 2015 Demographic and Statistical Information ("Attorney General's 2015 Demographic and Statistical Information Report"), available at

<https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/DeMoStatsInfo/ddlasummary2000-2015.pdf>

<sup>4</sup> 2016 Annual Report at 2.

<sup>5</sup> The calculation of two loans per customer was derived by dividing the total number of loans (414,284) (2016 Annual Report at 1 point 1) by the total number of customers (207, 220) (at 1 point 6) for an average of 1.999 loans per customer. The 2016 Annual Report "overstate[s] the total [number of customers] to the extent that customers have loans from more than one company." (2016 Annual Report at 1 note 3). Thus the present paper likewise understates the average number of payday loans each customer takes per year. The average cost is found in the 2016 Annual Report at 2, point 8.

<sup>6</sup> CO Rev Stat § 5-3.1-105 (2017)

<sup>7</sup> Advertised APRs were online as of Jan 24, 2018, on the respective websites of ACE Cash Express ([https://media.acecash.com/~media/Files/Products/Installment/Store/Rates/CO\\_FeeSchedule.ashx](https://media.acecash.com/~media/Files/Products/Installment/Store/Rates/CO_FeeSchedule.ashx)), Check into Cash (<https://checkintocash.com/colorado/>), and Speedy Cash (<https://www.speedycash.com/content/Rates-And-Terms/pdf/2017/colorado.pdf>).

<sup>8</sup> 2015 Demographic and Statistical Information Report at 8.

<sup>9</sup> *Id.* at 24.

<sup>10</sup> 2016 Annual Report at 1 note 3 ("The numbers of borrowers' overstate the total to the extent that customers have loans from more than one company.")

<sup>11</sup> 2016 Annual Report at 1, point 5 (Of 414,284 loans "made, arranged, or taken by assignment in 2016" 96,952 defaulted). The 2016 Annual Report reflects the lenders' self-reported data on the number of defaulted loans. "Default" can be defined differently by different lenders and is not defined in the report.

<sup>12</sup> 2016 Annual Report at 1, point 5.

<sup>13</sup> "Online Payday Loan Payments." Washington, D.C.: Consumer Financial Protection Bureau, April 2016. [http://files.consumerfinance.gov/f/201604\\_cfpb\\_online-payday-loan-payments.pdf](http://files.consumerfinance.gov/f/201604_cfpb_online-payday-loan-payments.pdf)

<sup>14</sup> Davis, Delvin, and Diane Standaert. "Payday and Car Title Lenders Drain \$8 Billion in Fees Every Year." Durham, NC: Center for Responsible Lending, May 2016. [http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl\\_payday\\_fee\\_savings\\_jun2016.pdf](http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_payday_fee_savings_jun2016.pdf).