Access Denied:

Payday loans are defective products; they fail to meet need for helpful credit

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PAYDAY LENDERS OFFER DEFECTIVE PRODUCT, CLAIMING IT FILLS NEED FOR ACCESS TO CREDIT

Defenders of the payday lending industry use the term "access to credit" to make the argument that payday loans provide communities of color with financial services that have historically been denied them. But payday lending is a faulty form of credit and a poor substitute for fair and responsible financial services.

Rather than help borrowers through financial challenges, as they are marketed to do, payday loans block and destroy access to good credit options. They trap borrowers in high-cost loans, drain their income, damage their credit, and often worsen their financial situation.

Predatory payday loans:

- trap borrowers in high-cost debt
- drain income and damage credit
- could be offered on HBCU campuses under new agreements

Students at Historically Black Colleges and Universities are targeted

Payday loans are now specifically threatening students of Historically Black Colleges and Universities (HBCU's). Compucredit, a financial services company, recently made an agreement with three HBCU's that allows the company on their campuses to market high-cost credit products, including payday loans.

HBCU's are a rich symbol of opportunity and a unique resource for African-Americans in the continuing struggle for civil rights and economic independence. HBCU students typically work their way through college without benefit of family wealth. Many are the first or second generation of their families to earn college degrees, and in doing so must overcome the deeply-rooted disadvantages imposed by a racially-stratified society.

For HBCU students, payday loans represent grave dangers. One is the draining of income that is vital to the student's ability to pay for their education. Another is credit so damaged as to jeopardize the student's financial stability far into the future.

Wealth gap makes African-Americans more vulnerable to predatory lending

A recent Pew Research Center report describes a wealth gap of almost 15-to-1 between white and black households. The median net worth of white households was $88,651 in 2002, while for African-American households, it was $5,988. Almost one third of African-American households had zero or negative net worth in 2002. ("The Wealth of Hispanic Households: 1996 to 2002," Pew Hispanic Center, October 2004, p2.)

Families who have a cushion of assets may use them to manage emergencies, as Thomas Shapiro argues in his book, "The Hidden Cost of Being African American." (Oxford University Press, 2002, Ch1) Those who don't have a cushion, who need short-term loans to help them with unusual expenses, are being targeted for predatory loans instead of being offered helpful financial services.

Borrowers are trapped in payday loans

These short-term payday loans typically require a post-dated personal check as collateral, and are marketed as quick cash for a short-term emergency. But they are the worst offenders when it comes to harmful, as opposed to helpful, credit. Only one percent of all loans go to one-time emergency borrowers. ("Quantifying the Economic Cost of Payday Lending;" Keith Ernst, John Farris, and Uriah King; Center for Responsible Lending, February 2004.)

Payday loan terms typically allow the borrower just two weeks to repay the loan, and flip the borrower into new paperwork when they cannot pay it off in full, collecting for the lender another fee of over 400% APR each time the loan is flipped. <u>There are many more payday borrowers trapped in loans than there are occasional users – ninety-nine percent of payday loans are flipped.</u> Payday borrowers often cannot escape the cycle of debt without seeking legal advice or filing bankruptcy.

"Access to credit" claims ignore abusive design of payday lending business model

Payday lenders base their business model on revenues from these trapped borrowers. CRL research shows that borrowers who enter five or more transactions per year account for 91 percent of payday lenders' business. So payday loans are not only exorbitantly priced; they are a carefully designed trap – a faulty form of credit that hurts borrowers instead of helping them.

While payday lenders claim they are providing access to credit, the credit they offer serves to continue a long history of economic injustice for communities of color.

In the case of HBCU campuses, the damage will follow hardworking students into their adult lives, blocking their access to credit that *is* helpful, and denying them the financial security that has been so elusive for African-Americans. <u>Exposing students of Historically Black Colleges and Universities to this menace is a new and insidious way of targeting people of color.</u>

Access to credit must mean access to *fair, responsible* credit. African-American students and families need opportunities to borrow and spend safely, and to build wealth as a foundation for a solid economic future.

About the Center for Responsible Lending

The Center for Responsible Lending is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at **www.responsiblelending.org**.