# Keep Payday Lenders Out of North Carolina:

## Payday loans threaten the financial security of NC consumers

**QUICK FACTS**

- Payday loans cost, on average, 391% annual interest.
- According to the U.S. Department of Defense, "*The debt trap is the rule not the exception.*"
- Payday loans drain over $3.4 billion annually in excessive fees.
- Over 75% of all fees to payday lenders are generated by borrowers with 11 or more loans a year.
- Payday loans cause borrowers severe harm, leaving them worse off that they were before the first loan.
- Nearly one in four of payday borrowers reported some form of public assistance or other benefits or retirement funds as an income source.
- North Carolina consumers say they are better off without payday.

***Since payday storefronts left our state in 2006, North Carolina families living paycheck to paycheck have saved $1.4 billion—$153 million every year for the last 9 years.***

Payday loans have been illegal in North Carolina since 2001. After our North Carolina Attorney General and Commissioner of Banks challenged the payday lenders' "rent a bank" scheme, all the payday storefronts left the state in 2006. But, payday lenders desperately want to re-enter the North Carolina market with their 300% annual interest rate loans.

In 2013, they hired 15 influential lobbyists to walk the halls of the General Assembly. They funded misleading reports and argued that payday loans are necessary tools for low-income North Carolinians. Their efforts *almost* paid off in Raleigh when powerful state legislators introduced bills to bring back payday lending. With strong opposition from hundreds of organizations and thousands of individuals, these bills did not pass. We expect the payday lenders to continue their push to authorize payday in North Carolina in future sessions of the NC General Assembly.

### Payday Loans Are Designed to Trap Borrowers in Debt

Payday lenders market their loans as a quick financial fix, but in reality they create a long-term cycle of debt and a cascade of bad financial consequences, such as delayed medical care and bankruptcy. Payday loans are generally around $350, costing 391% APR (annual percentage rate). They are repaid from the borrower's next paycheck or receipt of public benefits.

Payday loans have predatory terms that combine to create a debt trap: high fees, lack of underwriting to determine the borrower's ability to repay, and a quick repayment due date--- the loan is due in one lump sum on the borrower's next "payday." Payday lenders also require borrowers to provide direct access to their bank account using a post-dated check or electronic authorization. This direct access means the payday lender stands first in line for repayment on the day the borrower receives their

Social Security or other paycheck.

Because of this payday loan design, borrowers typically cannot repay the payday loan and cover their basic living expenses. Once the loan is paid back, payday lenders quickly make another loan to them. Payday lenders repeat this cycle over and over again. This is the payday loan debt trap.

**Payday Lenders Depend on the Debt Trap**

According to independent reports by the Department of Defense, the Consumer Financial Protection Bureau (CFPB), the Center for Responsible Lending, the Pew Charitable Trust and others, "*The debt trap is the rule not the exception.*" In the words of the CEO of Cash America, one of the nation's largest payday lenders: *"The theory in the business is you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profitability is*."

Payday loans drain over $3.4 billion annually from borrowers, with the vast majority of this fee drain caused by the debt trap. An extensive analysis by CFPB found that over 75% of all payday loan fees were generated by borrowers with 11 or more loans a year.

**The Payday Loan Debt Trap Harms Borrowers**

The typical payday borrower is stuck in 9 payday loans a year, generally one right after the other. According to the Center for Responsible Lending, 76% of all payday loans are taken out within two weeks of a previous payday loan. The pattern of re-borrowing means borrowers are paying new fees every two weeks to float the same payday loan--- the typical payday borrower will pay over $800 to borrow $350 (over $450 in fees plus the $350 principal). Studies show that payday loans lead to a cascade of other financial consequences such as higher rates of bankruptcy, delinquencies on other bills, delayed medical care, overdraft fees and the loss of bank accounts.

**Payday Loans Threaten the Financial Security of Seniors**

As seniors are often on fixed incomes and carry disproportionately higher levels of debt, they are more vulnerable to the debt trap of payday lending. An analysis by one researcher found that payday storefronts cluster around government-subsidized housing for seniors and the disabled. The CFPB also found that nearly one in four payday borrowers reported some form of government benefits (including Social Security) as an income source.

***Please help us keep payday lenders out of North Carolina.***

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