Payday Lenders: Trapping Louisiana’s Working Families in a Cycle of Debt

By: Tim Mathis

Thousands of people in Louisiana live paycheck to paycheck. Often, they don’t have enough money to meet their basic needs. One way to fill the gap is by taking out a “payday” loan, so named because the money is borrowed against the next paycheck. “Payday” lenders offer easy access to quick cash, usually a couple of hundred dollars or so. That would be a useful service, but there’s a catch. Payday lenders charge exorbitant interest rates and fees that push borrowers into a cycle of high-cost loans, the costs of which can exceed the original loan amount many times over. This predatory lending exploits Louisiana’s working poor and can trap them in a debt spiral that leads to ever deepening indebtedness and, in some cases, personal bankruptcy.

Payday lenders were practically unheard of 20 years ago. Throughout the 1980s and 1990s, as banks across the United States withdrew from inner-cities, they left in their wake a growing predatory-lending industry of payday lenders, cash checkers, and pawnshops to supply the continuing demand for cash and credit. Today, there are an estimated 20,600 payday loan outlets in operation across the United States. It is a particularly big business in Louisiana, where over the past decade the industry has doubled in size (Figure 1). Louisiana now has one of the nation’s highest concentrations of payday lenders in the country, an average of one for every 4,800 people. There are 936 payday loan outlets in Louisiana, more than four times the number of McDonald’s restaurants.

Seventeen states and the District of Columbia have effectively banned payday lending by capping interest rates (see adjacent map). In the South, where the problem of predatory lending is particularly acute, legislatures in Arkansas, Georgia, and North Carolina have effectively banned the practice. Louisiana needs to put an end to this legalized usury by strengthening current regulations on the payday loan industry that would increase transparency, limit the number of loans a borrower can take out, and place a cap on the total price of a loan.
What is Payday Lending?
Payday lenders provide loans of $50 to $350 to financially stressed families and individuals who run out of money and have few alternatives for money to pay rent, buy groceries, or pay utilities until their next paycheck arrives. Borrowers write a check for the amount of the loan plus interest and fees and are able to walk away with cash-in-hand.

Businesses advertise the quick and easy process of applying for a payday loan. Often, the only documentation customers need to provide is a check, identification, proof of income such as a pay stub, and a bill for evidence of a place of residence.

The cost of a payday loan ranges from $20 to more than $50, depending on the amount borrowed. A $100 loan often carries a charge of $30, which lenders refer to as a processing, interest, or documentation fee. Lenders may redeem the borrower’s check after two weeks—when the customer’s payday arrives—hence the name, payday loans. A borrower can repay the loan at any time before the loan matures, thus ending the transaction.

But the initial transaction cost is only the tip of the iceberg in terms of cost for many borrowers. The typical borrower is living paycheck-to-paycheck, barely making ends meet in the best of circumstances. When a financial emergency occurs, these already financially stressed individuals can fall prey to the easy-money siren song of payday lenders. Because they are often unable to pay all their expenses when the original loan comes due, many customers take out new loans, either from the original lender or from other outlets, pay delinquency fees, or pay for bounced checks (see diagram).

Once the borrower begins to recycle his or her payday loans, the annualized cost escalates dramatically. According to websites run by two national lending firms (see lender web information below), annual interest rates, fees, and delinquency charges on a $100 loan in Louisiana will compound over the course of a year, so that rates vary from 521 to 652 percent. These excessive fees, while lucrative for the lenders, are punishing for borrowers and amount to a predatory business practice. The cost to borrow $100 for a year can range from $521 to $652, according to payday lenders’ own materials.4

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**Fees and Terms for Payday Loans in Louisiana**

**$350 - Payday Loans at a Location**

**$300 - Payday Loans Online**

Refer to the chart below to compare Louisiana location fees to Louisiana online fees.

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>$100</th>
<th>$200</th>
<th>$300</th>
<th>$350</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Store Payday Loan Fee APR**</td>
<td>$20.00</td>
<td>$40.00</td>
<td>$80.00</td>
<td>$80.00</td>
</tr>
<tr>
<td>Online Payday Loan Fee APR**</td>
<td>$20.00</td>
<td>$40.00</td>
<td>$80.00</td>
<td>-</td>
</tr>
</tbody>
</table>

**CASH 'TIL PAYDAY® Loans**

Each CASH 'TIL PAYDAY® loan is subject to a finance charge as listed below:

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Total Payment Due</th>
<th>Finance Charge</th>
<th>ANNUAL PERCENTAGE RATE (APR)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>$65</td>
<td>$15</td>
<td>782.1%</td>
</tr>
<tr>
<td>$100</td>
<td>$125</td>
<td>$25</td>
<td>651.8%</td>
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<tr>
<td>$200</td>
<td>$245</td>
<td>$45</td>
<td>586.6%</td>
</tr>
<tr>
<td>$250</td>
<td>$300</td>
<td>$50</td>
<td>521.4%</td>
</tr>
<tr>
<td>$300</td>
<td>$350</td>
<td>$50</td>
<td>434.5%</td>
</tr>
</tbody>
</table>

* Assumes a 14 day term. $200, $300 and $350 fee amounts include a $5 documentation fee.

** Assumes a 14 day term. Online loans are offered and funded by CashNetUSA, and marketed by Advance America. Online rates may vary from rates at a location. $50 max fee.
Who Uses Payday Loans?
Predatory lenders rely on a consumer base that is financially stressed. That payday lenders recognize this is seen in the trademarked slogans such as “Get Money Now. For Life’s Little Emergencies” and “Money You Can Count On”\textsuperscript{6} that they use to entice customers and the names they give their businesses such as “E-Z Quick Cash,” “Show Me The Money,” and “Broke ‘Til Payday.”\textsuperscript{7}

The 2007 Survey of Consumer Finances found virtually no use of payday loans for the top 40 percent of income earners. Between 3.5 and 4 percent of low- to moderate-income families across the country reported using payday loans in 2004 and 2007, with the majority of borrowers concentrated in the lowest income levels. Most borrowers used the money for “immediate expenses” such as emergencies (35.9 percent) and basic living expenses including food, gas, medicine, utilities, or rent (21 percent).\textsuperscript{8}

- Louisiana ranks sixth highest in the country for percent of households that have relied on some combination of check cashers, pawnbrokers, or payday lenders to meet their financial needs—23 percent compared to the national average of 18 percent.\textsuperscript{9}

- African-American households in Louisiana are twice as likely to have used high-cost financial services such as payday lenders (37 percent) as white households (17 percent).

Despite industry efforts to portray their business as serving middle class customers, payday lenders in fact prey on those in the lower income classes. One leading expert on payday lending concludes that, based on his review of numerous studies, most customers are employed and earn $15,000 to $40,000 annually.\textsuperscript{10} Another careful study, based on data from state regulating agencies, found that the average borrower in Indiana made between $25,000 and $30,000 a year; likewise, the average borrower in Illinois made $24,000, and in Wisconsin only $19,000 per year.\textsuperscript{11} In each instance, those income levels would put the average borrower in the bottom 40 percent of the state’s income range.\textsuperscript{12} Borrowers are typically young, more likely to be divorced or separated, and disproportionately African-American or Hispanic.\textsuperscript{13} Borrowers are also more likely to have children, which is not surprising given the additional costs these families face for basic needs such as clothing and child care. Most borrowers have at least a high-school education.

One survey found that in the past five years, 73 percent of payday loan customers nationally were turned down for credit or not given as much as they requested, compared with 22 percent of all other adults who applied for credit.\textsuperscript{14} The same survey showed that nearly one in five borrowers had debt-to-income ratios of 30 percent or more, compared to one in twenty of all adults. Payday borrowers were over four times as likely to have filed for bankruptcy in the past five years as all other adults.

Consequences of Predatory Lending
Lower-income families turn to these high cost, payday lenders to provide the short-term loans and credit that more affluent families derive from credit cards and other forms of short-term credit such as lines of credit and overdraft protection services, which have much lower costs.\textsuperscript{15}

Once someone gets on the payday-loan treadmill, financial collapse may follow. Although a checking account is one of the few requirements required to qualify for a payday loan, the debt incurred through regular use of such loans can make it impossible to maintain the account. Researchers who analyzed the effects of Georgia’s ban on payday lending found that the ban was associated with an 11-16 percent decrease in the number of individuals whose accounts were involuntarily closed due to repeated overdrafts. The implication is that – before the ban – borrowers were using repeated overdrafts on their checking account to pay their payday loan fees, and were losing their checking account as a result. Because of payday loans, the borrowers lost their primary contact to the traditional, lower-cost financial system.\textsuperscript{16}

Payday lenders turn people into chronic borrowers, weakening their ability to climb the economic ladder. A recent study analyzing data from a major payday lender found that chapter 13 bankruptcy petitions doubled within two years of a successful, first-time payday loan application compared to those whose application was rejected.\textsuperscript{17} Once approved for a
payday loan, the average borrower will apply for more than five times as many loans as someone who was initially rejected. The average payday borrower in the United States takes out nine loans per year. One survey reported that 85 percent of customers took out three or more loans in one year and nearly a quarter took out 14 or more (Figure 2). Illustrating the financial stress many of these borrowers face, almost half of them took out loans at more than one company.

**Predatory Lending in Louisiana**

Louisiana has one of the highest concentrations of payday lenders in the country. That makes sense: payday lenders prey on the financially desperate, and Louisiana has the second highest poverty rate in the country, making it a promising place for payday lenders to find profitable customers.

Payday lenders are prevalent in every major Louisiana city (Figure 3), with stores outnumbering mainstream banks in many low-income neighborhoods. According to a 2009 survey by the Federal Deposit Insurance Corp., approximately 57,000 households in Louisiana took out at least one payday loan in the past year, 3.2 percent of all households. Many hard-working families wind up spending a significant amount of their income in excessive fees and interest rates for loans and other forms of temporary credit.

Payday lenders’ customers are typically low- and moderate-income people without access to traditional sources of credit. Thus, it’s not surprising that payday lenders locate their stores close to significant concentrations of poor people. Our research shows that the ZIP codes with the highest concentration of predatory lenders in Louisiana generally have far fewer mainstream banks and most have higher than average poverty rates compared to ZIP codes with the most banks (Table 1 on page 5). This trend is most pronounced in larger cities. In East Baton Rouge Parish, for example, a study found that the median household income is over $4,000 higher for those living in “bank neighborhoods” — those served primarily by traditional financial institutions — compared with those in “payday-loan neighborhoods.”

The same study found a clear racial pattern to payday lending, not surprisingly since Louisiana’s low-income population is disproportionately African American. (Attached to this report are fact sheets for the seven major cities in the state. These sheets show the relationship between the location of payday lending stores to poverty and African-American population.)
In Orleans Parish, payday-loan neighborhoods are, on average, about 70 percent African-American with a median household income of $16,562. Bank neighborhoods, by contrast, are 46 percent African-American with median incomes of $24,137 per year.

These findings flatly contradict industry statements that deny targeting families on the edge of poverty. Predatory lending threatens to worsen the economic situation for African-American families in Louisiana, who experience poverty at a rate almost three times that of white families and who have been disproportionately affected by joblessness in the wake of the Great Recession.

**Consumer Protections**

Louisiana regulations on payday lending offer little protection for customers. Louisiana regulates payday lending through the Office of Financial Institutions, the state agency that is also responsible for oversight, licensing, and enforcement of banks and other alternative financial services such as check cashing services and pawnbrokers. The Louisiana Deferred Presentment and Small Loan Act (effective 2000) defines the finance charges for a payday loan. Loans are limited to a maximum of $350. Lenders may charge borrowers a fee no greater than 16.75 percent of the amount borrowed, up to $45. In 2010, Act 668 increased the allowable documentation fee for each loan transaction from $5 to $10. This change allowed lenders to raise the cost of a typical, two-week $100 loan from $25 to $30, putting an even greater burden on cash-strapped borrowers.

Although the Deferred Presentment and Small Loan Act prohibits rollovers, borrowers are allowed to refinance their loan as long as they pay 25 percent of the principal plus additional fees each time they refinance, extending their debt even further. If a customer defaults on their loan, a lender may charge 36 percent interest for one year and 18 percent thereafter, or a one-time delinquency fee of $10 or 5 percent the amount borrowed, whichever is greater. The law provides scant protection for Louisianans in need of short-term credit. A 2009 analysis of the regulatory framework concluded that “Louisiana’s stated commitment to sustaining the payday lending industry signifies that consumer protection is a lower priority than industry protection.”

To better protect consumers from predatory business practices, legislators can look at what other states and the federal government (see “Federal Regulations on Payday Lending” on page 6) have done. In recent years, more states have passed laws that have effectively banned predatory lending. The largest national payday lender, Advance America, Cash Advance Centers, Inc., confirms their recent struggle with state legislatures in their annual report to the U.S. Securities and Exchange Commission. “Any federal law that would effectively limit our [annual percentage rate] to 36% would likely eliminate our ability to continue our current operations.” As of the beginning of 2011, the company had 2,313 locations in 30 states—down from 2,853 stores in 36 states just five years ago. Advance America chooses not to conduct business in the other 20 states plus Washington, D.C. due, in part, “to specific legislative restrictions, such as interest rate ceilings.”
In 2006, North Carolina banned payday lending entirely. According to a consumer survey, most former borrowers reported that the ban had a positive effect on their personal finances, indicating they had the means to handle financial crises without access to payday loans. In 2009, after six years of advocacy by the state coalition Arkansans Against Abusive Payday Lending, Arkansas shut down the last payday loan operation in the state. Payday lenders left the state after the Arkansas courts found that the industry violated the state’s usury laws. Most recently, the state of Washington limited the number of cash advances a customer can take out to eight per year. “As a result,” claimed a recent report from Advance America, “our revenues and profits in Washington have been significantly reduced.”

The recent head of the FDIC, Sheila Bair, authored a 2005 study that examined low-cost alternatives to payday loans. Payday lenders have been successful largely because they have marketed their product as a cheaper alternative to the fee for a bounced check. The Bair study found that there are viable alternatives to payday lenders that can provide affordable, accessible credit to the typical payday loan customer at much lower cost. A working model cited by the study is the North Carolina State Employees’ Credit Union, which offers salary-advance loans up to $500 with a 12 percent annual percent interest rate, the equivalent of $2.50 every two weeks. To discourage chronic borrowing, customers must place 5 percent of each advance into a savings account. The success and profitability of the loan provides proof that traditional lending institutions can compete with payday lenders and encourage financial literacy among low-income borrowers.

**Conclusions and Recommendations**

Payday lenders, by offering quick and easy access to immediate cash, often worsen the financial condition of the thousands of financially stressed working Louisiana families who apply for their loans. Legislators should join those in other states that have enacted legislation banning these predatory lending practices or providing more safeguards for consumers and tighter regulation of payday lenders.

**Require improved tracking and reporting of payday lenders in Louisiana.** Louisiana needs more regulation of the payday loan industry. Based on an informal survey conducted by Louisiana Budget Project, payday lenders do not always provide customers with sufficient information to make an informed decision on the best financial services to meet their credit needs.

Currently, at least eleven other states — Florida, Illinois, Kentucky, Michigan, New Mexico, North Dakota, Oklahoma, South Carolina, Virginia, Washington, and Wisconsin — collect information that makes payday loan companies more accountable to their customers. The public benefits from knowing industry details about each payday lender such as how many consumers made complaints, the total number of loans, the frequency at which borrowers took out loans, and average borrower indebtedness. This information allows regulators and consumer protection advocates to monitor lender practices and how they affect borrowers.
**Recommendations:**

- Create a publicly accessible, web-based database through the Louisiana Office of Financial Institutions (OFI) to provide industry-wide information to both regulators and the public on payday lending statewide.

- Establish a task force in OFI to investigate the effects of the payday lending industry on Louisianans.

- OFI should require lenders to provide basic written information about the payday lending process to customers during the application process. The information should include loan terms and fees and a warning about the dangers of long-term reliance on payday loans. OFI already produces a pamphlet providing most of this information that, with slight modifications, could be part of the required disclosures during the application process. OFI’s pamphlet contains the following warning:

  **WARNING:** Payday loans are not intended to meet your long-term financial needs. The long-term use of payday loans may cause financial hardship.

**Clarify and strengthen legislation on payday lenders in Louisiana.** Legislators need to reexamine the Louisiana Deferred Presentment and Small Loan Act and close loopholes that allow lenders to offer loans that cost the equivalent of 521 percent interest or more per year. According to the Center for Responsible Lending (CRL), the only proven way of protecting customers from triple-digit interest rates is to cap the amount lenders can charge, preferably at 36 percent per year. Based on a 2009 CRL report, the states that cap interest rates below 100 percent collectively save consumers approximately $2 billion each year. In addition, legislators ought to place a limit on the number of loans an individual can take out in one year. Other states accomplish this by means of a database. This would prevent people from becoming chronic borrowers and entering into a cycle of debt that can lead to bankruptcy.

**Recommendations:**

- Cap finance charges for payday lenders at the equivalent of 36 APR as a means of protecting consumers from predatory business practices.

- Prohibit lenders from providing loans to customers who have been indebted to any payday lender for more than three months during a 12 month period.

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**About the Louisiana Budget Project**

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana though a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative’s 42 state budget projects coordinated by the Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is credible, timely, and accessible.

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**Endnotes:**

   

2. Community Financial Services Association of America, “About the Industry.”
   
   [http://cfsaa.com/about-the-payday-industry.aspx](http://cfsaa.com/about-the-payday-industry.aspx)

   

4. Based on finance charges for Louisiana by *Advance America, Cash Advance Centers, Inc. and Dollar Financial Corp.*


Louisiana Office of Financial Institutions.


Stegman, 15.


Caskey, 16.


Skiba, 3.

Parrish, 5.

Elliehausen, 139.


Quercia, Roberto G. “North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options.” Center for Community Capital. University of North Carolina at Chapel Hill. (Nov. 2007)


Based on a sampling of six payday loan firms in Baton Rouge by Louisiana Budget Project.

These maps were created by the Louisiana Budget Project and show licensed payday lenders based on addresses provided by the Louisiana Office of Financial Institutions as of February 2011. All payday lending stores with a city address are included in the count of payday lenders for that city even if the location falls outside official city boundaries. Poverty and African-American population counts are based on 2000 census tract data from the U.S. Census Bureau. A poverty rate greater than 20 percent in a given area is significant because it is a measure of economic distress that is used frequently to determine eligibility for federal community development programs. The estimates in these analyses were generated using the best available data, but should be treated as estimates nonetheless.
Predatory Lending in Baton Rouge

Number of Payday Lenders: 85
Population Below Poverty Level: 20%
Population per Payday Loan Storefront: 2,652
Percent of African-Americans Below Poverty Level: 28%
Number of Banks or Credit Unions: 126
Percent of Caucasians Below Poverty Level: 12%

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population
Predatory Lending in Lafayette

Number of Payday Lenders: 39
Population Below Poverty Level: 18%
Population per Payday Loan Storefront: 2,497
Percent of African-Americans Below Poverty Level: 32%
Number of Banks or Credit Unions: 62
Percent of Caucasians Below Poverty Level: 11%

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population
Predatory Lending in Lake Charles

Number of Payday Lenders: 30
Population Below Poverty Level: 22%
Population per Payday Loan Storefront: 2,385
Percent of African-Americans Below Poverty Level: 32%
Number of Banks or Credit Unions: 35
Percent of Caucasians Below Poverty Level: 12%

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population
Predatory Lending in Monroe

<table>
<thead>
<tr>
<th>Number of Payday Lenders: 30</th>
<th>Population Below Poverty Level: 33%</th>
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</thead>
<tbody>
<tr>
<td>Population per Payday Loan Storefront: 1,721</td>
<td>Percent of African-Americans Below Poverty Level: 44%</td>
</tr>
<tr>
<td>Number of Banks or Credit Unions: 33</td>
<td>Percent of Caucasians Below Poverty Level: 16%</td>
</tr>
</tbody>
</table>

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population
Predatory Lending in New Orleans and Metairie

Number of Payday Lenders: 45
Population Below Poverty Level: 19%
Population per Payday Loan Storefront: 11,828
Percent of African-Americans Below Poverty Level: 28%
Number of Banks or Credit Unions: 106
Percent of Caucasians Below Poverty Level: 9%

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population
Predatory Lending in Shreveport and Bossier City

Number of Payday Lenders: 78
Population Below Poverty Level: 20%

Population per Payday Loan Storefront: 3,365
Percent of African-Americans Below Poverty Level: 33%

Number of Banks or Credit Unions: 84
Percent of Caucasians Below Poverty Level: 8%

Payday Loan Locations and Poverty Rate

Payday Loan Locations and African-American Population