



Just the Facts: Women and Payday Lending

Why the Women's Fund of Mississippi is Focusing on Payday Lending

Over 60% of payday loan customers are women. Research clearly demonstrates the negative impact of payday lending on women's economic security.¹ The Women's Fund is a member of Mississippians for Fair Lending, a coalition of 18 groups dedicated to capping the interest rate on payday loans at 36 percent. The Women's Fund knows that when women are economically secure, their families and communities are economically secure.

What is payday lending?

A payday loan is a small, short-term loan of up to \$400 secured by the borrower's personal checking account. Marketed as a quick and easy solution to deal with emergencies, these loans are generally due in two weeks. Borrowers can be charged up to \$21.95 per \$100 borrowed. Because the entire loan amount, plus the fee, is due in two short weeks, borrowers typically find it hard to pay back the loan. The result is that borrowers often take out a new loan to pay off an existing loan. In fact, over 90% of payday lending business is generated by borrowers with five or more loans a year. Over 900 payday lenders charge up to 572% APR for a two-week loan in Mississippi.²

Example of APR Computation for a \$100 payday loan³:

Fee (\$21.95) ÷ amount financed (\$100) x 365 ÷ number of days of loan (14) = APR (572%)

Banks and credit unions can't charge more than 36% annual percentage rate (APR). Why are payday lenders allowed to charge 572% APR?

For years, no Mississippi lender was permitted to offer a small loan product in excess of 36% APR. In 1998, however, the legislature passed a law exempting payday lenders from the 36% APR cap, allowing them to charge up to 572% APR for a typical two-week loan. The legislation allowing this special statute will expire in 2012. Lobbyists for the payday lending industry are trying to extend this special statute. The Women's Fund believes the legislature should let the law expire that gives payday lenders a special statute. Payday lenders should follow the same laws as legitimate financial institutions and banks. Seventeen states currently have interest rate caps for payday lenders.

Aren't payday loan stores considered small businesses? Will the 36% rate cap hurt the profitability of payday loan stores in Mississippi?

The vast bulk of revenues generated by payday lenders leave Mississippi, flowing to companies headquartered in other states. Seven of the top ten lenders in our state are headquartered elsewhere. Speedee Cash of Mississippi, for example, has 20 stores in our state but is headquartered in Kansas. Advance America has 61 stores in Mississippi but is located in South Carolina. Payday lending costs Mississippi families over \$270 million each year in fees and lost revenue.

¹ Center for Responsible Lending, "The Debt Trap of Payday Lending: Protect Economic Security for Women and Families." September 16, 2004. www.responsiblelending.org

² Center for Responsible Lending, "High Cost Payday Lending Traps Mississippi Borrowers." July 12, 2010.

³ State of Mississippi Department of Banking and Consumer Finance, Consumer Finance Division. Check Cashers Act Regulations. Payday lenders are required by the Check Cashers Act to advertise their fees as APR.

Will a 36% rate cap prevent people from getting the loans they need? What’s an alternative to a payday loan?

Payday lenders should be subject to the same rate cap as banks, credit unions and finance companies. If payday lenders choose to leave the state because they don’t want to play by the same rules as other lenders, that is their choice. Payday lenders claim they provide a much-needed service for people in an emergency but, in reality, payday lending only increases a person’s financial insecurity. According to the Center for Responsible Lending, using payday loans increases the chances of losing a bank account and the likelihood of an overdraft. Payday loans are a debt trap for the majority of borrowers, not a one-time loan.

Mississippians need access to small-dollar loans, not short-term loans. No one needs to pay back a loan in two weeks. The payday lending industry depends on borrowers becoming trapped in debt and, unlike legitimate financial institutions, payday lenders do not consider a borrower’s income or ability to pay.

Payday lending is not a legitimate credit alternative that helps borrowers in an emergency. As the box below demonstrates, they are inherently flawed products that can turn a short-term emergency into long-term financial run.

Loan	APR	6 Months	12 Months
Payday Loan in Mississippi*	572%	\$921.90	\$1843.80
Credit Card	28%	\$48.33	\$126.00
Finance Company Loan	36%	\$62.14	\$98.00
Credit Union or Bank Loan	18%	\$31.07	\$63.00
BankPlus Credit Plus	5%	\$8.63	\$17.50

*assumes two loans per month for a payday loan

What You Can Do

Payday lending lobbyists have been so successful because they have spent millions on campaign contributions for elected officials in Mississippi. However, we must not forget that we elect our state representatives and senators. **They need to know you care about this issue.** Call or write your elected official and tell him/her that **572% interest rate is too high for Mississippi families.** Tell them you support a 36% interest rate cap for payday loans. Visit <http://votesmart.org/officials/MS/L/mississippi-state-legislative> to find your state elected official. We believe our elected officials want to stop predatory lending in Mississippi but they need to know you’re listening and watching.

The Women's Fund is committed to raising public awareness about the devastating impact payday lending has on Mississippians. Go to www.womensfundms.org to learn more about our **community forums** around the state and to sign up for emails and advocacy alerts.