

BASIC FACTS on Payday Lending:

A Growing Problem:

- Predatory payday lending is prohibited in 15 states. (Payday lending was illegal in Washington State until 1995, when the Legislature exempted them from the Consumer Loan Act.)
- In 2005, payday lenders made over 3.5 million loans to people in Washington. That is about 10,000 loans every day.
- **Payday lending is big money for lenders** – lenders made \$174 million in 2005 off of \$1.4 billion in loans. And the industry is growing! Between 2000-2005, the number of payday loan shops in our state almost doubled.¹ They are growing so fast there are more payday loan shops in Washington than there are Starbucks.

Predatory Lending Practices:

- **Repeat borrowing:** the typical payday loan in Washington is made to a person who takes 10 to 19 loans in one year.¹ In fact, borrowers who receive 5 or more payday loans account for 91% of payday lenders revenues.²
- **Balloon payments:** the typical payday loan in Washington is made for 14 days and when the loan comes due, the entire amount is due at once. This short loan period means the annual percentage rate (APR) on the typical loan is 391% (can go as high as 3,500% for loans that are less than 14 days).
- **Rollovers and Back-to-Back Transactions:** Few people who take out payday loans can afford to repay the entire amount out of their next paycheck. Consequently, they take out back-to-back loans or go to multiple borrowers to pay off the first loan. Washington law prohibits extension of the loan (*illegal rollover*) if the borrower cannot repay at the end of the loan term. However, lenders get around the law by issuing back-to-back transactions (*legal rollovers*) the very same day.
- **Preying on our communities:** Payday lenders target those who can least afford to be financially exploited, including workers living paycheck-to-paycheck, communities of color and the military. This moved the Department of Defense, Congress and President Bush to pass a law protecting active duty military and their families with a 36% cap on payday loans.

“Washington codifies, at minimum, eight out of nine abuses that are signs of a predatory payday loan.”

Center for Responsible Lending

Washington needs fair and reasonable consumer protections on payday loans

- The **36% APR cap** that protects military families should be extended to all families (391% typical annual interest on payday loans is usurious and wrong)
- **Longer loan payment periods** and **payment installment plans** – Working families need more time and payment options so that they can successfully pay off the loan
- **Prohibition of check holding / electronic access to bank accounts** – discourage the practice of lenders demanding a bad check in exchange for a payday loan
- **Eliminate binding arbitration clauses** to maintain a borrower’s right to sue for abusive lending practices
- **Consider a borrower’s ability to repay the loan** – payday lenders encourage consumers to borrow the maximum allowed, regardless of their credit history.

¹ Payday Lending Report: Statistics & Trends 2005, Washington State Department of Financial Institutions (2006.)

² “Compelling evidence of dependence on repeat borrowing” Center for Responsible Lending (2004.)



1501 N 45th Street
Seattle, Washington 98103
(206) 694-6794
www.povertyaction.org