

Catholic Conference of Ohio

BACKGROUND ON PAYDAY LENDING

Many working families in Ohio live from paycheck to paycheck. When these families experience an unforeseen expense, they often turn to payday lenders who market their product as emergency loans. However, these payday loans almost invariably lead families further into financial crisis.

Payday lending (sometimes called cash advance) is the practice of using post-dated checks or electronic checking account information as collateral for short-term loans. To qualify, borrowers only need personal identification, a checking account, and an income from a job or a government benefit like Social Security or disability pay. Because the loans come due on payday, borrowers expect to have money in their accounts to cover the checks. Many borrowers, however, find that paying back the entire amount of the loans on payday leaves them without funds necessary to meet other basic living expenses, such as electricity, rent, and groceries.

Borrowers who do not have the funds to repay their loans and meet their other expenses are faced with three choices:

1. Seek an additional payday loan from another store,
2. Pay off the original loan, and the next day take out another loan from the very same store, or
3. Default, and consequently incur bounced check fees by the payday lender and non-sufficient fund (NSF) fees by their banks while still owing the full amounts of the original debt.

Research from the Center for Responsible Lending (CRL) shows that the payday lending business model is designed to keep borrowers in debt, and not to provide one-time assistance during a single or occasional time of financial need. Borrowers who receive five or more loans a year account for 90 percent of the lenders' business. The cost of payday lending to approximately five million Americans is \$4.2 billion annually with the typical payday borrower paying back \$793 for a \$325 loan. We are concerned that exorbitant interest rates and fees in the payday lending model may be a modern form of usury.

According to a recent report by Policies Matter Ohio, payday lending locations in Ohio have increased dramatically from 107 in 1996 to 1,562 in 2006. That represents nearly a 1,400% increase in 11 years. Ohio's payday lending industry is extremely volatile with lending locations opening and closing frequently within a given year. For example, in 2005, 113 payday lending locations closed, but 357 new locations opened. Payday lenders were concentrated in mostly urban areas in 1996; by 2006 they were located in urban, suburban, and rural neighborhoods. Statistics show that although most payday lenders (in absolute terms) are in large urban counties, less populated counties have a greater number of lenders per capita. In Ohio, payday lending sites are now more numerous than McDonalds, Burger King, and Wendy's restaurants combined and, like these restaurants, most of Ohio's payday lenders are chains or franchises.*

OHIO LAW **

Ohio law allows payday loans up to \$800. Ohio law sets maximum rates for both the interest charges and the origination fees. The interest rate is capped at five percent for each month or fraction thereof. Ohio law allows origination fees based on the amount of the loans. These origination fees significantly raise the annual percentage rate (APR) to 391%.

Ohio law does not allow a borrower to take out a second loan with a payday lender until the first loan is paid to that lender. As a result, borrowers often obtain several different loans simultaneously from other payday lenders.

MOMENTUM FOR CHANGE

Cleveland Diocesan Social Action Director, Tom Allio, chairs the Ohio Coalition for Responsible Lending (OCRL). In addition, the Youngstown Diocesan Social Action Office and Catholic Charities Regional Office are members of the coalition. Catholic social action leaders from the Archdiocese of Cincinnati and the Diocese of Columbus have also been involved in this effort. Recently, Representative William Batchelder (R-Medina) agreed to be the major sponsor of legislation to regulate payday lending in Ohio. Representative Matt Lundy (D-Elyria) has agreed to be a joint sponsor. The OCRL anticipates a very bi-partisan initiative that will involve numerous co-sponsors. The coalition anticipates a bill will be introduced in early fall.

The Ohio Coalition for Responsible Lending currently is addressing the issue of payday lending on several fronts: education and awareness for consumers, alternate solutions to short-term financial stress, and legislative reform. Legislatively, the coalition is working to amend and supplement existing Ohio laws to mirror the Talent-Nelson amendment to the 2007 Defense Reauthorization Act signed into law by President Bush on October 18, 2006. This measure was passed after the military complained about the proliferation of payday lenders on or near bases and the detrimental impact they were having on military families. As a result of this action, the Ohio Coalition for Responsible Lending decided to pursue a similar course for all Ohio consumers. The Ohio legislation would include the following safeguards:

- A cap of 36% on the APR,
- At least a 90-day repayment term, repayable in installments,
- No personal checks or other unfair collateral (such as a car title),
- Full consideration of the borrower's ability to repay the loan, and
- No mandatory arbitration clause.

THE HUMAN FACE OF PAYDAY LENDING

Phil Betourne works full time in a grocery store in Canton. He says he makes enough money to "get by." When Phil's wife was involved in an automobile accident, banks would not lend him money. This was Phil's first trip to a payday lender. Phil had unpaid utility bills and was facing foreclosure on his home. One loan led to another until eventually Phil had 10 payday loans simultaneously. He found himself caught in a cycle of borrowing, repaying and then borrowing again.

Beverly Cousar of Columbus has a job that pays her \$10 per hour. She is a member of a Catholic Campaign for Human Development funded organization called BREAD. Beverly shared her story on June 6, 2007 to a packed briefing of Ohio House members and their aides in a Riffe Building Conference Room. Holding back tears, Beverly told a personal story of taking out a \$500 loan to assist her son in Texas pay his rent. She ended up paying \$3,000 for that loan over a six-month period of time.

Howard Yost is a 69-year-old resident of Marietta. Yost originally took out a \$100 loan to help him get through the month. Howard ended up owing \$801 on that loan. He said that it would have taken most of his Social Security check and he would not have any money for food, rent or utilities. "I felt trapped and frustrated," said Yost. "It is a lot like an addiction."

PASTORAL CONSIDERATIONS

The Department on Social Concerns raises this issue of payday lending out of our concern for the poor and working poor in the state. We are especially concerned about the negative impact payday loans have on family life, the greater community and local businesses. By charging such excessive fees and interest rates, payday lenders are victimizing those who can least afford it. The burden of multiple loans causes people to make difficult choices regarding food, rent, utilities and medicine. We know from experience that this causes further demands on an already overextended Catholic Charities' system.

Catholic Social Teachings regarding the dignity of persons, our concern for the poor and vulnerable, the pursuit of the common good, as well as economic justice principles calling for fairness, equitable profit, and an avoidance of usury animate this position.

While short-term payday loans fill a niche for consumers, the payday lending business model based upon revenues from repeated fees that trap borrowers in a cycle of debt needs to be reformed. People of faith should remain vigilant and involved in the process of reforming this industry.

*Rothstein, David, et. al. Trapped in Debt: The Growth of Payday Lending in Ohio. Policy Matters Ohio and Housing Research & Advocacy Center, Feb 2007.

**Ohio Revised Code (ORC). Sections 1315.35, 1315.39, and 1315.44.