

## Kentucky Coalition for Responsible Lending includes:

AARP  
Barren River Area Safe Space  
Barren River Asset Building Coalition  
Bell-Whitley CAA  
Bethany House Abuse Shelter  
Bluegrass Domestic Violence Program  
Brighton Center  
Catholic Charities of Louisville  
Catholic Conference of Kentucky  
Center for Great Neighborhoods of Covington  
Center for Women and Families  
Central KY Housing & Homeless Initiative  
Central Kentucky Peace & Justice Coalition  
CLOUT  
Coalition for the Homeless  
Community Action Kentucky  
Community Ventures Corporation  
Eastern KY Asset Building Coalition  
Family Foundation  
Family Life Abuse Center  
Federal Home Loan Banking Cincinnati  
Federation of Appalachian Housing Enterprises  
Frontier Housing  
Gateway Homeless Coalition, Inc.  
Green River Asset Building Coalition  
Habitat for Humanity, Morehead  
Hager Educational Foundation  
Homeless & Housing Coalition of Kentucky  
Kentucky AFL-CIO  
Kentucky Association of Counties  
Kentucky Asset Building Coalition  
Kentucky Asset Success Initiative  
Kentucky Council of Churches  
Kentucky Domestic Violence Association  
Kentucky Equal Justice Center  
Kentucky Habitat for Humanity  
Kentucky Resources Council  
Kentucky Youth Advocates  
Lawrence & Augusta Hager Foundation  
Lexington-Fayette Urban County Human Rights Commission  
LKLP Safe House  
Louisville Asset Building Coalition  
MACED  
Making Connections Louisville  
Merryman House  
Metropolitan Housing Coalition  
Metro United Way  
N. KY Community Action Commission  
OASIS  
People's Self Help Housing, Inc.  
Safe Harbor  
Sanctuary  
Sandy Valley Abuse Center  
Shelter of Hope  
SpringHaven  
St Vincent De Paul  
Welcome House

## Financially Distressed Families Have Better Options Than 400% Payday Loans

While demand for payday loans seems high on the surface, it is a fraction of what the industry reports **Three out of four payday loans are the result of borrower churning**— taking out new loans to fill the budget gap caused by the old loan.<sup>1</sup> The structure of these loans traps borrowers in a cycle of repeat borrowing.

Financially distressed families report a range of options in dealing with a financial shortfall, all of which are available in Kentucky at a *fraction* of a cost of payday loans.

- **Licensed Lenders.** In Kentucky there are over 300 licensed consumer lenders that provide loans under an existing 36% rate cap. In 2009, these lenders had over \$750 million in loans receivables.<sup>2</sup> **Once other states enacted a uniform 36% rate cap, the volume of these responsible small loans increased.**<sup>3</sup> As long as borrowers are stuck in a 400% payday loans, these lower cost options are out of reach.
- **Emergency Assistance Programs.** Many churches, faith-based groups, military relief societies and community organizations provide emergency assistance. **Once Congress capped rates at 36% for the military, relief societies saved hundreds of thousands in the first year from not having to rescue military families from the debt trap.**<sup>4</sup> Once payday loans are capped at 36%, our vital community resources will no longer be drained to pay payday lenders, but can be used towards a family's true need.
- **Personal Loans from Banks and Credit Union.** Banks throughout the country participated in the FDIC's successful small dollar pilot program to make loans at 36% APR.<sup>5</sup> Federally chartered credit unions are subject to an 18% APR cap.<sup>6</sup> **As long as borrowers are ensnared in the 400% payday debt trap, these lower cost options are out of reach.**
- **Payment Plans with Creditors.** Another option reported by borrowers is to deal directly with their debt. Creditors will negotiate partial payments if a payment plan is in place.
- **Cash Advances on Credit Cards.** Credit card cash advances, which are offered at about 30% APR, are substantially cheaper than a payday loan. **Even the payday loan industry reports that a typical payday borrower has access to a credit card with an available balance.**<sup>7</sup>
- **Consumer Credit Counseling.** Non-profit credit counselors can work with consumers to work out a debt repayment plan with creditors or develop a budget. These services are available at little or no cost.

*Protecting family assets, promoting responsible lending*

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## 400% Payday Loans Don't Solve A Financial Emergency, They Create One Every Two Weeks.

Payday borrowers, relative to those in a similar financial situation who don't take out a payday loan, are more likely to have their bank account closed due to multiple overdrafts; more likely to be delinquent on their credit card & other bills; and more likely to file for bankruptcy.

After hearing from borrowers, communities, faith-leaders, and others throughout the state about the harms of payday loans, and after meeting with industry, the state's Consumer Advisory Council determined that a 36% rate cap was in the "best interest of Kentucky."

With a 36% rate cap, KY families will save millions of dollars from predatory fees, will not face increased burden of overdraft fees caused by payday lenders' drawing on their bank accounts, and will not have to throw their good money after bad. They will have access to safe products and opportunities to build savings for the future.

<sup>1</sup> Leslie Parrish and Uriah King, *Phantom Demand*, Center for Responsible Lending (June 2009) available at <http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-short-term-due-date-generates-need-for-repeat-payday-loans-accounting-for-76-of-total-volume.html>

<sup>2</sup> See 2009 Kentucky Department of Financial Institutions Annual Report, pages 25-27, <http://www.kfi.ky.gov/NR/rdonlyres/45650C55-4A1F-4984-AABD-FF348AD837BA/0/2009annualreport1.pdf#toolbar=0>

<sup>3</sup> U.S. Department of Defense, "Report on Implementation of Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," Page 16 ("On the positive side, we have experienced a decrease in the assistance provided to active duty personnel entrapped by the predatory loan industry. In the first nine months of 2007, the Society assisted victims of payday loan industry with loans and grants averaging 100K/month. In the four months since Oct 1, the average has been \$40K/month."), [www.d cuc.org/PDF%20Files/Senate%20Report%20Final.pdf](http://www.d cuc.org/PDF%20Files/Senate%20Report%20Final.pdf)

<sup>4</sup> University of North Carolina Center for Community Capital. *North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options*. (Nov. 2007) available at [http://www.ccc.unc.edu/abstracts/1107\\_NorthCarolina.php](http://www.ccc.unc.edu/abstracts/1107_NorthCarolina.php).

<sup>5</sup> FDIC, "A Template for Success: The FDIC's Small-Dollar Loan Pilot Program," [www.fdic.gov/bank/.../2010.../FDIC\\_Quarterly\\_Vol4No2\\_SmallDollar.pdf](http://www.fdic.gov/bank/.../2010.../FDIC_Quarterly_Vol4No2_SmallDollar.pdf)

<sup>6</sup> NCUA Letter to Federal Credit Unions 09-FCU-06 (July 2009).

<sup>7</sup> See e.g., Community Financial Services Association (national trade association for the payday lenders) ("Did you know that 57% of payday advance customers have major credit cards and 49% are credit union members?"), See also Gregory Elliehausen, George Washington University School of Business, *An Analysis of Consumers' Use of Payday Loans* (Jan. 2009) at 29 and 30 (one-third of payday borrowers had a credit card with an available balance that could be used in a financial emergency. Forty-five percent reported that they had savings they could tap into if needed)