

# PREDATORY LENDERS TRAP IDAHOANS IN A CYCLE OF DEBT

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Across Idaho, families are increasingly struggling to make ends meet. Affordable small scale loans, which could tide families over, are hard or impossible to come by. Finding no alternative, families are turning to “payday” and title loans that come with high interest rates and often wind up trapping them in a cycle of debt.

Payday and title loans are big business for corporations representing the country’s wealthiest one percent. This includes many of the same Wall Street banks, such as Wells Fargo and Bank of America, that were bailed out after crashing our economy in 2008. These large financial institutions receive money from the Federal Reserve at interest rates now at almost zero percent and lend money out to payday lenders at higher rates. The payday lenders, in turn, lend money to consumers at a rate several hundred times larger, at over 400 percent.<sup>1</sup> Meanwhile, payday lending corporations and their CEO’s pour hundreds of thousands of dollars into political contributions.

Idaho lawmakers need to level the playing ground for the Idahoans they represent. This storybook shares the experiences of everyday Idahoans who have found themselves cheated by predatory lending and trapped in a cycle of debt. These stories underscore how important it is for Idaho lawmakers to reverse the financial and political advantage held by these corporate giants and introduce measures that protect Idahoans from predatory payday and title lending.

## The big business of payday lending

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### *Astounding profits for payday lending giants*

Nationwide, the payday loan industry has ballooned in the past two decades, accounting for an estimated 10,000 stores nationwide in 2000 and 22,000 as of 2004.<sup>2</sup> The industry extended about \$42 billion in loans in 2006.<sup>3</sup>

Payday and title lending giants have been successful while the rest of the country suffers from the economic downturn. As evidence of this disparity, Advance America doubled its profits for the first nine months of 2011 compared to 2010, from \$20 million to \$41.1 million.<sup>4</sup> Meanwhile, Cash America reported a 21 percent increase in net income over the same period, from \$80 million to \$98.1 million.<sup>5</sup> For the fiscal year ending September 30, 2011, EZCorp reported a net income increase of 33 percent over the prior year.<sup>6</sup>

Payday and title lending giants have a strong presence in Idaho. Three of the country’s payday giants – Advance America, QC Holdings, and EZCorp – have a combined 42 registered licenses out of 214 throughout the state.<sup>7</sup> The other largest Idaho lenders include Cottonwood Financial, Moneytree Inc. and XPress Cash Financial, all big national organizations.<sup>8</sup>

### *Ties to Wall Street banks*

These large payday and title lenders receive financial backing from even bigger institutions – Wall Street banks. For example, before starting operations in 1997, Advance America borrowed between \$40 and \$50 million from Wells Fargo, NationsBank (now part of Bank of America), and Wachovia (now part of Wells Fargo).<sup>9</sup>

Just as payday and title lenders profit from cash-strapped borrowers, the big banks profit from the payday lenders. In 2009 alone, publicly traded payday lenders returned almost \$70 million of interest to their big bank creditors.<sup>10</sup> Payday lending organizations are so dependent on Wall Street banks that EZCorp has stated that, “If one of those lenders is unable to provide funding in accordance with its commitment, our available credit could be reduced by [that] amount.”<sup>11</sup> Payday lending organizations “require continued access to capital. A significant reduction in...the availability of credit could materially and adversely affect [their] ability to achieve [their] planned growth and operating results.”<sup>12</sup>

### *Payday and title lending customers are not faring as well*

While payday and title lending giants reap considerable profits, their customers are doing less well in the current economy, with median annual income of \$35,000, according to the industry.<sup>13</sup>

Indeed, to qualify for a loan, not only does the borrower need a checking account but 84 percent have graduated from high school and 42 percent own their own home.<sup>14</sup> Even so, payday lenders specifically target communities of color,<sup>15</sup> and active-

duty military personnel have historically been especially vulnerable to payday lenders, taking out payday loans at three times the national rate in the early 2000's.<sup>16</sup>

### *Payday and title lending traps borrowers in a cycle of debt*

The cost of getting an advance on a paycheck – the service payday lending is intended to provide – runs very high for borrowers, often trapping them in a cycle of debt. Ostensibly, the payday loan is an advance on a paycheck in exchange for high fees. By giving a lender a check for \$250, for example, a borrower receives \$200 in cash and agrees for the check to be deposited on his or her next payday, usually a couple of weeks away.

This, however, is often only the beginning of the process. For many borrowers, paying back the loan in full immediately would leave them with no funds for living expenses. Many lenders encourage rollover loans, charging additional fees for the option to delay payment for another two weeks. With annual percentage rates running upwards of 400 percent, a borrower can soon owe more in fees than the original amount borrowed.

These lenders may also offer another predatory loan product in the form of “title loans,” small loans that require a borrower's car title as collateral. These loans are usually made for a short period, where the borrower pays back the loan and interest rates upwards of 300 percent for a period of about 30 days. If after that period the loan is not paid off, the lender then has the option of taking the borrower's car, which can make keeping a job, attending school, or seeing a doctor difficult if not impossible.<sup>17</sup>

## Idaho's Inadequate Oversight of Payday and Title Lenders

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In 2007, the federal government took steps to protect the military from payday lending. Federal legislation protecting military personnel from payday lending went beyond basic restrictions to limit fees and rollovers, stop the use of vehicle titles to secure loans, and ban the practices of mandatory arbitration, rights waivers, and prepayment penalties.<sup>18</sup> Many states have failed to similarly protect their citizens.

Idaho is among the laxest in the country. Idaho's failure to protect borrowers mean that payday and title lenders are free to subject Idaho residents to practices that are illegal in many other states. There is no limit on interest rates payday lenders can charge in Idaho, compared to an interest-rate cap on short-term loans of an adjusted 36 percent across the border in Montana.<sup>19</sup> The state also has a limit on outstanding loans of \$1,000 (compared to Montana's \$300 limit), providing almost no protection at all for Idahoans at risk of getting trapped in a cycle of debt.<sup>20</sup>

## Payday and Title Lending Companies Spend Money to Influence Politics

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Payday and title lending is about nothing if not money, and the industry has spent millions of dollars on political campaigns throughout the country. Between 2003 and 2011 alone, Advance America spent nearly \$2.4 million on contributions to state campaigns across the country. During the same period, Check Into Cash spent over \$920,000, ACE Cash Express spent over \$385,000, and Dollar Financial Group spent over \$360,000.<sup>21</sup>

Idaho has not been immune to the effects of industry money. In the period between 1996 and 2006, the payday lending industry gave \$93,400 to state-level candidates in Idaho. Virtually all of this money (97 percent) came from outside of the state.<sup>22</sup>

These dollars have paid off for the payday lending giants. In 2000 and 2003, payday lending bills were introduced in the Legislature, one opposed by the industry and one favored. The first, S.B. 1405, attempted to set a 36 percent annual interest rate cap and died in the Commerce and Human Resources Committee. The second, H.B. 206, was favorable to payday lenders – failing to restrict interest rates or curtail extension of debt – and passed nearly unanimously, with only two legislators out of 105 daring to stand up against this industry.<sup>23</sup>

## Conclusion & Recommendations

While payday and title lenders rake in profits, everyday Idahoans are still struggling to make ends meet. Payday and title lenders prey on people who are in crisis and have nowhere else to turn, leading cash-strapped borrowers into a cycle of high debt from the time they sign the loan documents. Some people will never get out of the debt cycle.

Idaho lawmakers should show that they stand with Idahoans, not with payday and title lenders backed by Wall Street. Lawmakers should:

- Limit the annual percentage rate chargeable by predatory lenders in Idaho to 36 percent. Thirty-two states already restrict the annual percentage rate that can be charged on a payday loan.
- Lower the maximum loan amount from \$1,000 to \$300.
- Invalidate all loans provided by payday lenders who are not licensed and permit the Department of Finance to issue cease and desist orders and sue unlicensed payday lenders.
- Require payday lenders to give consumers a list of credit and debt counseling services as well as provide borrowers with educational literature highlighting risks associated with payday loans.

### Aaron Howington

I had a payday loan and didn't even know it. Several years ago, my mom and I were struggling to get by on our own, so I moved back home to save money and help her out. We agreed to set up a joint checking account, where I would give her checks to deposit. We shared expenses, but it was still hard getting from paycheck to paycheck.

Then my mom got very sick, and within a few short months she passed away. After she was gone, I started receiving overdraft notices from the bank and letters from a local payday loan company. My mom had always been good about managing money so I just left her to it because I had never learned to even make a budget. Somewhere, something went wrong.

I learned that my mom had used her Social Security income as a way to get a payday loan that charged more than 400 percent interest. Over the next year she could never pay off more than the interest payments.

I don't think my mom understood what she had gotten us into, and that she was too embarrassed to tell me. When I told them my circumstance, the business informed me that, because we had a joint checking account, they were going to come after me for the money my mom owed. Since I couldn't even pay rent, I wasn't worried about this bill at that time. I have been pretty much homeless since my mom died over three years ago, but recently have started working again.

Payday loan places should not prey on vulnerable seniors like my mom, and they should be required to have a payoff plan so people can pay off the loan without needing to re-borrow immediately. My mom should have had a way out of the loan, and it should never have been passed on to me.

## Lisa\*

Orofino

I've taken out two payday loans; one after I got into a car accident and another because I fell behind on paying my power bill. Because my only income comes from my and my husband's social security checks, it can be difficult for me to account for unexpected expenses like my accident. I also have diabetes, which I try to control with my diet, but I currently have outstanding medical bills that I haven't been able to pay.

The payday loans I took out were each for \$500, and I have almost paid off the second one after six months of \$85 payments. Even though the lenders have been honest with me, when you get into a cycle of taking out loans it can be very hard to break out. Sometimes people get behind on payments and are forced to take out a second loan to pay off the first one. I don't want to get into that situation. I have \$100 left to pay on my most recent loan, and after I pay that off I'm staying away from them.

\*Name has been changed.

## Chaz

Owner and Designer, Hair by Chaz Meridian

I live with my husband and three kids. We really enjoy getting outside when we can, either camping or going for a ride on our four-wheelers. Even though I work as a hairstylist full time and my husband owns his own yard maintenance business – he sometimes works as many as 60 hours a week – money can occasionally get a bit tight.

A couple of times the past year we had some unexpected repairs to make. Because our bank refused to loan us the money we needed, we were forced to turn to a nearby payday lender. We ended up with a 30 day loan that had astronomical interest rates in the range of 200 to 300 percent. My husband and I hope to never have to take out another loan because of how expensive it is.

It's almost impossible to avoid a cycle of taking out another loan to repay the previous one. Not only do these lenders prey on people with bad credit, but they have a negative impact on our community. We need a system that looks out for people like us, with a cap on interest rates and a good way for people to borrow money if they really need it.

### **Diana Corcoran**

Downey

My six-year old has had a hard life. His learning disability means he is already behind in first grade, and by the time he is 21 he will be completely blind. Because my son needs to go to the eye doctor, I have to pay \$1,000 each year for his care. Even though my husband and I work, it is difficult to pay my son's medical bills on top of feeding seven other children and paying for our bills. Occasionally we have fallen behind on our payments. Recently our medical bills went into collections because I could not keep up with our payments, and we now have three attorneys calling to collect from us.

I took out payday loans to pay our bills and for my son's medical care. Right now I owe money on two payday loans and have taken out others in the past. For a \$1,000 loan we pay \$120 each month for a year, which has proven to be a significant drain on our finances.

Although the lender we borrowed money from was upfront about how much we would have to pay, I was under a huge amount of pressure and we had no other option. I have fallen into a cycle of needing one loan after another, all to try and feed my family and take care of my son.

### **Dr. Edward Savala**

Owner of Clinica Santa Maria  
Caldwell

A few years ago, I was looking to buy a pickup truck and ended up going to a place that repossesses vehicles. Even though they offered reasonable prices, their interest rates were unfair. Loans like this are intentionally set up for people to fail, which does a disservice to everyone in the community. This system based on usury needs to be regulated more effectively, and to better protect the people.

I knew a family some time ago that had their car repossessed because they couldn't pay back a loan. These weren't drug addicts or robbers; they and people like them are just trying to work hard and do the best they can. When this happens it impacts everyone, both by increasing interest rates and reducing the number of dollars spent locally. I own my own business, and it is important for me and my neighborhood that people have money to go to the doctor, rather than lose their money on never-ending interest payments.

The government has a big role to play in this, but as long as wealthy businesses can affect decisions, change will be difficult. We should help entrepreneurs and small businesses rather than massive corporations. Entities like payday lenders hurt local communities and disproportionately impact the small businesses that are so important to our communities.

## Jolene Wolford

Downey

We thought that my husband's liver cancer was bad enough. This past April, what was supposed to be outpatient surgery turned into a four day hospital marathon for me. We could manage his medication alone, which costs us \$800 a month, but after my hospital stay the bills started piling up. We had to drain our bank accounts and max out our credit cards.

We want to hold onto our good credit any way we could, but no one would grant us a traditional loan with our maxed out credit cards. We even considered refinancing our house but, because it is a manufactured home, few lenders would touch it. To keep creditors off our back we turned to payday loans. Our most recent loan came with an interest rate of almost 500 percent.

We have fallen into a payday lending trap, where we simply roll any remaining payment off of one loan and onto the next. It isn't only low income families that are caught in this scenario; my husband makes \$4,000 a month and we still cannot afford all of our bills.



## Anne Alvarado-Rivas\*

Hair Salon Owner

A while back, when I needed a bit of money, I went to a payday loan business. The company gave me a \$1,500 loan in exchange for the title to my car, which I would get back when I repaid the principal and interest in full. At the time I didn't understand how expensive the loan would be, but it ended up costing me almost \$1,500 in interest alone.

When I wasn't able to repay my loan in time, the lender took my car to sell it in an auction. After tracking down when and where my car would be put up for sale, I made an agreement with the auction company to get it back.

Predatory lenders like the one I dealt with take advantage of people, and aim to make money off of people's needs. This hurts communities, and it hurts small business owners like me. If, rather than spending their money at businesses like mine, people lose huge amounts of their paycheck to interest payments on payday loans, that money flows out of the community and into the pockets of wealthy bankers. We need to keep our money in our communities.

\* Name has been changed.

### Oleah Stewart

Greenwich

I live with my three kids and husband. Right now I balance my time between going to school through the University of Phoenix and spending time with my youngest son, who has asthma. My husband used to work full time at Wal-Mart, but the store recently cut his hours back to 32 a week.

We took out our first payday loan recently because we had a few emergencies come up, and we have little money left over after paying basics like food and utilities. Because the annual interest rate is 300 percent, it will end up costing us a significant amount of money and we have to plan for the extra costs over the next few months. It is wrong for a lender to take advantage of people in real need, and we need the government to help regulate this industry.

### Robin Evans

Grangeville

I took out my first payday loan, for \$100, about five years ago. I agreed to repay the lender \$124 on my next paycheck, which was due just under two weeks from taking out the loan. The next month I came back with a paycheck stub, and the lender granted me a loan of 75 percent of what I earned, which at the time ended up being \$450. I would pay back \$525 from my next paycheck. I continued to take out loans like this, until I lost my job.

Even after I contacted the lender and explained my situation, they demanded that I pay \$50 a month, which I couldn't afford because I no longer had any stable income. They began calling me daily, and eventually gave my number to various collections agencies and attorneys. They are now threatening to sue me if I don't pay them.

It's terrible the way these companies advertise how they can help people in need, while the only help I got was getting into a debt trap that continues to haunt me today. Payday loans should be required to charge reasonable interest rates, with a plan for people to avoid a loan-dependency cycle.

## Roxy Carr

Twin Falls

A couple years back I was in a difficult financial situation: two weeks before my next paycheck, I needed money quickly to pay for insulin. It was easy to get the money; it was not easy to pay it back, but I managed. After a while, unfortunately, my insurance gradually decreased the amount they covered for my medication.

Six months ago I went back to the payday lender again, right after my husband passed away and I needed help paying my bills. I took out a \$155 loan and have been paying \$55 a month for the past six months, which is a substantial amount of my monthly social security check. I was lucky that I was able to avoid falling into a lending trap, but my mom nearly lost her home because of the amount of money she owed to payday lenders. With enormous interest rates and no reasonable way for people to pay their debts, something needs to change.



## Sonny Montgomery

Orofino

My wife and I have had terrible luck with injuries – we both suffer from neck and back injuries, among other chronic issues, which have left her disabled and me unable to drive long distances. I also used to be a truck driver, but was forced to leave that job when I started to have a heart attack while driving three years ago. Now no truck company will hire me because of my medical history.

This past year my wife was laid off also, and we ended up rolling over the payday loan we had taken out. What is more, over the past few years I was forced to sell our boat and all my tools for far less than they were worth, just to pay off loans. Right now we have a title loan out on our truck, which we have to pay off because of how important the truck is to us.



After loan and medical payments, we are hurting pretty badly. I don't know if people are misled or not, but it is hard to fully listen and read all of the fine print of the loan contract when you need the money to pay for utilities, or medical bills, or a house payment. I could not imagine having to see my family go without food or shelter, but that is the kind of situation we were facing.

### Ben\*

I'm married with two children. I was recently laid off my job and began collecting unemployment, but it has been difficult to keep up on my monthly bills. I've used payday loans in the past, but, without a job, my options for emergency money are limited to putting up the title to our only vehicle.

We had a fairly nice minivan that I had just paid \$1,000 for. I went to Easy Choice Title Loans to ask about a title loan to help me keep the power on. I just needed \$150, but I was told the minimum about I could borrow was \$300. I was also told that for the first two months I could pay back \$75 each month, which would cover just the interest, and on the third month I would have to pay \$110 to start paying back the principal.

\*Name has been changed.

Within the first month, it was clear that I had made a bad choice. Our roommate didn't cover their portion of the rent, so I was unable to pay the loan payment on time. Before I was even 30 days past due, I received a phone call from Easy Choice telling me they were coming to get my vehicle. I asked what the payoff was and was told it was \$375.

I scrambled to pay them. My neighbor offered to buy my vehicle for \$400 and a trade of his old car. I took the deal so I could get out of the loan, only when I went in to pay the \$375, they demanded \$420 instead. I am finally free of the loan, but I lost a lot of equity in the vehicle I had just to save it from being repossessed. It was a bad deal because the car I took in the trade needs a lot of work. It was a lose-lose situation. Title loan places, like payday loan places, should be regulated so they're not always screwing the little guy. It's like kicking a guy when he's already falling.

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Idaho Community Action Network (ICAN) serves as a powerful, consolidated voice for Idaho's poor, with chapters and membership clusters in 12 Idaho communities, including the state's three largest cities and numerous rural towns. Through ICAN, low-income Idaho families have a voice in the decisions that impact their lives. In addition to its direct action work, ICAN runs a statewide, volunteer-driven food program that helps low-income families supplement their monthly budgets. ICAN's community organizing model integrates the provision of food with training, leadership development and action on issues.

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