

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.¹ 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.² **Once other states enacted a uniform 36% rate cap, the volume of these responsible small loans increased.**³ 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.**⁴ 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.⁵ Federally chartered credit unions are subject to an 18% APR cap.⁶ **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.**⁷
- **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

P.O.Box 356 • Frankfort, KY 40602 • Phone: 502-209-5382

Email: kcrl@googlegroups.com • <http://kyresponsiblenlending.wordpress.com>

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.

¹ 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>

² 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>

³ 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

⁴ 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.

⁵ FDIC, "A Template for Success: The FDIC's Small-Dollar Loan Pilot Program," www.fdic.gov/bank/.../2010.../FDIC_Quarterly_Vol4No2_SmallDollar.pdf

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

⁷ 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)

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

Kentucky Voters Support a 36 Percent Rate Cap on Payday Loans, Despite Database and Job Loss Threats

73% of voters across the Commonwealth support a 36% APR cap on payday loans.

Nearly 400 voters from 179 cities and towns across the Commonwealth responded to a brief survey that asked how they felt about the state legislature passing a law to cap payday loan interest rates at 36%. Even after learning about the current database, voters overwhelmingly supported a 36% rate cap.

When told that lowering rates to 36% APR may cause businesses to close, a clear majority still support the rate cap.

The people of Kentucky recognize that 400% interest rate loans are a net economic drain on our communities. Even after being told that some businesses may close, a great majority of voters still think 36% is better than 400% interest.

Nearly 50% of Kentucky voters would be more likely to vote for a legislator who supported a 36% APR limit.

Another 45% of voters said a legislator's position on this issue would not impact their vote. As far as the voters are concerned, there is little political downside to supporting HB 182.

Republicans and Democrats alike support a 36% rate cap on Payday Loans.

There were no significant differences between Republican and Democratic responses to the poll.

Protecting family assets, promoting responsible lending

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

Kentucky Voters Want to End the Debt Trap. Pass HB 182 to protect hardworking Kentuckians.

Survey

Telephone survey of registered Kentucky voters.

Conducted January 28-29, 2011.

By NTS Research: a phone survey company based in Washington, D.C. that serves a wide range of agencies and organizations from across the country.

n=397

+/- 5% margin of error, 95% confidence interval

Script for survey:

Payday loans are small, short-term loans that borrowers must repay in full on their next payday. In Kentucky, payday lenders are allowed to charge over 400% APR.

1) Some say that requiring these loans be repaid from a single paycheck makes it likely that borrower won't have enough money left over for their other needs, setting up a cycle of long-term debt. They recommend lowering the amount payday lenders can charge to 36% APR—a limit that Congress set for payday loans made to members of the military.

Others contend that there are already enough protections in place for borrowers, such as a tracking system that Kentucky enacted in 2009 to enforce limits on the amount of debt a borrower can take on.

Given these two views, would you be for or against legislation that lowered annual interest rates on payday loans to 36%?

- | | | |
|----|-----------|-----|
| 1. | For | 73% |
| 2. | Against | 9% |
| 3. | Undecided | 18% |

2) What if—as a result—payday lenders close some of their stores and lay off some of their employees rather than lend at lower rates? Would you still support new laws that lower the rates these lenders can charge?

- | | | |
|----|-------------------|-----|
| 1. | Support | 85% |
| 2. | Would not support | 15% |

(Question 2 posed only to those who responded that they were “for” legislation to lower annual interest rates)

3) If your state legislator supported a law to lower annual interest rates for payday lenders, would you be more or less likely to vote for them?

- | | | |
|----|-------------|-----|
| 1. | More likely | 48% |
| 2. | Less likely | 8% |
| 3. | No impact | 45% |

Protecting family assets, promoting responsible lending