Alabama Appleseed
Center for Law & Justice

BROKE

How payday lenders crush Alabama communities

Photo courtesy of Valerie Downes

There are more payday and title lenders in Alabama than hospitals, high schools, movie theaters, and county courthouses combined. Their business model depends on churning a profit out of desperate, financially fragile customers. Alabama provides them with plenty.

About 18.5 percent of people in Alabama live at or below the poverty line, which is $24,257 for a family of four, making us America's sixth poorest state. More than three-fourths of American workers report living paycheck to paycheck with little or no savings, making payday lenders a tempting option for many people with financial emergencies. But in Alabama, they hurt more than they help.

Payday lenders are responsible for bringing financial hardship to hundreds of thousands of Alabamians and their families every year, swooping in to extract profits from the struggles of hard-working people. Unless the state legislature decides to act, the scourge of predatory payday loans will continue to decimate family budgets and local economies.

UNDER STATE LAW, PAYDAY LENDERS CHARGE UP TO 456% APR.

Payday lenders are draining our communities.

Though they are made out to be easy and fast, for most borrowers, payday loans create long-term damage. The fine print on payday loans includes annual percentage rates (APR) up to 456 percent. With astronomical rates like that, “small-dollar,” “short-term” loans frequently become expensive, multi-year burdens for Alabamians. And because we know that 85 percent of payday loans are taken out to cover emergencies or bills like rent, groceries, or utilities, we know that these long-term burdens are only making hard times harder for families across the state. When these lenders sap our neighbors’ household budgets and drain money from our local economies, we all lose.

Alabama has the third highest concentration of payday lenders in the nation, and the payday lending industry extracts more than $100 million from the pockets of low- and middle-income Alabama borrowers every year in loan fees. Predatory lending is a highly profitable activity: Over the next decade, lenders are on pace to take more than a billion dollars out of Alabama. Most of that total will be siphoned out of neighborhoods and communities badly in need of those dollars. The money will flow to out-of-state companies headquartered in states like Ohio, Illinois, Kansas, and South Carolina, and it will deepen the economic difficulties of the Alabamians left behind.

The overwhelming majority of Alabamians want to see payday lending either significantly reformed or banned from our state entirely. It is time for lawmakers to listen to the voices of their constituents and address the harms caused by predatory payday lenders.

By the Numbers

- **1.7 million:** *Number of payday loans taken out in Alabama in 2018.*
- **33,032:** *Average number of payday loans taken out in Alabama per week in 2018.*
- **201,418:** *Number of Alabamians who took out a payday loan in 2018.*
- **$101.6 million:** *Amount paid by Alabamians in payday loan fees in 2018. These payments did not decrease the principal amount owed.*
- **85:** *Percent of Alabama payday borrowers who took out multiple loans in 2018.*
- **7:** *Average number of loans taken out by a payday borrower in Alabama in 2018.*
- **73.6:** *Percentage of Alabamians who support a 36 percent APR rate cap for payday loans, according to the Public Affairs Research Council of Alabama (PARCA).*
- **74.1:** *Percentage of Alabamians who support mandating payday loan terms of at least 30 days, according to PARCA.*
- **52.5:** *Percentage of Alabamians who support banning payday lending outright, according to PARCA.*

Life After Payday Loan Reform

There are 95 million Americans living in states without payday loans. Tens of millions more live in states where reforms have substantially driven down APRs on payday loans.

In North Carolina, a 30% APR rate cap for small loans has led payday lenders to leave the state and make money elsewhere. Careful follow-up studies commissioned by the state government found that **"the absence of storefront payday lending has had no significant impact on the availability of credit for households in North Carolina."** Focus groups with former payday borrowers showed that the majority were glad the industry was gone.

In many states where payday lenders still operate, they remain profitable while issuing loans with much lower APRs than they use in Alabama, such as Virginia (254%), Minnesota (200%), New Mexico (175%), and Oregon (154%) to name a few. **Alabamians pay more to access credit from payday lenders than residents of other states.**

While storefront lenders often raise concerns about the threat of unregulated online lenders, **the Pew Charitable Trusts has found that internet lending has not increased in states that have reformed their payday lending laws.**

Homeless because of payday loan debt.

Terry Knowles took out his first payday loan because his daughter was suffering from scoliosis, and he could not afford her care. "She's got it pretty bad," he said. "We couldn't afford any prescriptions. Couldn't afford to lose any time out of work [for her appointments] either, but I did." When he went to the payday lender and explained what was going on, they expressed concern for her health. "When you first go in and you're there to get money, they are sympathetic. But after it's all done and over with and you sign, it changes, and they know they got you."

As his payday debt mounted, Knowles and his family began to struggle keeping up with the payments while still buying groceries. Eventually, they could no longer afford to pay rent. Knowles tried to negotiate with the lender about making payments, but the lender wouldn't hear it. "Doesn't matter how many kids I had when I said that we were fixing to lose our home. Just didn't matter. They wanted their money." Knowles, his wife, and their young children became homeless.

In the dead of winter, they were evicted from their Huntsville apartment and left out in the cold. Knowles had a friend who owned a trucking company. Knowles reached out to him, and the friend allowed the family to move into an unheated, 400 square foot tin storage shed on the lot. "It was because of the payday loan that we had to go to the storage shed," Knowles said. "We didn't have nowhere else to go. It was cold. Kids didn't have no place to sleep other than all together. We had to try to keep them kids warm any way we could, and it was pretty tough." The family lived in the tin shed for six months. Knowles was employed and working the whole time. A significant portion of his income went to the payday lender.

"We should limit them to a certain amount that they can charge for these loans," Knowles said. "When I did that, you pay three, four times what you borrowed from them. There were really times when we needed that money. People are trying to get rich off of the poor people — people who have doctor's bills and kids that aren't well, and struggling to survive and to raise their children the best way they can,"

Recommendations for the Legislature

Cap APRs at 36 percent. Establishing sensible rate caps on the APRs for payday loans is the simplest and most effective way to protect Alabamians from high-cost loans. A 36 percent APR cap would align with historical rate caps used to protect borrowers against loan sharks, and it would also align with the Military Lending Act of 2006, which Congress passed to protect active service members and their families from high-cost payday loans. Many other states have successfully adopted 36 percent APR rate caps, and 74% of Alabamians support the idea.

Lengthen loan terms. Under current state law, payday lenders can require full loan repayment within as few as 10 days. Requiring payday lenders to use loan terms of at least 30 days would give borrowers more time to marshal financial resources, which increases the likelihood of borrowers paying off the loans on time and as-advertised. It would place payday loan bills on the same payment schedule as virtually all other household bills, and it would also lower the effective APR to 213 percent — a rate that has remained profitable for the same payday lending companies in other states.

Mandate ability-to-repay standards. Payday lenders currently do not have to assess whether a borrower will be able to repay a loan before issuing it. Setting the maximum borrowable amount at ten percent of a borrower's income after basic expenses would reduce the number of borrowers trapped. Conducting an ability-to-repay inquiry that considers a borrower's complete financial situation for all loans would have the same effect.

Mandate loan amortization and installment plans. The current practice of borrowers paying fees with no reduction in the amount owed leaves many borrowers with no path to freedom from their financial problems. Loan amortization would mean that every loan has an identifiable end date when the borrower would be free of the financial burden of accumulating debt. Requiring lenders to provide a cost-free installment plan for people having trouble repaying their loans would likewise relieve the burden on people who can demonstrate circumstances causing an inability to repay the loan.

Strengthen reporting requirements. Strengthening reporting requirements would allow harm reduction efforts to be focused on the populations and the geographical areas disproportionately targeted by lenders. Understanding the extent of disparate treatment would help legislators and advocates to be more responsive to the borrowers who are most harmed.

Eliminate court costs and fees, and scale fines to each person's ability to pay. In 2018, Alabama Appleseed found that almost half of all people with court debt take out payday loans to pay the state and stay out of jail. Given this relationship and the large scale of both court and payday debt in Alabama, addressing court debt as a major driver of payday borrowing would bring relief to the thousands of Alabamians who regularly must decide whether to swap their public debt for a private one in order to remain free. For more detailed recommendations, see the full report (available at http://www.alabamaappleseed.org/underpressure/).

Increase access to civil legal aid for indigent borrowers. There are legal protections against wage garnishments for qualifying individuals who are in debt, but without legal representation in court, many borrowers do not know their rights. Payday lenders frequently file successful motions for default judgment against borrowers who could have been protected by a knowledgeable attorney. Because Alabama is one of only three states that does not fund civil legal aid, many Alabamians who are too poor to afford an attorney wind up in court unrepresented. Indigent borrowers need — and deserve — legal counsel.