

# The Money Trap

## Payday loan outlets prosper and proliferate

### By Andrew Conte

*Post Staff Reporter*

Like many working Americans, K. Davis rarely had enough money left in her checking account by the end of the month.

As a grocery store clerk in Portsmouth, Ohio, her \$5.15 an hour had to cover rent, food and utilities for her and her unemployed husband. Often, the 39-year-old woman needed a little help: a short-term, high-interest loan.

"I hated to do it - it's embarrassing that people need to borrow money," she said. "It's a lot of money to pay back, but they know you need the money and you're gonna do it ... You have to pay the interest to get the money."

She may have hated doing it, but Mrs. Davis, who asked that her first name be withheld, had little trouble buying into a hot new loan industry, called payday lending.

For a \$45 fee, she got a \$300 loan from First Check Cash Advance, a local check-cashing company. She didn't have to pay it back for two weeks - after her next payday.

That was fine until she lost her job earlier this year. When she did not pay the money back, the lender's collection agency wrote her a letter implying she had "committed a theft offense" under state bad-check laws and threatening to sue her for up to \$1,343.07.

"I was scared to death," she said.

As hundreds of payday loan outlets have sprouted up throughout the state over the last five years, plenty of consumer advocates have been frightened too.

For those people who do not have a savings account, credit card or a credit history clean enough to obtain a bank loan, the stores provide a much-needed service. But the exorbitant fees can make it nearly impossible for many

Richard Keck, Ohio's chief examiner for consumer finance, confirmed that his office has not had many complaints about the lending companies. He said the lenders provide a valid service, offering easy access to products but charging higher prices.

"They are the financial equivalent of convenience stores," Keck said. "You can be in and out of one of those places in 10 minutes. It's the same principle as a gallon of milk: Some people are willing to pay more for a gallon of milk because the store has made it so easy for you to go get it."

Consumers seem to agree. Where Ohio had just 88 payday loan outlets in 1995, today there are 444. In Indiana, the industry has grown from 15 outlets with \$12.7 million in sales five years ago to 454 outlets with \$287 million in business in 1998.

"Our growth is based on customer need," said Jim Frauenberg, president of the Ohio Check Cashers Association and owner of Check\$mart, a Columbus-based check-casher with 42 outlets in the Tri-State and Florida. "People are voting for us by coming into our stores."

Unlike most pawn shops and check-cashing services in the past, these payday loan companies cater to working, middle-class customers who simply cannot make ends meet.

The typical customer earns between \$20,000 and \$45,000, has lived at his current residence more than 4 years and has been at the same job 4 years, according to the National Check Cashers Association. All of them have checking accounts.

"My experience is that people who get into paycheck lending tend to be hardworking ... get into a crunch and then get into a cycle of payday lending," said Ron Frederick, a Cleveland attorney who concentrates on consumer law. "Either they get themselves out at some

customers to pay down the principal, critics say.

The rampant success of the payday lending industry also highlights an often overlooked fact about the robust U.S. economy: More people are working, but many of them are not making enough money to keep ahead of their debt.

Often tucked in suburban strip malls, the outlets offer consumers short-term advances to tide them over until their next payday. The companies typically charge fees every two weeks for the service, amounting to annual interest rates topping 300, 700 or even 1,000 percent.

On an average \$100 loan in Ohio, the consumer gives the lending company a postdated check for \$100 plus a fee of up to \$15. The fee can be paid at the time or added to the check. State law effectively limits the fee to \$7.50 per \$50 loaned. Up to \$500 may be borrowed.

The loan period lasts for two weeks, at which time the borrower must pay back the amount in cash, let the lender cash the check or get a loan from a second company to pay down the first debt. Ohio law prohibits borrowers from rolling over their debt at the same company for a second two-week period or getting a new loan at the same company before paying off the first.

But an informal survey by The Post of 10 Cincinnati payday loan companies found four of them willing to roll over loans and only one that could provide the annual percentage rate as required by state law.

Those inconsistencies - and other practices permitted by law - have consumer advocates worried. "If you need money bad enough to go to one of these stores, you're probably not going to have the money to pay it off," said Mary Hurlburt, credit educator at the nonprofit Consumer Credit Counseling Service of Greater Cincinnati.

Ms. Hurlburt and local consumer rights lawyers point to horror stories in which borrowers over-extended themselves and could not get out. One of her clients had taken out loans at 11 different payday loan companies, using the money from one to pay off his debts at the others until he owed more than he could even borrow. Another man had to take off a day of work every other week just to drive around the Tri-State making interest payments on all his loans.

Judy W. of eastern Indiana had loans from six different payday loan companies, owed \$2,250

expense or they get stuck to the point where they can't pay any more."

Critics of the industry agree that the companies do provide a service - one that helps the consumer immediately but one that could drive them into deep debt over the long term. Some people never get out of debt while they have access to these expensive loans, said Jean Ann Fox, author of a consumer report that slams the industry.

"If you have an emergency you have to figure out how to live with it," said Fox, director of consumer protection at the Consumer Federation of America, a nonprofit organization in Washington, D.C.

Mrs. Davis has seen both sides of the payday lending industry. Before she defaulted on her loan, the Portsmouth woman often borrowed against her next paycheck and always paid up. She had to pay a high fee for the privilege, but she believed she had few other choices.

Now Mrs. Davis runs a day care business out of her home. She still cannot afford to pay back her last loan.

"These people who are most victimized are not people who don't have jobs," said Steven Shane, a Bellevue, Ky., attorney representing Mrs. Davis. "They're just folks who need to have some money to pay their rent or keep their cars from being repossessed."

### **How payday loans work**

On an average \$100 loan, the consumer writes a postdated \$100 check to the creditor as collateral. The customer also pays a fee ranging from \$5 to \$15 for a term of up to two weeks. At the end of the term, the borrower must either come up with the cash to pay it off or get another loan elsewhere. Ohio law forbids customers from renewing loans. It has become a quick, popular way for the working poor and middle-class - who can't get bank loans or who have over-extended credit cards - to obtain a loan, albeit at a high cost.

### **What you need to get a loan**

Each payday lender requires a different degree of information before giving out loans. Most require borrowers to prove they have had a job and lived in the same place for at least six months. ACE America's Cash Express in Silverton asks consumers for:

in principle and paid more than \$600 a month in fees. When she could not pay down her debts, she tried to commit suicide last August.

"I just kept getting more ground-in and more ground-in," she said. "I kept finding another place, and another place, and another place, and another place until I was into six of them and then I couldn't pay them back."

But industry advocates respond that they are providing a much-needed service and that the horror stories are only extreme examples. The loans are only meant as a short-term advance to tide borrowers over until their next paycheck, they say.

"Until we came along there was a huge void in the marketplace," said David Davis, one of several principals for Check 'n Go, a Mason-based payday loan company. "Traditional lenders - banks and savings & loans - have really retreated from loans (and) advances in small denominations. The reason is, they can't afford to do it."

Ohio banking regulators have gotten few complaints about the industry and payday loan companies are having phenomenal growth.

1. Page one of a phone bill, utility bill or credit card statement.
2. Most-recent pay stub and a copy of their W-2 form for 1998.
3. Checkbook showing account has been open at least three months.
4. State ID.

#### **Who uses payday loans?**

Payday loans are most often used by the lower middle class and the working poor, who lack access to credit. According to the National Association of Check Cashers, the typical borrower:

1. Makes between \$20,000 and \$45,000.
2. Has lived at their current residence almost 4.4 years and been at their current job nearly 4 years (35.8 percent own their own home).
3. Has a checking account (a requirement to get a payday loan).
4. Lacks a clean credit record and/or credit cards.

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