



EMBARGOED UNTIL 11:00 AM, WEDNESDAY, FEBRUARY 13, 2008:

Contacts:

Spiros Protopsaltis, (303) 521-7400, spiros@c-pe.org

Rich Jones, (720) 219-4394, jones@thebell.org

Mark Eddy, (720) 201-4251, marke@markeddycomm.com

Joe Watt, 303-297-0456, watt@thebell.org

NEW REPORT DRAMATICALLY SHOWS HOW PAYDAY LOANS TRAP HARDWORKING COLORADANS IN A CYCLE OF DEBT

Predatory Fees and Unfair Repayment Terms Force Continuous Loan Rollovers; 70% of Payday Loans Held by Borrowers with 11 or More Loans in 12 Months

Denver, CO – “*The Truth About Payday Loans: How Hardworking Coloradans Take the Bait and Get Caught in A Cycle of Debt*,” a new report released today by the Center for Policy Entrepreneurship and the Bell Policy Center, clearly demonstrates that payday loans are predatory products that trap borrowers in an unanticipated and costly cycle of long-term debt they cannot easily escape. Using data from the Colorado Attorney General’s office, this report describes the industry’s rapid growth in Colorado since 2000, when state law exempted it from regulations and state usury caps that mainstream lenders must abide by.

“The Colorado payday loan industry has exploded in recent years, enabled by a 2000 state law that the industry has used as a special pass to take advantage of the growing credit crunch and financial hardship facing working Coloradans,” said Spiros Protopsaltis, President of the Center for Policy Entrepreneurship. “The result is that each year Colorado’s working families spend \$75 million on exorbitant payday loan fees that they could be using instead to catch up on bills, pay off debt and get back on their feet.”

Also known as deferred deposit loans, payday loans are short-term, typically two weeks and secured with a post-dated check signed by the borrower. Payday loans cannot exceed \$500 and the maximum finance charge is \$75. But instead of serving as one-time emergency loans, the terms make it nearly impossible for them to be paid back on time and lead to continuous borrowing. Specifically, the report shows that in 2006:

- Borrowers took out an average of 9 loans
- The average payday loan annual interest rate (APR) was 353 percent
- The average borrower paid \$544 to borrow \$343

- Almost 2 out of 3 payday loans (65 percent) were either refinanced loans or loans given to a borrower the same day as the previous loan was paid off (“rollover loans”), and
- During 2000-2006, 70 percent of all loans went to borrowers who had 11 or more loans in the past 12 months.

The federal government and several states have taken action to place reasonable restrictions on the interest and fees payday lenders can charge and to protect consumers from unfair and predatory repayment terms. In 2007, the U.S. Department of Defense determined that payday loans were a harmful product and Congress mandated a 36 percent rate cap on payday loans for military personnel and their dependents. Eleven states have taken a variety of approaches in regulating payday lending, from criminalizing it to capping the interest rate, while several others are currently considering legislation, including Virginia, New Hampshire and Kentucky.

In 2000, the legislature authorized the payday lending industry to operate in Colorado and exempted it from the state usury cap of 45 percent APR. This law, the Deferred Deposit Loan Act (DDLA), facilitated the growth of the payday lending industry in Colorado, but it has proven to be a costly trap for borrowers and now we must pull it back.

“No one anticipated that the legislation passed in 2000 would lead Coloradans into a cycle of debt,” said Rich Jones, Director of Policy and Research at the Bell Policy Center. “By using existing law the payday loan industry has evolved into something that hurts instead of helps Coloradans.”

“It’s time for Colorado to join Congress and a growing number of states in saying that a 350% interest rate is simply unacceptable and should no longer be allowed,” said Jones. “Our report identifies the problem and why this is a harmful, abusive product, and now lawmakers need to take decisive action to improve payday loans and make them more affordable and easier to repay.”

After reviewing the various policy approaches used to rein in payday lending, the report concludes that an interest rate cap, as adopted for the military and several states, is necessary to help borrowers to pay back their loans and avoid the long-term debt trap of “rollovers” and “refinances.”

“As long as the payday lending industry is allowed to charge a triple-digit APR, borrowers will struggle to pay back their loans,” said Protopsaltis.

“If a lender cannot make a profit at 36% interest, then there is something wrong with their business model,” said Protopsaltis. “Responsible lending does not preclude profitable lending.”

In the current legislative session, Representative Mark Ferrandino (D-Denver) and Senate President Peter Groff (D-Adams, Denver) have introduced legislation to protect consumers while still allowing the payday loan industry to make a profit. House Bill 1310 follows the recently enacted Oregon legislation - a reasonable, simple, cost-efficient and effective means of regulating the payday loan industry by capping interest at 36%, allowing a one-time origination fee, and extending the loan term to a minimum of 31 days.

“The data in this report clearly show the need for legislation to reduce the fees charged on payday loans and extend the time period borrowers have to repay them,” said Rep. Mark

Ferrandino (D-Denver). “Currently, the way these loans are structured they trap many unsuspecting Coloradans into long-term debt. My legislation, House Bill 1310, would lower the fees that can be charged by payday lenders and extend the repayment period to 30 days from the current 14 days. This will go a long way to making these products better for hard-working Coloradans.”

“The report underscores the need for strong legislation to address many of the harmful effects faced by hard-working, vulnerable Coloradans,” said Sen. Peter Groff, the lead Senate sponsor of HB 1310. “I see the negative effects of payday loans firsthand every day in the communities that I represent.”

The Bell Policy Center and the Center for Policy Entrepreneurship are part of a growing coalition that support HB1310 to protect borrowers from predatory payday loans, including ACORN, Colorado Progressive Coalition, Metro Organizations for People, Mile High United Way, AARP, Lutheran Ministries and others.

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About the Bell Policy Center

The Bell Policy Center is non-profit, non-partisan public policy and research center. The believes Colorado should be a state of opportunity — a place where all people can build better lives for themselves and their families. The Bell Policy Center is committed to identifying and promoting policies that help individuals and families access opportunity and move toward self-sufficiency. For more information please visit www.thebell.org

About the Center for Policy Entrepreneurship

The Center for Policy Entrepreneurship (CPE) is a private, non-profit public policy research and advocacy organization dedicated to identifying, developing and bringing to life creative and effective solutions to critical challenges facing Colorado. For more information please visit www.c-pe.org