

Payday Loan Bans on Rollovers Don't Stop Them

Repeat Borrowing

Payday loans are balloon payment loans, due in a single lump sum payment on the borrower's next payday. Many consumers pay to renew a loan rather than permitting the check provided to get the loan from bouncing or overdrawing the bank account. Failure to at least pay the finance charge to extend the loan will result in insufficient funds fees charged by both the payday lender and the consumer's bank. A check deposited to repay a loan may cause other checks written by the borrower to bounce.

Many Ways to Roll Over a Loan

A loan is "rolled over" when a payday loan is extended for another pay cycle before the loan is again due. The lender collects the finance charge, but the loan principal is not reduced. Some states ban rollovers, but bans don't stop rollovers, because bans are easily circumvented. Lenders can allow borrowers to pay off one loan and immediately take out another one, sometimes called back-to-back transactions or serial loans. Although this is nominally a new loan, it has the same financial impact as renewing a loan. Borrowers can effectively roll over a loan by borrowing from a second lender to repay the first or by taking out multiple loans to keep checks from bouncing at loan outlets.

Limits on Loan Renewals Fail to Prevent the Payday Loan Debt Trap

State payday loan laws attempt to limit rollovers by limiting the number of times a loan can be renewed or extended, by prohibiting one loan to repay a prior loan at the same lender, or imposing short cooling off periods between paying off one loan and getting a new one. None of these work to prohibit repeat borrowing, as they do not help borrowers work their way out of the payday debt trap. Cooling off periods are typically 24 to 72 hours and still leave borrowers unable to afford lump sum repayment without having to borrow again prior to the next payday. Florida limits borrowers to one loan at a time from all lenders in the state, with a 24-hour cooling off period between loans. In Florida, 89% of loans go to borrowers with five or more transactions per year and 57% of loans go to borrowers with 12 or more loans per year. Florida borrowers average 8 per year, even with the strictest renewal limits on the books.

Payday Loans are too big, too expensive, too risky, and too easy to get. Limiting rollovers does not make these loans safe for cash-strapped families. Consumers need affordable installment small loan products.

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