

Payday Loan Databases Don't Address the Debt Trap

- **A handful of states – including Oklahoma, Florida, Colorado, and Washington – have attempted to address the predatory aspects of payday lending by enacting loan limits and databases, among other fixes.** For example, Oklahoma limits borrowers to two loans at a time, and Florida limits borrowers to one loan at a time. Both states enforce their respective limits with a database.
- **Despite the protections, however, repeat borrowing in both states continues to present a major problem, and is largely unaffected by the limitations.** Oklahoma borrowers are flipped an average of eight times per year, while Florida borrowers are flipped an average of seven times per year. Approximately ninety percent of payday loans in both states go to borrowers caught in a cycle of debt that leads to five or more payday loans per year. Similar numbers may be found in Colorado and Washington.
- **The level of repeat borrowing in these states is consistent with the data reported by Virginia's Bureau of Financial Institutions (BFI).** According to BFI, the average Virginia borrower took out 7.5 loans in 2005 from a single payday loan company, paying back nearly \$700 for a \$300 loan.
- **The industry's profitability depends heavily on repeat borrowing.** In Florida, for example, 57% of the state's payday loans went to borrowers with 13 or more loans per year.¹ As a result, the industry's negotiators have been steadfastly opposed to any meaningful legislative effort that would put an end to the debt trap that causes the vast majority of payday borrowers to take out multiple payday loans in a year.

The only states that successfully protect consumers from the payday lending debt trap are those that hold payday lenders to the same rules as other small loan lenders in the state, with no special exceptions for interest rates or loan terms.

¹ Virginia does not report on the *percentage of the state's payday loan volume* that go to borrowers with 13 or more loans per year. Instead, the data from BFI simply indicates the *number of borrowers* with 13 or more loans.

Sources:

Colorado Department of Law, 2006

Veritec Inc., *Florida Trends in Deferred Presentment: State of Florida Deferred Presentment Program*, August 2006.

Veritec Inc., *Oklahoma Trends in Deferred Deposit Lending: Oklahoma Deferred Deposit Program*, Aug. 2006.

Washington State Department of Financial Institutions, *Payday Lending Report: Statistics and Trends 2004*.