# Payday Loan Repayment Plans Don't Work

**Payday loans create a debt trap** for many borrowers. Loans are too large (average around $350), cost too much (about 400% APR or $50 finance charge for a $350 loan), for too short a repayment period (one pay period or about two weeks), and made to cash strapped borrowers without consideration of ability to repay. It is inevitable that borrowers unable to repay the initial loan in full on the next payday will either take out additional loans, pay to renew the loan, or pay the loan and shortly take out another one.

Over 90% of payday loans go to borrowers who had five or more loans during one year. According to the Virginia Bureau of Financial Institutions, the average borrower takes out eight loans per year from a single payday loan company. Iowa regulators report that the average customer has 12 loans per year at a single lender.

## State Payment Plans

Some states have enacted installment payment plans that can be offered to payday loan borrowers under certain circumstances. These are not affordable installment repayment terms for all loans but are typically available only after a borrower has paid to renew a loan several times. In all cases, the payment plans are voluntary. These states have payment plans in their laws: Alabama, Alaska, Florida, Illinois, Michigan, Nevada, Oklahoma, and Washington.

## Payment Plans Do Not Prevent the Debt Trap

Payday loan borrowers in states with payment plans are mired in repeat borrowing. In Oklahoma, 91% of loans go to borrowers with five or more transactions per year and borrowers average 9 loans per year. Less than half of one percent (0.39%) of loans employ the payment plan. In Washington, 90% of loans go to borrowers with five or more transactions per year, with the average borrower having 8 loans per year. Less than 0.8% of transactions employ the payment plan option. Less than one percent (0.51%) of Florida payday loans take advantage of the 60 day grace period available to borrowers.

## Why Payment Plans Do Not Make Payday Loans Safe For Borrowers

State payday loan payment plans can be hard to use. Lenders have big incentives to discourage use of plans. In some cases a borrower has to pay to enter the plan, meet obscure deadlines and technical triggers, and be shut out of other borrowing during the plan or a cooling off period after the plan. Lenders can easily persuade a borrower to renew a loan instead of entering a repayment plan. Installment repayment of principal and interest is not the automatic payment schedule for payday loans.

## Consumers Need Affordable Initial Small Loan Terms, Not Hard-to-Use Repayment Plans After Paying to Renew Multiple Payday Loans at Triple-Digit Interest

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