

Payday Loan State Databases Don't Work

A few states that authorize payday lending enforce limits on loan size, frequency, and use by requiring licensed lenders to report loan transactions to a central database that must be consulted by other lenders in making loans. These databases provide a limited form of credit report and typically are subcontracted by state regulators to a private company. In addition to being an enforcement tool, database operations provide aggregate loan use data to regulators and the public. State laws or regulations provide privacy and security requirements for data held by the database contractor.

States with Database Programs

Florida, Oklahoma, Indiana, North Dakota, Michigan, Illinois, and Alabama require licensed lenders to utilize one or, in the case of Alabama more than one, database. Indiana permits lenders to use either Veritec or Teletrack but both databases must coordinate for verification of information. Databases can be good enforcement tools, but do not, by themselves, make payday loans affordable, safe, or appropriate credit products.

The database as a means of rationing payday loans can be evaded by lenders who require family members to take out subsequent loans for which the original borrower is not eligible. A few regulators have reported that some lenders hold customers' hostage from borrowing at competitors by failing to report their loans as paid to the database.

Loan Limits, Not Databases, Make Loans Affordable

If state loan law limits are not effective in curbing abusive lending, a database to enforce those weak limits will not reduce a borrower's chances of sinking into a payday loan debt trap. Lenders that evade a state's payday loan law will not be restrained by a database program. For example, many payday lenders in Illinois turned themselves into installment lenders with no statutory rate cap when the Illinois payday loan law took effect. The database report issued shortly after the payday loan law's effective date showed clearly that loan volume was much lower than would be expected for the population. Instead of complying with modest restrictions on lending, companies modified their loans to evade the definition of a payday loan.