CENTER FOR RESPONSIBLE LENDING

Why We Must Keep Payday Lenders Out of North Carolina

North Carolinians caught in the debt trap

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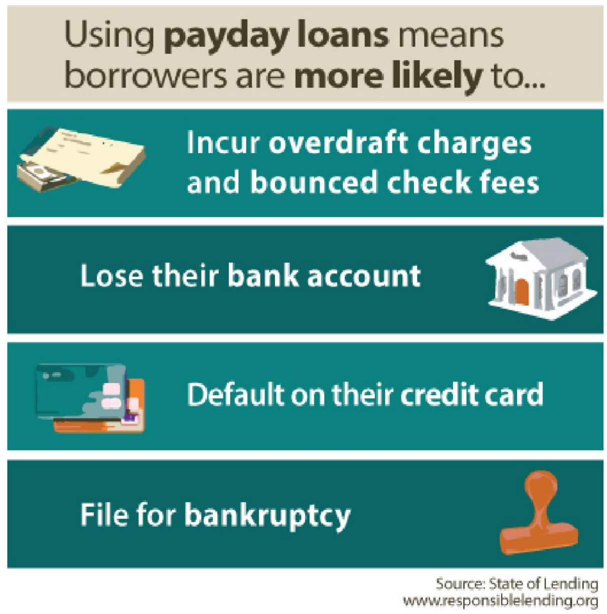
Since payday storefronts left our state in 2006, North Carolina families living paycheck to paycheck have saved over $1.4 billion—$153 million every year for the last 9 years.

The typical payday borrower pays over $800 to borrow $350. They are in debt at 391% annual interest for over half the year, often continuing in debt the second year.



Payday loans have been illegal in North Carolina since 2001, and the last payday shops left our state in 2006. But, payday lenders desperately want to re-enter the North Carolina market with their 400% annual interest rate loans.

Payday lenders claim that their loans help people deal with one-time, financial emergencies, but borrowing patterns show the opposite. Over three quarters of payday lending revenue is generated by borrowers caught in the debt trap caused by these loans. After repaying their loan on the day their paycheck or benefit check arrives, they borrow again to fill the hole in their budget caused by paying back the last loan, and borrow again and again, falling further behind every month.

To remember why we must keep payday lenders out of North Carolina, read about North Carolinians who were caught in the payday debt trap when these loans were legal.

The Grandfather: Arthur Jackson*, a 69-year-old warehouse worker and grandfather of seven, went to the same Advance America payday shop for over five years. His total interest paid is estimated at about $5,000 for a loan that started at $200 and eventually increased to a principal of $300. Advance America flipped the loan over a hundred times, collecting interest of up to $52.50 each time. Every payday, rather than defaulting (which could mean bounced checks) or coming up short on bill money, Jackson went into the Advance America store, renewed his loan, and paid the fee. The clerks knew him by name, and often had his paperwork ready for him when he came in.

The Homeless: Lenny James*, who made about $600 a week, went to Advance America thinking a payday loan would help him catch up on an overdue bill. Over a year later, he had renewed his Advance America loan every two weeks, fallen deeper into debt, and taken a second payday loan to stay afloat. James lost his apartment and ended up in a homeless shelter. While he lived there, Advance America continued to flip his 521% APR loan, charging $20 per $100 every two weeks.

Senior Faced Eviction: Betty*, a senior in Durham, took out a small $100 payday loan. She had no other debt at the time. When this loan came due a month later, she borrowed from a second payday lender to repay the first. And, then she did this four more times. Each time, it was slightly less expensive to flip a loan than to pay the bounced check fees if she defaulted. With six loans, she was paying over half of her $564 monthly Social Security income in payday fees, never paying down a penny of principal on these loans. She lost her phone and got one-time emergency help from social services to avoid eviction. We suspect she was later evicted when we could no longer reach her at her apartment.

The Couple Disqualified for a Loan Modification: Mr. & Mrs. Anderson* were unable to cure the default on their home loan because of their payday loans. A construction worker, Mr. Anderson had taken out payday loans from Advance America to help them through a bout of bad weather that slowed his work. They paid $200 every two weeks in fees to Advance America, for loans in both his and his wife's names. This debt disqualified the couple for their loan modification.

The Business Woman: Sandra Harris, a successful professional, worked diligently to keep up with her bills. In a tough time, she turned to payday lending. After several rollovers, Harris's first loan was due in full. She couldn't pay it off, so she took a loan from a second lender. Frantically trying to manage her bills, Harris eventually found herself with loans from six payday lenders including Advance America, Check Into Cash, Check 'n Go, Urgent Money Express and two on-line lenders. She paid over $600 per month in fees, none going to pay down her debt. She was evicted and her car was repossessed. "At the time it seems like the way out, but this is not a quick fix. It's like a ton of bricks," said Harris.

The Grandmother: Anita Monti went to an Advance America store in hopes of finding a solution to a common problem -- how to delight her grandkids on Christmas. Unable to repay the loan, Monti had to renew her loan with Advance America every payday, paying $45 to keep the same $300 loan outstanding. She went to a second payday lender, Check 'n Go, to help repay Advance America. Monti could not afford the $820 it would take to pay off the two loans in full and get out of debt. After just four months, she had paid almost $1000 in fees, and still owed the $820 in principal. "I got a promotion and a raise, but I never saw any of that money," said Monti. She finally went to her church to get help paying the rent, and to a consumer credit counseling agency to get help negotiating a repayment plan. It took Monti nine more months to complete these payments. "I felt like I was in a stranglehold each payday. After a while, I thought, 'I'm never going to get off this merry-go-round.' I wish I'd never gotten these loans."

The Construction Worker: Danny Harrell**,** a forklift operator from Kannapolis, was making $9.00/hour. He got behind on his bills after being hospitalized from a heart attack and stroke. He went to his first payday lender in March 2000 and borrowed $300 for a 7-day term. This was about the same as his weekly pay, so he could not afford to pay back the loan, and got caught in the debt trap of refinancing the loan repeatedly. Over the course of two years, he used eight different lenders including Advance America, Advance Internet, Check into Cash, and First Southern Cash Advance. He paid more than $5,000 in fees over the next two years, with over 170 check stubs for payments to these payday lenders.

Another Grandmother: With retirement and disability income, Mary Hamilton*, a 62-year-old African-American mother and grandmother brought in about $1000 per month. She took out her first payday loan because she needed "a little extra" money to go out of town. Like many borrowers, she had to take out a second loan to pay off the first. She ended up with loans from four payday lenders. "When I get a little extra money, I'm going to pay them off and I'm through with them," said Mary. "It's a rip off. There's nothing cute about it. I'm supposed to get some money, but I lose money." The fees Mary paid to keep from defaulting on her payday loans added up to over 40 percent of her monthly income.

*Name changed to protect the borrower's privacy.

For information about keeping payday lenders out of North Carolina,
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http://www.stopthedebttrapnc.org/