Frequently Asked Questions

WHY WOULD ANYONE TAKE OUT THESE LOANS?

Payday lenders have created an industry that preys upon people in a time of vulnerability and intentionally traps them in a cycle of debt. Many people who take out payday loans feel that it is their quickest and best option. A payday lender located right in their neighborhood, with slick marketing and an inviting environment seems like an easy and responsible choice. When faced with the cost of these loans, borrowers are overly optimistic about their ability to repay without having to reborrow. This quickly escalates the cost and compounds the problem. Customer surveys show that when caught in the cycle of debt created by payday loans, borrowers end up turning to sources of help that were available before they took out an initial loan.

WHAT ARE THE LOANS TYPICALLY USED FOR?

80% of payday loans are taken out to pay off previous payday loans. While marketed as a short-term solution for emergency expenses, neither is typically the case. According to borrower surveys, 69 percent of loans are used for routine, recurring expenses, and the two-week loans often result in five months of debt or more.

WHAT WILL PEOPLE DO IF THESE LOANS ARE LIMITED OR BANNED?

There are other options: credit unions or longer term loans that don't have 400% interest. But it is also important to note that 25 years ago, these loans did not exist. In states that have banned or restricted payday loans, surveys show residents are pleased they are no longer available.

WHY IS FEDERAL REGULATION NEEDED TO FIX THIS PROBLEM?

State-based small loan laws have resulted in a patchwork of regulations and dramatic differences between states. Currently, 14 states and the District of Columbia prohibit or tightly regulate payday lending while in other states there is no limit to what can be charged. When faced with new state regulations lenders often modify business practices just enough to find a new loophole or evade the law. Many lenders are publically traded with a national footprint, they should be regulated accordingly.

ISN'T THIS PROBLEM DUE TO LACK OF EDUCATION AND PERSONAL RESPONSIBILITY?

Education is important and many churches offer financial literacy to their communities. But ultimately, the behavior that needs to be regulated is not the customer's: it's the behavior of lenders. For years, our states had the wisdom to ban usury. Today, payday lenders are pushing a morally corrupt product.

WHY NOT ALLOW FREE MARKET COMPETITION TO FIX THIS BY DRIVING DOWN COSTS?

Thus far, free market competition has had little effect in driving down costs. In states with a rate cap, payday lenders that should be in competition tend to have interest rates at roughly the same level. In states without a rate cap, they still charge roughly the same amount. But payday lenders aren't competing with each other's price. What matters to their business model is convenience and trapping individual customers that will be stuck in the same loan for months at a time.

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