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## Lure of fast cash leads to triple-digit interest loans

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Payday loan stores say legislation would hurt 'little people'

(This is the second of two articles being published this week on the issue of payday loans in the Sandpoint area.)

SANDPOINT -- The number of local payday loan outlets has grown 200 percent in the past five years, from three in 2003 to nine stores as of this month.

That's a substantial growth rate, but it pales in comparison to the annual percentage rate (APR) those stores charge for loans. At the going fee of \$20 per \$100 borrowed, the average payday loan can cost the borrower as much as 520 percent APR.

At present, Idaho requires only that these lenders be licensed -- a streamlined process that can allow them to start up a new shop in about a month. The state's Department of Finance monitors financial reporting after that point.

Beyond that, there are no restrictions on fees that can be attached to a payday loan and no limitations on how much interest can be charged.

The lack of such regulation leaves Idaho in a decided minority at the national level, where only eight states have not passed legislation that completely prohibits payday loans or places tighter caps on APR, additional fees and how frequently loans may be made to the same borrower.

This month, Sen. Shawn Keough, R-Sandpoint, and Rep. George Eskridge, R-Sandpoint, are working on draft legislation to further regulate the industry. Payday lenders say that any added regulation -- such as lowering APR or requiring a "cooling-off" period before another loan could be made -- could hurt their business.

"It would highly impact us, because a lot of people depend on us between pay periods," said Melissa Abeyta, branch manager at the Quik Cash store in Ponderay. "It would hurt the little people."

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Payday loans fill banking gap

The growth in the payday loan industry took root in the 1980s, when deregulation and the elimination of interest rate caps spurred large banks to move out of low-income areas and the inner city in search of larger, more profitable loans. In their wake, payday loan stores found a readymade clientele.

By the 1990s, more than 10,000 such lenders had opened shop. The Center for Responsible Lending (CRL) now estimates there are more than 25,000 payday loan stores in the U.S. -- nearly twice the number of McDonald's franchises nationwide.

According to CRL, payday lenders have created a \$28 billion industry, with about \$5 billion coming from additional loan fees paid by customers.

A Web search of the Idaho Department of Finance licensee database lists the names of 227 payday loan businesses across the state, many of them franchised by out-of-state owners. Based on a 2005 CRL report, customers in Idaho were charged more than \$26 million in additional loan fees during that year, but the number

of payday lenders in the state has grown considerably since that time.

### Location is Everything

As mentioned, payday lenders in metropolitan areas tend to cluster in inner cities, often using professional real estate location firms to determine where they can find the highest concentration of the lowest-income residents. In the Sandpoint area, the location strategy is similar, though more subtle.

Lacking a distinct, low-income neighborhood to target, lenders instead must place themselves where traffic in that kind of customer is likely to be the highest.

In Ponderay, one can literally see four payday loan stores from the Wal-Mart parking lot. The fifth is located a two-minute drive away, next to a thrift store.

The thrift shop connection is the location vehicle of choice for payday lenders in Sandpoint, where four of them can be found ringing the Goodwill Industries store.

"Two-thirds of the borrowers who use payday loans are office workers, blue-collar employees or people on some form of government support," said Jean Ann Fox, director of financial services and a consumer protection advocate for the Consumer Federation of America. "A family earning \$25,000 with no savings is eight times more likely to take out payday loans."

### High Risk, High Gain

Proponents of the payday loan industry argue that these customers would never be considered for loans by most banks or credit unions because they don't have collateral or a strong credit history.

"That's why the interest rates are so high," Quik Cash's Abeyta said. "You're risking not getting your money back."

These same customers may also come to view the payday loan store as a surrogate for the banking relationship they would like to have under different circumstances.

"I think people start out using it when they're in a pinch and when they realize it's not so bad, they use it as an alternative to traditional banking," Abeyta said.

At the Money Depot in Ponderay, co-owner Peter Gillis calls his business "a convenience store for money," but also agreed that some customers use his service in much the same way as other people might use a bank.

"While the legislators have the right spirit in mind, these are people that don't fit the banking model and are looking for other options," he said. "These are folks who are having a tough time. Otherwise, they wouldn't be in our store."

### Breaking the Cycle

While both Gillis and Abeyta said they do not encourage customers to use payday loans as a long-term solution -- and both offer at least some discount for early payoff -- the Consumer Federation of America counters with data showing that 90 percent of payday loan revenues nationwide come from what it calls "trapped borrowers" who are forced to use the lender's offer of rolling over a loan and paying additional fees.

The term "trapped borrower" may not be an overstatement. At 300 percent APR -- far lower than the more than 500 percent annual interest payday lenders are allowed to charge under Idaho's current regulation -- the interest on a loan can exceed the principal in only four months.

According to Fox, these loans add up to a house of cards that looks like a dangerous replay of the sub-prime mortgage fiasco that has hobbled the U.S. housing industry and rocked world financial markets in turn.

"Payday loans involve getting cash-strapped people locked into a situation of long-term, triple-digit interest rate debt," she said. "These people have no proven means of repaying those loans and we've seen what a wonderful outcome that has had in the mortgage industry."

If legislation passes that imposes rate caps or restricts loan terms, lenders warn, they will be forced to move their business to states that don't have such regulation. If that happens, they say, the little guy will get caught in the crossfire.

"The whole dynamic is that states with cooling-off periods and rate caps force payday loan businesses to close," Gillis said. "Then, these customers end up pawning things at pawn shops or putting up their vehicle for a title loan. People will always find ways to get quick money."

Local advocates for low-income families, meanwhile, say the lure of quick money in the form of payday loans targets the very people they are trying to help work their way out of poverty and catches them up in a cycle of debt that becomes nearly impossible to break.

Brenda Hammond, who works as a coach for the Circles Initiative program that is offered through the Community Action Partnership office in Sandpoint, tells the story of a single mother of four who recently celebrated her freedom after paying back two such loans. Within weeks, she had car trouble and an expected check was delayed. Her first stop was the payday loan store.

"Now she's right back in debt, up to two loans again," Hammond said. "She's locked into a situation where those loan payments come out of her check before anything else and she's fallen two months behind on rent."

"The bottom line is this," said consumer advocate Fox. "This kind of loan takes advantage of the low-income population. How can you say you're helping people when you trap them in repeat borrowing at 520 percent interest?"

- Submit your payday loan experiences, comments, etc. on the Daily Bee's weblog at [www.bonnercountydailybee.com](http://www.bonnercountydailybee.com).