

Improving Family Economic Security: State Legislation on Payday Lending

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Definition of Payday Loan

- Payday loans are **short-term, high-cost loans** that are usually due to be paid back on the borrower's next payday; in cases, they can also be repaid from benefits.
- Borrowers generally do not need to undergo a credit check in order to obtain payday loans, making them **popular among low-income families** who may not yet have established strong credit histories.
- Payday lenders often **debit borrowers' accounts** for repayment (sometimes repeatedly even when the account has insufficient funds.) As a result, banks accrue billions of dollars in “junk fees” from vulnerable households.
- Frequently, **lenders will renew payday loans** if borrowers cannot repay all or part of the original amount.
- **The annual percentage rate (APR) of such loans can easily rise as high as 400% to 1000% per year.**



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Research on the Effects of Payday Loans

Studies (cited in the notes to this slide) have found the following:

- **Access to payday loans leads to increased difficulty paying mortgage, rent and utilities bills.**
- **Customers of payday loans can experience “repayment optimism bias”;** disclosures of the sum of fees from repeated rollovers reduce the likelihood of obtaining another loan in the near future.
- **Restricting loan rollovers can increase borrowers’ welfare through faster repayment (yielding a lower APR).**



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States' Restrictions on Payday Loans

These are some ways in which states can restrict the practice of payday lending:

- Ban payday loans
- Require payday lenders to be licensed
- Restrict lenders from rolling over or renewing loans
- Restrict the Annual Percentage Rate (APR) that can be added to the original cost of the loan
- Cap the cost of the loan
- Cap fees, e.g., ranging from \$10 to \$30 for every \$100 borrowed
- Restrict the amount of payday loans (relative to income?)
- Require information disclosures to borrowers



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Community States: Status on APR limits of 36% or lower

Enacted Limit	No Limit
Arkansas	Alabama
Colorado	Alaska (legislation underway: see SB 264)
Hawaii	Delaware
Maryland	Georgia
Minnesota	Indiana
New Jersey	Kentucky
New Mexico	Louisiana
New York	Michigan
North Carolina	Mississippi
South Dakota	Oregon
	South Carolina
	Texas
	Virginia
	Washington
	Wyoming



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New Federal Rule of the Consumer Protection Financial Bureau (effective 3/25)

A new Rule targets the accumulation of junk fees resulting from payday lenders repeated attempts to debit borrowers' accounts. It will:

- **Restrict lenders from attempting to withdraw payment for loans after two consecutive attempts have failed** due to lack of sufficient funds, unless the borrower specifically provides new authorization to do so; and
- **Require lenders to give consumers certain notices, including advance notice before attempting to withdraw a payment** for the first time.



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Federal Guidelines: Provisions of the Military Lending Act (MLA)

Active-duty service members are protected by these provisions:

- **A 36% interest cap (also known as the Military Annual Percentage Rate, or MAPR)** including finance charges, credit insurance premiums or fees, add-on products, or other fees such as application fees.
- **No mandatory allotments, or** automatic amounts of money taken from the borrower's paycheck to pay back a loan.
- Lenders can't require borrowers to submit to mandatory arbitration or give up certain rights under State or Federal laws like the Servicemembers Civil Relief Act.
- **No prepayment penalty.** A lender can't charge a penalty if a borrower pay back part – or all – of the loan earlier than its due date.



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Additional Resources

[Consumer Financial Protection Bureau](#) website.

Allcott, Hunt, Joshua Kim, Dmitry Taubinsky, and Jonathan Zinman. "Are high-interest loans predatory? theory and evidence from payday lending." *The Review of Economic Studies* 89, no. 3 (2022): 1041-1084.

Bertrand, Marianne, and Adair Morse. "Information disclosure, cognitive biases, and payday borrowing." *The Journal of Finance* 66, no. 6 (2011): 1865-1893.

Melzer, Brian T. "The real costs of credit access: Evidence from the payday lending market." *The Quarterly Journal of Economics* 126, no. 1 (2011): 517-555.

Wang, Jialan, and Kathleen Burke. "The effects of disclosure and enforcement on payday lending in Texas." *Journal of Financial Economics* 145, no. 2 (2022): 489-507.



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