

**Closing the Debt Trap: The  
Kentucky Coalition for  
Responsible Lending and the  
movement to eradicate  
*predatory lending***

**Step up for Kids Conference**

Melissa Fry Konty, Ph.D and Adam Renner, Ph.D  
of the Kentucky Coalition for Responsible Lending  
October 7, 2009

- The KCRL is a broad-based statewide coalition. We formed last year to address the predatory nature of payday lending in Kentucky. Our coalition includes, to name a few: AARP, Brighton Center, CLOUT, MACED, Catholic Conference of Kentucky, Kentucky Asset Building Coalition, Family Foundation, Federation of Appalachian Housing Enterprises, Frontier Housing, Kentucky Domestic Violence Association, Kentucky Equal Justice Center, Metro United Way, and St. Vincent DePaul.
- A full current listing of member groups can be found at:  
<http://kyresponsiblelending.wordpress.com/coalition-membership/>

## Who is the Kentucky Coalition for Responsible Lending? (KCRL)

- Predatory lending takes many forms – from subprime mortgages to car title loans to refund anticipation loans to payday lenders. While all of these predatory practices need to be addressed, the KCRL is addressing the issue of payday lending first.
- Why?
  - It is an egregious practice,
  - One that hasn't been legal before, and
  - There is track record of success in other states.

**What is the Issue?**

- Payday lenders (also known as “check cashers” and “payday advance”) can charge \$15 per \$100 for a 14 day period. The business model of these lenders traps borrowers into a **cycle of debt**, as most borrowers are unable to repay loans in 14 days. A typical borrower pays off a loan and immediately takes another loan. Annually, this interest amounts to approximately 400% APR! These loans drain millions of dollars from Kentucky families each year.

**What is the Issue?**

- **PREDATORY PAYDAY LENDING COSTS THE COMMONWEALTH:** Kentuckians lost \$158 million in payday loan fees in 2008.
- **PREDATORY PAYDAY LENDING IS A DEBT TRAP:** Nine out of ten payday loans are made to repeat borrowers who take out five or more payday loans in a year.
- **PROTECTION AGAINST PREDATORY LENDING IS GOOD POLICY:** Currently, 15 states (including neighbor states Ohio and West Virginia) and the District of Columbia have laws capping rates or do not authorize payday lending.

**Some facts about payday lending**

- **PAYDAY LENDING DOESN'T SOLVE A FINANCIAL EMERGENCY, IT CREATES ONE EVERY TWO WEEKS:** Demand is a fraction of what the industry reports — 3 out of 4 payday loans are the result of borrower **churn** in which borrowers take out an additional payday loan to repay the one that's come due.
- **BETTER ALTERNATIVES EXIST:** Research indicates that imposition of a 36 % rate cap had no significant impact on the availability of credit for households in North Carolina.

**More facts about payday lending**

- ***Springing the debt trap:***

<http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.html>

- **Findings:**

- 90 percent of payday lending business is still generated by trapped borrowers with five or more loans, even in states that have attempted reform;
- 60 percent of payday loans go to borrowers with 12 or more transactions per year;
- 24 percent of loans go to borrowers with 21 or more transactions per year;
- One of seven Colorado borrowers have been in payday debt every day of the past six months;
- Nearly 90 percent of repeat payday loans are made shortly after a previous loan was paid off.

**Major research studies on payday lending**

- **Phantom Demand:**

<http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-short-term-due-date-generates-need-for-repeat-payday-loans-accounting-for-76-of-total-volume.html>.

- **Findings--** Among the over 80 percent of payday borrowers who conduct multiple transactions:
  - Half of new loans were taken at the borrower's first opportunity (immediately or after a 24-hour or more waiting period where required).
  - 87% of new loans are opened within two weeks, or generally before their next payday.
  - Only 6 percent of subsequent payday loans are taken out longer than a month after the previous loan was paid off.

**Major research studies on payday lending**

- The payday loan calculator:  
<http://www.paydayloaninfo.org/calc.cfm>
- A map of payday lending locations in Louisville and Lexington

**How it works and where it often happens**

	<u>\$25,000 Salary</u>	<u>\$35,000 Salary</u>
Before Tax Income	\$962	\$1346
Minus taxes	-\$65	-\$120
After tax income	\$897	\$1227
Minus two week expenditures on food, housing, transportation, healthcare, and clothing	-\$882	-\$1018
Money left over	\$15	\$208
Payday loan balance plus fee due	-\$374 (w/ \$49 fee)	-\$374 (w/fee)
Deficit	<b>-\$359</b>	<b>-\$166</b>

**How a \$325 payday loan might  
look in a two-week budget**

**Testimonials from those  
caught in the trap**

- The goal of the KCRL is to persuade the public, and then the legislature, to change our law in Kentucky to limit payday loan interest to 36%.

**What does the KCRL propose:**

- Impact of tracking databases
- Impact of rate caps in North Carolina and in the military
  - In North Carolina,
    - As a result of the 36% rate cap, small loans from consumer finance companies, credit unions, and other financial institutions have flourished while charging rates at or below the rate cap. For example, from 2002-2006, the number of consumer finance loans made for \$600 or less increased by 37 percent.
  - In the military
    - Banks and credit unions increased their availability of small dollar loans to meet immediate cash needs

**Alternatives that have not worked and how the 36% rate cap has worked**

- <http://kyresponsiblelending.wordpress.com>
- Email: [KCRL@communityaction.org](mailto:KCRL@communityaction.org)
- Phone: 502-875-5863
- Fax: 502-875-5865

**Contact the KCRL**