Payday Loan Fact Sheet

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Payday loans give consumers cash until their next payday. A borrower writes a personal check to the payday lender, who holds the check for a period of 14 to 31 days. At the end of that period, the check is deposited, the borrower returns with cash to reclaim the check or the loan gets renewed and the borrower pays additional fees.

- Lenders pay a $300 annual fee to operate a payday loan business in Missouri.
- Payday lenders in Missouri can make small loans of up to $500.
- The minimum payday loan term is 14 days and the maximum term is 31 days.
- Each time a payday loan is renewed, the borrower must pay off at least 5 percent of the original principal amount of the loan. A loan may not be renewed more than six times.
- The average Missouri payday loan was renewed 1.6 times in 2010.
- In 2010, about 2,430,000 payday loans were made in Missouri, totaling about $747 million.

Payday lending is commonly considered to be predatory lending.

Practices typically involve high interest rates, excessive fees, deceptive and aggressive marketing, and a general lack of concern for a borrower's ability to repay. Despite the industry's claims that payday loans should not be a long-term solution:

- Ninety percent of payday lending business is derived from trapped borrowers with five or more loans.
- Sixty percent of payday loans go to borrowers with 12 or more transactions per year.
- Twenty-four percent of loans go to borrowers with 21 or more transactions per year.
- Almost 90 percent of repeat payday loans are made shortly after a previous loan was paid off.

The Missouri Division of Finance, which regulates payday lenders, began collecting data on Missouri payday lenders in 2003. The 2011 reporting cycle includes data from Oct. 1, 2009 to Sept. 30, 2010. Since the department began reporting in 2003:

- The average Missouri payday loan was renewed 1.7 times in 2008.
- In 2008, about 2.83 million payday loans were made in Missouri, totaling about 822 million.
- Issuances of payday loan licenses increased 16.9 percent.
- Average loan amounts increased 38.5 percent, with the average loan amount being $307.56 in 2010.66 © 2011 University of Missouri Extension When Creditors Are Predators
- Annual number of loans increased 21.5 percent (more than 2.43 million in 2010)
- The average annual percentage rate (APR) increased 7.5 percent, to an average rate of 444.61 percent (the highest ever reported)

  Obviously, payday lending in Missouri has been growing over time. This has led Missouri to be number five among states in payday lending activity per capita.

- In 2010, there were more than twice as many payday loan stores in Missouri than there were McDonald's restaurants and Starbucks combined (about 1,040 payday loan stores compared to about 325 McDonald's restaurants and 157 Starbucks).

- Consumers called the Missouri Division of Finance about once a day in 2010 to complain about payday loans, and since the office has been reporting data there have been more than 6,000 payday loan related calls documented.
- Missouri is consistently one of the worst states in the nation concerning payday lending, and compared to our eight contiguous states, Missouri:
    - Has the highest APRs
    - Has the second most payday lenders
    - Is the only state to allow loan renewals

  Payday lenders are generally not concerned with a borrower's ability to repay their loans. For borrowers who are struggling to pay back loans, the costs can add up quickly.

- Lenders reported that borrowers defaulted on about 6.03 percent of the loans made in 2010.
- A payday lender can charge the borrower $20 plus the amount of bank charges incurred when a check is returned for not sufficient funds (NSF). Giving an NSF check to a payday lender is not illegal unless the borrower stops payment or closes the account.
- Around 820 Missouri payday lenders charge a NSF or not sufficient funds fee, and about 25 percent charge late fees (some even collect origination fees).

Finally, it is important to keep in mind that payday lenders work to evade legislation and introduce new products. For example, there is a rapidly growing trend of online payday loans. Fees often range from $25 (650 percent APR) to $30 (780 percent) per $100 borrowed.

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