

Payday Loans in Rhode Island Threaten Families' Financial Security

Rhode Island is the only state in New England to allow payday loans.

- Rhode Island payday loans are authorized to carry charges as high as **260% APR**.¹
- Payday lenders can charge this rate in Rhode Island because in 2001, payday lenders received a **special exemption** from the state's usury laws, enabling them to make payday loans as licensed check cashers at 260% rather than complying with the state's small loan laws.²

Payday loans drain millions from Rhode Island families and communities

- As a result of payday loans' triple-digit APR and ensuing debt trap, a typical Rhode Island payday borrower pays **hundreds of dollars in fees**, and is stuck in **9 payday transactions per year**, typically on a back-to-back basis.³
- Payday lenders annually drain **millions of dollars** from Rhode Island families, mostly to **out-of-state** payday chains, such as Advance America (based in South Carolina) and Check 'n Go (based in Ohio).⁴

Payday loans: short-term loans, long-term debt trap

- A payday loan is a small loan secured by the borrower's personal check, due in full by the borrower's next payday, typically in two weeks. Because of these terms and high fees, borrowers can't both repay the loan so soon *and* meet essential expenses, so they must take out another loan immediately upon repaying the previous one. Thus, the debt trap ensues.
- The payday industry depends on churning borrowers payday after payday. **Only 2 percent** of payday loans go to borrowers that take out a payday loan, pay it off, and don't come back for a year.⁵ The core of industry revenue comes from borrowers trapped in their faulty product.

The Solution: A rate cap levels the playing field and springs the debt trap.

- In Rhode Island, the cleanest way to rein in the 400% APR on payday loans is to end their special carve-out from the state's usury laws, thus creating a level playing field among small loan lenders and protecting consumers.
- Seventeen states plus the District of Columbia, plus Congress for members of the military, cap the interest rate for payday loans at or around 36%.⁶ Collectively, these states save their citizens nearly **\$2 billion per year** that would have been otherwise paid to predatory payday fees⁷
- Voters overwhelmingly support capping the costs of payday loans. For example, in 2008, voters in Arizona and Ohio defeated payday-sponsored ballot initiatives by 2-to-1 margins in both states, mandating an end to state statutes that allow 400% interest rates. In the November 2010 elections, 72% of Montana voters approved an initiative to cap the rates of payday loans at 36%.

¹ In 2010, Rhode Island legislature passed H 7330A lowering the fees on deferred presentment transactions from 15% to 10% of the amount financed, which still permits 260.71% APR on a typical \$300, 14-day payday loan. See R. I. Gen. Law. § 19-14.4-4(4).

² Rhode Island payday lenders operate under the state check casher law, with the explicit provision for deferred deposit transactions. See R.I. Gen. Law. § 19-14.4-5.1. This carve-out was originally enacted in 2001, but in 2005 the payday lenders received permission from the legislation to increase the loan size and costs to the current rate. All other small loan lenders, for loans under \$1,000, must comply with the rates set forth in §§ 19-14.2-11 and 12.

³ Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (Dec. 13, 2007). Even industry's own data reflects similar repeat borrowers. See, e.g., Advance America 2009 10-K, showing their average customer has 8 payday transactions annually.

⁴ According to the list of licensees maintained by Rhode Island Department of Business Regulation, as of November 2010 the out-of-state payday lending chains operate 26 storefronts in Rhode Island, with Advance America as the largest in the state with 20 storefronts and Check 'n Go comes in second largest with 6 storefronts.

⁵ Uriah King and Leslie Parrish, *Phantom Demand*, Center for Responsible Lending (July 9, 2009).

⁶ Arizona, Arkansas, Connecticut, Georgia, Maine, Maryland, Massachusetts, Montana, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, and West Virginia. Some states, such as Massachusetts, Connecticut, Maine, New York, and others, never even authorized a carve-out for payday lenders from its small dollar usury laws and enforce caps at or below 30% APR.

⁷ Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (Dec. 13, 2007).