



## Payday Lending in Missouri: Among the Most Abusive in the Nation

**What is payday lending?** *Payday lending involves a borrower writing a postdated personal check to a payday lender, who then advances the borrower up to \$500 and holds the check for 14-31 days. The borrower returns to reclaim the check by paying off the loan plus interest fees, or “renewing” the loan for another 14-31 days, in which he or she must pay down all interest fees plus at least 5% of the loan’s value for each renewal (interest assessed with each renewal). A borrower may renew up to six times, and may not pay more than 75% of the original loan in interest and fees combined. The average annual percentage rate (APR) for payday loans in Missouri is 430.68%.<sup>1,2</sup>*

**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.<sup>3</sup> Despite the industry’s claims that payday loans should not be a long-term solution, on average:

- 90% of payday lending business is derived from trapped borrowers with five or more loans
- 60% of payday loans go to borrowers with 12 or more transactions per year;
- 24% of loans go to borrowers with 21 or more transactions per year;
- Almost 90% of repeat payday loans are made shortly after a previous loan was paid off.<sup>4</sup>

**Payday lenders target the low-income population.** While traditional banks avoid low-income neighborhoods, payday lenders locate there, targeting the low-income population.<sup>5</sup>

- The typical payday loan borrower has low to moderate income. At least 20% of payday loans are made to those with annual incomes under \$15,000, and 40% are made to those with annual incomes between \$15,000 and \$25,000.
- Low-income consumers typically lack financial knowledge, have little or no assets, and have shorter financial planning horizons.<sup>6,7</sup>
- The costs of payday loans greatly increase as loans are, and most payday loan borrowers have, multiple loans (both concurrently and throughout the year).<sup>8</sup>

### Payday Lending Activity by State<sup>1</sup>



As evidenced by the map, though some states have no payday lending businesses whatsoever, Missouri has a high concentration of these establishments throughout the state, in both rural and urban areas.

**Missouri leads the region in payday lending.** There are roughly four times as many payday loan stores in Missouri than there are McDonald's restaurants.<sup>2</sup> 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 average annual percentage rates, or APRs
- Has the second most payday lenders, with only Tennessee ranking higher
- Is the only state to allow loan renewals
- Receives more complaints than most. For example, in 2006, consumers filed about 2,500 complaints about payday lenders, and by 2008 the Missouri Division of Finance was receiving roughly 10 calls every day.<sup>1,2</sup>

**Payday lending is growing in Missouri.** The Missouri Division of Finance reports on payday lending activity in the state, with the most recent report filed in January 2009. Since the department began reporting in 2003:

- Issuances of payday loan licenses increased 44.2%, with approximately 1,275 active stores at any time in 2008 (the highest ever reported)
- The average loan amounts increased 30.7% (\$290.29 in 2008)
- The annual number of loans increased 41.5% (over 2.83 million in 2008)
- The annual percentage rate (APR) increased 4.2% (430.68%)<sup>2</sup>

## Policy recommendations

The Missouri legislature and government leaders should review the current regulations related to payday lenders. The General Assembly should support current and future legislation to regulate lending practices. For example, the Illinois legislature enacted the Payday Loan Reform Act, which successfully lowered APRs for payday loans. However, the APRs for similarly predatory "installment loans" dramatically increased.<sup>10</sup>

It is recommended that lawmakers:

- Create and support legislation which would modify statutes regarding unsecured loans of \$500 or less (i.e., payday loans) by:
  - Lowering exorbitant APRs
  - Prohibiting repeated loan renewals used to circumvent interest rate restrictions
- Allow the Attorney General greater oversight over payday lenders by permitting the Attorney General to issue cease and desist orders against violators and allow the Attorney General to request a circuit court to issue an injunction or impose a civil penalty on a person or business that violates consumer loan laws.<sup>11</sup>
- Give all Missouri families the same consumer protections as military families. Federal legislation limits annual payday lending interest rates to 36% for military families.<sup>12</sup>

(Graham McCaulley, June 2010)

1. Graves, S. M., & Peterson, C. L. (2008). Usury law and the Christian right: Faith-based political power and the geography of American payday loan regulation. *Catholic University Law Review*, 57, 637-700.

2. Missouri Division of Finance. (2009). Report to General Assembly pursuant to section 408.506 RSMo. Retrieved May 1, 2009 from <http://www.missouri-finance.org/Contribute%20Documents/2009PaydayLendersSurvey.pdf>

3. Hill, R. C., & Kozup, J. C. (2007). Consumer experiences with predatory lending practices. *Journal of Consumer Affairs*, 41, 29-46.

4. Center for Responsible Lending. (2007). Springing the debt trap: Rate caps are only proven payday lending reform. Retrieved May 5, 2009 from <http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.html>

5. Graves, S. M. (2003). Landscapes of predation, landscapes of neglect: A location analysis of payday lenders and banks. *The Professional Geographer*, 55, 303-317.

6. Zahn, M., Anderson, S., & Scott, G. (2006). Financial knowledge of the low-income population: Effects of a financial education program. *Journal of Sociology and Social Welfare*, 33, 53-74.

7. Ganong, L., Coleman, M., Beckmeyer, J., Benson, J., Jamison, T., McCaulley, G., & Sutton, E. (2007). Financial concerns of low-income families (Research Brief). Columbia: University of Missouri, Human Environmental Sciences Extension.

8. Woodstock Institute. (2000). Unregulated payday lending pulls vulnerable consumers into spiraling debt. Retrieved May 6, 2009 from [http://www.woodstockinst.org/payday\\_auto\\_title\\_and\\_refund\\_anticipation\\_loans](http://www.woodstockinst.org/payday_auto_title_and_refund_anticipation_loans).

9. Procter, B., Zumwalt, A., Hamilton-Hill, L., McGarvey, S., & Preston, M. (2008). Payday loan fact sheet (Research Brief). Columbia: University of Missouri: Human Environmental Extension.

10. Woodstock Institute. (2006). Hunting down the payday loan customer: The debt collection practices of two payday loan companies. Retrieved May 2, 2009 from <http://www.woodstockinst.org/programs/consumer-lending/>

11. Payday Loans, H.B. 150, 95th General Assembly. (2009).

12. Still, M. (2009, March 4). Put a collar on predatory lenders. *Columbia Daily Tribune*, Retrieved May 4, 2009 from <http://www.columbiatribune.com/news/2009/mar/08/put-collar-predatory-lenders/>

*For a complete list of references or more information about this topic, contact the Center for Family Policy and Research*

The Center for Family Policy & Research is housed in the Department of Human Development and Family Studies at the University of Missouri-Columbia. The Center's mission is to create and disseminate research-based analyses to promote the well-being of families through informed public policy and program development.

Visit us on the web at <http://MUCenter.missouri.edu>