

KENTUCKY COALITION for RESPONSIBLE LENDING

The Kentucky Coalition for Responsible Lending
is a statewide coalition dedicated to
protecting family assets by eliminating
abusive financial practices.

KENTUCKY'S 400% PAYDAY LOANS: A THREAT TO OUR FINANCIAL SECURITY

Kentucky Coalition for Responsible Lending includes:

AARP
Barren River Area Safe Space
Barren River Asset Building Coalition
Bell-Whitley CAA
Bethany House Abuse Shelter
Bluegrass Domestic Violence Program
Brighton Center
Catholic Charities of Louisville
Catholic Conference of Kentucky
Center for Great Neighborhoods
of Covington
Center for Women and Families
Central KY Housing & Homeless Initiative
Central Kentucky Peace &
Justice Coalition
CLOUT
Coalition for the Homeless
Community Action Kentucky
Community Ventures Corporation
Eastern KY Asset Building Coalition
Family Foundation
Family Life Abuse Center
Federal Home Loan Banking Cincinnati
Federation of Appalachian
Housing Enterprises
Fort Knox Credit Union
Frontier Housing
Gateway Homeless Coalition, Inc.
Green River Asset Building Coalition
Habitat for Humanity, Morehead
Hager Educational Foundation
Homeless & Housing Coalition
of Kentucky
Kentucky AFL-CIO
Kentucky Association of Counties
Kentucky Asset Building Coalition
Kentucky Asset Success Initiative
Kentucky Council of Churches
Kentucky Domestic Violence Association
Kentucky Equal Justice Center
Kentucky Habitat for Humanity
Kentucky Resources Council
Kentucky Youth Advocates
Lawrence & Augusta Hager Foundation
Lexington-Fayette Urban County
Human Rights Commission
Lex-Linc, Inc.
LKLP Safe House
Louisville Asset Building Coalition
MACED
Making Connections Louisville
Merryman House
Metropolitan Housing Coalition
Metro United Way
OASIS
People's Self Help Housing, Inc.
Safe Harbor
Sanctuary
Sandy Valley Abuse Center
Shelter of Hope
SpringHaven
St. Vincent De Paul
Welcome House

Payday loans are a long term debt trap, not a quick financial fix

- Kentucky payday lenders charge \$15.00 per \$100 borrowed, plus additional fees. This is a minimum interest rate of 391% APR for the typical two week loan!
- Because of these high fees and short terms, borrowers usually cannot both repay their payday loan in full and meet the rest of their monthly expenses.
- As a result, a typical payday loan borrower has 9 payday transactions per year, usually on a back-to-back basis.

400% payday loans threaten families' and Kentucky's economic security

- In 2009, payday lending drained over \$166 million in fees from families' pockets and into those of mostly out-of-state national payday companies.
- The industry depends on fees from borrowers stuck in the debt trap. Over 90% of fees come from borrowers stuck in 5 or more loans in a year.
- It's not just an urban problem. Some of Kentucky's rural counties have a higher per capita concentration of payday lenders than urban counties, even though they have lower incomes and less people.

Ending 400% is good policy for the military, and good for Kentuckians

- In 2006, Congress capped the rate of payday loans to military members and their family at 36% APR.
- Currently, 16 states (including neighbor states Ohio and West Virginia) and the District of Columbia have laws capping rates or do not even authorize payday lending.
- Families in these states no longer throw good money after bad and collectively save \$2 billion a year that would have otherwise been washed down the debt trap drain.

Capping the rate of payday loans ends an abusive practice, but does not ban an industry

- Other states' experiences show reforms short of a rate cap – databases, rollover bans, and loan limits - do not stop the debt trap. In those states, the typical borrower still has 9 transactions a year.
- In states where payday lending was once allowed, but then capped, borrowers report being glad to be rid a temptation that appeared easy to get into but in reality was very hard to get out of.
- A range of alternatives already exists: friends and families, signature loans, consumer loans, savings, credit cards, employer advances, to name a few. In fact, these will have more room to work once borrowers are no longer caught in the debt trap.

KCRL - PROTECTING FAMILY ASSETS, PROMOTING RESPONSIBLE LENDING
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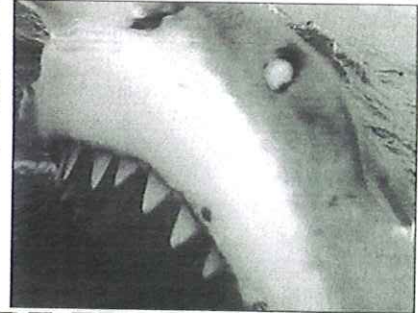


**CATHOLIC
CONFERENCE
OF KENTUCKY**

The Catholic Conference of Kentucky (CCK) is an agency of the Catholic Bishops of Kentucky, established in 1968. It speaks for the Church in matters of public policy, serves as liaison to government and the legislature, and coordinates communications and activities between the church and secular agencies. There are 406,000 Catholics in the Commonwealth. The Bishops of the four dioceses of KY constitute CCK's Board of Directors.

Cap Payday Loans at 36%

The Catholic Conference of Kentucky has been among those in the advocacy forefront of combating poverty. Capping payday loans at 36%, so that those in need of financial assistance are not victimized by usurious interest rates approaching 400%, is a priority.



PREDATORY PAYDAY LENDING IS A DEBT TRAP PROTECT KENTUCKY FAMILIES FROM PAYDAY LENDING!

Karen Young of Lawrenceburg, married and a mother, used a payday lender in 2001 to borrow less than \$200 to cover her musician husband's transportation expenses. She wasn't able to repay it within the two weeks and had to renew the loan. She got caught in a cycle of paying minimum amounts and renewing the loan. This went on for 18 months. During that time, Karen was amassing other debts as well. In the end, she had to refinance her home to pay off those debts as well as the payday loan. In all, she paid back almost ten times the original loan in fees and interest.

For the faith community, predatory interest rates approaching or exceeding 400 percent are immoral. The Catechism of the Catholic Church condemns usurious dealings: "Those whose usurious and avaricious dealings lead to the hunger and death of their brethren in the human family indirectly commit homicide, which is imputable to them." #2269.

Payday loans are predatory loans because of the terms of the loan: interest rates approaching or exceeding 400 percent victimize those seeking temporary relief from difficult economic circumstances. Many individuals find themselves compelled to take out multiple loans to meet the obligation created by the initial loan resulting in a debt trap for the borrower. Current public policy in Kentucky permits usurious interest rates to be charged to consumers and must be changed. Public policy is intended to protect the public from outrageous practices. Kentucky's public policy must put an end to the egregious practices of the payday loan industry.

The Catholic Conference invites you to join us in trying to protect Kentucky families from these predatory practices. In 2011 we will work to pass legislation like Congress passed to protect military personnel from the payday loan industry that preyed on them.

We will support legislation that contains the following provisions:

- Interest on all payday loans shall not exceed an annual percentage rate interest of 36%.
- Interest includes all charges payable by a customer, including fees, charges, renewal charges, credit insurance premiums, and any ancillary product sold in connection with the payday loan.
- Annual percentage rate is defined as under the federal Truth in Lending Act.
- A payday lender shall not engage in any device or subterfuge to evade the 36% interest rate limit, such as disguising payday loans as personal property sales/leaseback transactions or as cash rebates for an installment sale of goods or services.
- Making payday loans in violation of the key provisions of the Act shall be unlawful under the Kentucky Consumer Protection Act, and all rights and remedies under that law will be available to a customer.
- If the interest on a payday loan exceeds 36% APR, a customer may also sue under the general usury statute.

CONTACT YOUR STATE LEGISLATORS

Call: 1-800-372-7181 toll free and the person who answers will take down your message and deliver it to your State Senator and/or State Representative. If you do not know who that is, that is o.k. The person will help identify him or her for you.

Spanish language speakers: 1-877-739-5556.

The TTY Message Line is 1-800-896-0305

You can fax a message to 1-502-564-6543.

**URGE YOUR STATE SENATOR
AND STATE REPRESENTATIVE TO
CAP PAYDAY LOAN INTEREST
RATES AT 36%**

The chart below summarizes payday loan regulations in four states that have a mix of consumer protections--including payday loan tracking databases--but that have not adopted a rate cap. The chart displays results in terms of repeat transactions and related consumer impact. The data strongly suggest that a database, absent a rate cap, does not affect the "debt trap" to any appreciable degree.

	Regulations	Results
Oklahoma ¹	<ul style="list-style-type: none"> • \$500 maximum loan amount • No more than two outstanding loans at a time • \$15 per \$100 maximum fee on loans up to \$300; \$10 per-\$100 maximum fee on loans of \$301-500 • Two business day cooling off period after 5th consecutive loan • Payment plan option available after 3rd consecutive loan • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • 92% of loans go to borrowers with five or more transactions per year. Only 1 percent of all loans go to the one-time, emergency borrower. • 64% of loans go to borrowers with 12 or more transactions per year • Average of 9 loans per borrower annually • 2% of transactions employ payment plan • 59% of new loans made the same day another previous loan paid off; 88% of new loans taken out in the same two week pay period that previous loan is paid off
Michigan ² *13 month time period as reported by regulator	<ul style="list-style-type: none"> • \$600 maximum loan amount • No more than two loans outstanding at a time (can only have one loan outstanding per lender) • Maximum fee of 15% for 1st \$100 borrowed; 14% for 2nd \$100; 13% for 3rd \$100; 12% for 4th \$100; and 11% for 5th and 6th \$100 • Payment plan option • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • 94% of loans go to borrowers with five or more transactions* • 77% of loans go to borrowers with 12 or more transactions* • Average of 8 loans per borrower annually • 2% of eligible transactions employ payment plan

¹ Oklahoma Trends in Deferred Deposit Lending, Prepared by Veritec Solutions LLC for the Oklahoma Department of Consumer Credit. (March 2009). Available at http://www.veritecs.com/2009_03_OK%20Trends.pdf; Parrish, Leslie and Uriah King. 2009. "Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume." Washington, D.C.: Center for Responsible Lending. www.responsiblelending.org; and public records request to the state of Oklahoma.

² Michigan Trends in Deferred Presentation, Prepared by Veritec Solutions LLC for the Michigan Office of Financial and Insurance Services (July 31, 2007). Available at http://www.michigan.gov/documents/cis/OFIS_DPST_REPORT_204749_7.pdf.

	Regulations	Results
Florida³	<ul style="list-style-type: none"> • \$500 maximum loan amount • No more than one outstanding loan at a time • \$10 per \$100 (plus verification fee) maximum fee • 24 hour cooling off period after each loan • 60 day grace period available, upon declaration of inability to repay • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • 89% of loans go to borrowers with five or more transactions per year • 58% of loans go to borrowers with 12 or more transactions per year • 1.5 transactions per borrower each month • Average of 8 loans per borrower annually • Less than one percent of transactions take advantage of the 60 day grace period • 45% of new loans taken out day after previous loan paid off; 88% of new loans taken out in the same two week pay period that previous loan is paid off
Washington⁴	<ul style="list-style-type: none"> • Cannot borrow more than \$700 from a single lender at one time • \$15 per \$100 maximum fee on loans up to \$500, then \$10 per \$100 on remaining portion of loan up to \$700 • Payment plan option available after 4th consecutive loan with same company • Rollovers prohibited 	<ul style="list-style-type: none"> • 89% of loans go to borrowers with five or more transactions per year • 56% of loans go to borrowers with 12 or more transactions per year • Average of 8 loans per borrower annually • 1.2% of all transactions employ the payment plan option

³ *Florida Trends in Deferred Presentment*, Prepared by Verice Solutions LLC for the Florida Department of Banking and Finance. (August 2007). http://www.verices.com/FL_trends_aug_2007.pdf; additional data obtained through public records request.

⁴ Washington State Department of Financial Institutions (2007). http://www.dfi.wa.gov/cs/pdf/2006_payday_report.pdf as cited in King, Uriah and Leslie Parrish. 2007. *Springing the Debt Trap: Rate caps are only proven payday lending reform*. Washington, D.C.: Center for Responsible Lending. www.responsiblelending.org.