

QUICK FACTS: THE PAYDAY LOAN DEBT TRAP

KEEP PREDATORY PAYDAY LOANS OUT OF PENNSYLVANIA

Pennsylvania has one of the strongest laws in the country to protect borrowers against predatory payday loans. Now, out-of-state payday lenders are working to weaken our law so they can flood Pennsylvania with 1,000 storefronts peddling loans that were so harmful to our nation's soldiers that President George Bush signed a law to prohibit them from being made to military families.

A Debt Trap by Design

While payday lenders market their loans as a short-term credit option, the loans are structured to create long-term repeat borrowing. Payday loans carry very high fees with a triple-digit APR (annual percentage rate). Repayment of the loan is automatic because the borrower must provide the lender with a post-dated check or electronic access to her bank account. And, the full amount of the loan-- the entire principal balance plus interest-- must be repaid within a very short period of time, typically two-weeks for a worker and one-month for a borrower with benefit income like Social Security.

Most borrowers cannot repay the payday loan AND cover their basic living expenses. Once they pay back a loan, they need another to keep the lights on and food on the table. **This is the debt trap cycle, and if these loans become legal in Pennsylvania, there will be no recourse to stop it.**

Payday Lenders Depend on Debt Trap

In the words of the CEO of Cash America International, one of the out-of-state payday lenders pushing to make these loans here, the debt trap is the core of the business model: *"The theory in the business is you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profitability is."* According to a comprehensive report on payday lending conducted by the U.S. Department of Defense, *"The debt trap is the rule not the exception."*

The Payday Loan Debt Trap Harm Borrowers

Payday loans lead to higher rates of bankruptcy, delinquencies on other bills, overdraft fees and the loss of bank accounts. Payday lenders claim that provisions like databases, rollover bans, loan limits, and extended repayment plans will protect borrowers. But, the U.S. Department of Defense said those provisions are "bells and whistles" that do not stop the debt trap.

The Solution: Keep Pennsylvania's Existing Laws

Pennsylvania's existing consumer protections have been successfully enforced for years against the same payday lenders that are now pushing to make high-cost predatory loans in our state. To protect Pennsylvania residents against predatory payday loans, we need to keep these existing protections in place.

Stop Predatory Payday Loans in Pennsylvania Coalition
For more information: www.stop paydayloanspa.com

QUICK FACTS

- Pennsylvania families save about **\$230 million annually** in excessive interest thanks to its cap on fees and interest.
- Data shows that **75% of payday loan revenue** is due to borrowers stuck in the debt trap.
- A Pennsylvania poll found that **4 out of 5 of PA voters oppose** increasing interest rates to allow for 300% APR on a typical two-week payday loan.
- Editorial boards and organizations representing **millions of Pennsylvanians** throughout the state publicly oppose legalizing predatory payday loans.

PREDATORY LOANS ALREADY ILLEGAL

The Pennsylvania Supreme Court has upheld enforcement actions taken by the Banking Department to shut down illegal payday lending storefronts, as well as those operating via the Internet.

In its 2010 opinion against Cash America's illegal online payday loans to Pennsylvania borrowers with APRs ranging from 250% to over 600% APR, the Court noted:

"It is well established that public policy in this Commonwealth prohibits usurious lending, and this prohibition has been recognized for over 100 years."