Payday Lending Fact Sheet

What is a payday loan?

Payday loans, also known as "cash advances" or "deferred deposits" are lending transactions in which a borrower writes a check to a lender in exchange for a short-term cash loan. For example, a borrower writes a $300 check to pay the $45 fee and receive $255 in cash. The lender does not cash the check until the borrower's next payday, typically two weeks later.[1] Borrowers provide easily available information—identification, proof of residence, a recent pay stub and their checking account number—to qualify for a loan.

Under California law, the maximum loan amount a consumer can borrow in one payday loan is $300. The maximum fee a payday lender can charge is 15 percent of the check amount (up to a maximum of $45), which they do routinely. The fee is equivalent to an annual percentage rate (APR) of 460 percent for a two-week loan.[2]

Who uses payday loans and why?

According to a report from the Pew Charitable Trusts, 12 million American adults used payday loans annually from storefronts or the Internet in 2010. Among those most likely to use payday loans were those without a four-year college degree; home renters; African Americans; those earning below $40,000 annually and those who were separated or divorced.[3]

Most borrowers used payday loans to cover ordinary living expenses over the course of months, and not unexpected emergencies over the course of weeks.

Payday loans create a cycle of debt.

Payday loans carry a very short repayment term, usually only until the next payday—for about two weeks—at which point the full amount of the loan and finance charge must be paid. Since most borrowers take out payday loans to cover ordinary living expenses, rather than to cover emergencies, many cash-strapped borrowers experience another shortfall after their first loan, which is exacerbated by the fee. Payday lenders rarely perform time-consuming credit checks or evaluate the borrower's ability to repay the loan on the due date. Consequently, nearly half of California borrowers take out payday loans at least once a month and more than a third have taken out loans from multiple payday lenders simultaneously.[4]

Payday lending is big business in California.

Payday lending began in California in the 1990s as an extension of the check-cashing industry and is widespread. In 2011, 1.7 million California borrowers took out over 12.5 million loans, totaling over $3.2 billion.[5] According to a *San Jose Mercury News* article in 2011, there are more payday loan stores in California than there are Starbucks.[6]

These stores are nearly eight times as concentrated in neighborhoods with the largest shares of African Americans and Latinos as compared to white neighborhoods, draining nearly $247 million in fees per year from these communities. While the consequences of payday loans are harmful to all sectors of society, they are even more troubling because they disproportionately affect already vulnerable and disadvantaged families and communities.[7]

What can be done?

1. Require payday lenders to comply with a 36 percent annual interest rate cap as has been done in 16 other states and the District of Columbia. The federal Military Lending Act, which passed in 2006, caps the APR of loans offered to service members or their dependents at 36 percent throughout the United States.

2. Cap the number of loans a borrower can take out at six loans per borrower in a 12-month period consistent with the FDIC's guidance to regulated banking institutions. The State of Washington put a loan cap in place and saw a 75 percent reduction in all payday loans in the two years since the cap took effect.[8]

3. Increase consumer protections through underwriting standards and longer loan terms, such as 30 days.

About Silicon Valley Community Foundation

Silicon Valley Community Foundation, one of the largest community foundations in the world, makes all forms of philanthropy more powerful. The community foundation serves as a catalyst and leader for innovative solutions to the region's most challenging problems with $2.9 billion in assets under management and more than 1,650 philanthropic funds. As Silicon Valley's center of philanthropy, the community foundation provides individuals, families and corporations with simple and effective ways to give locally and around the world. We are the largest funder of Bay Area causes, with grants to organizations totaling $292 million in 2012. Find out more at http://www.siliconvalleycf.org/

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[1] California Department of Corporations, "What You Need to Know About Payday Loans," http://www.corp.ca.gov/Laws/Payday_Lenders/pdfs/Payday%20Loan%20Trifold_2nd%20ed_web.pdf. Accessed 2/19/2013.

[2] Silicon Valley Community Foundation, October 2009. *Report on the Status of Payday Lending in California*, http://www.siliconvalleycf.org/docs/payday-lending-report.pdf, p. 6.

[3] The Pew Charitable Trusts, July 2012. *Who Borrows, Where They Borrow, and Why: Payday Lending in America,* http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Report.pdf, p. 8. Accessed 2/19/2013.

[4] Silicon Valley Community Foundation, October 2009. *Report on the Status of Payday Lending in California*, http://www.siliconvalleycf.org/docs/payday-lending-report.pdf, p. 7.

[5] California Department of Corporations, *2011 Annual Report: Operation of Deferred Deposit Originators Licensed Under the California Deferred Deposit Transaction Law*, http://www.corp.ca.gov/Laws/Payday_Lenders/pdfs/CDDTL2011ARC.pdf. Accessed 2/19/2013.

[6] *San Jose Mercury News*, October 30, 2011. "Consumed by Payday Loans: State Legislators Offer Safe Haven for Lenders Deemed 'Predatory,'" http://www.mercurynews.com/politics-government/ci_19227617. Accessed 2/19/2013.

[7] Silicon Valley Community Foundation, October 2009. *Report on the Status of Payday Lending in California*, http://www.siliconvalleycf.org/docs/payday-lending-report.pdf, p.7.

[8] 2011 Payday Lending Report, The Washington State Department of Financial Institutions, http://www.dfi.wa.gov/cs/pdf/2011-payday-lending-report.pdf. Accessed 2/19/2013.