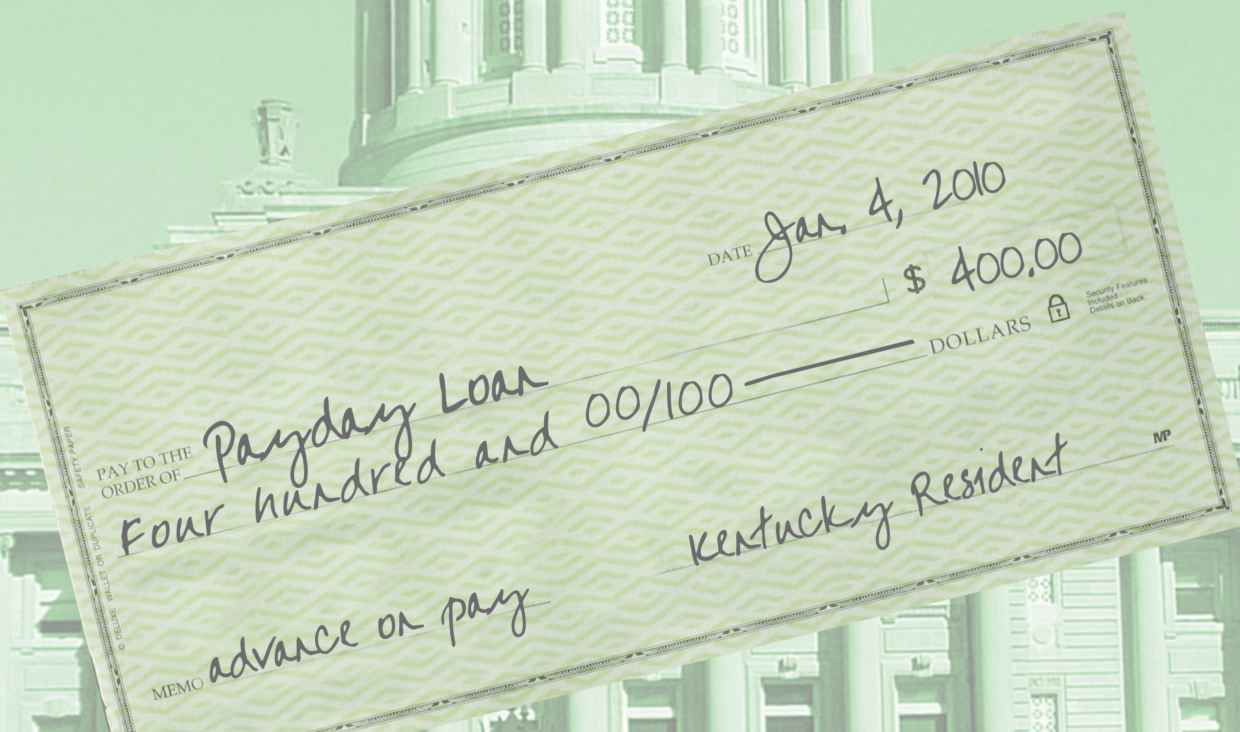
THE Debt Trap IN THE Commonwealth



KENTUCKY COALITION for RESPONSIBLE LENDING

The Debt Trap in the Commonwealth

The Impact of Payday Lending on Kentucky Counties

Executive Summary

Payday lending has become widespread in Kentucky since the practice began in the early 1990's. Kentuckians paid upwards of 400 percent interest on more than four million loans for an estimated $158 million in predatory payday loan fees in 2008. This issue brief explores the geography and magnitude of the effect of high-cost payday lending. The finding: large urban counties have more stores and higher costs, but payday lending's impact is not strictly urban—many low-income rural communities have far more payday lenders than their population size might suggest. A look at per capita debt from payday lending indicates that our rural counties are carrying a heavy debt load from these high-interest loans. Further, mapping shows that payday lenders concentrate near low- and middle-income consumers in the urban centers and rural counties where they operate.

Proponents of payday loans often contend that they are useful as an occasional source of short-term credit, but studies show that most loans go to repeat borrowers with many loans per year. Throughout this paper, we use the definition of "predatory fees" developed by the Center for Responsible Lending that defines as predatory only those fees collected from borrowers caught in the debt trap—those borrowers who have five or more loans in one year.[2]

States with two-digit interest rate caps have saved citizens nearly $2 billion per year.

The U.S. Department of Defense (DOD) recognized the problems associated with these loans and sought and won federal legislation capping the annual interest rate that can be charged to military families at 36 percent. DOD framed this as a matter of national security because payday loans were causing the disintegration of family finances and impairing military readiness. All Kentucky families deserve the same protections that we offer to our military families to stem the tide of widespread financial distress.

Introduction

Payday lending emerged in states across the country during the 1990's. Over the past 20 years, the industry has established over 22,000 locations and produced as much as $27 billion in annual loan volume nationwide.[3]

Payday loans, also known as deferred deposit transactions, allow people to borrow money against future earnings, by writing a postdated check for the amount due. These loans usually have a two-week term, and are made at exorbitant annual interest rates of around 400 percent. Unfortunately, low-income borrowers are often unable to repay their loan at the end of two weeks and still cover other expenses so they immediately take out a new loan. We refer to the resulting loan activity as repeat borrowing. Nine out of ten payday loans are made to repeat borrowers who take out five or more payday loans in a year.[4] On average, borrowers have nine or more payday loans in a year.[5] In fact, the product depends upon the consumer's failure to repay and the resulting repeat borrowing, which generates $24 billion of the $27 billion annual loan volume for the industry.[6]

The average cost of a $350 payday loan to Kentucky consumers is $822.50 (that's $472.50 in interest!).

Payday loans trap borrowers in a cycle of debt that can lead to bankruptcy and financial ruin.[7] Sixteen states and the District of Columbia have either never allowed payday lending or passed interest rate caps to eliminate the industry's most predatory practices.[8]

Using estimates of impact provided by the Center for Responsible Lending, this issue brief describes the geography of payday lending in Kentucky and recommends a 36 percent interest rate cap to protect Kentucky consumers from predatory lending practices.

Payday Lending in the Commonwealth of Kentucky

High interest rate lending has a long history in Kentucky. During the early 1930's "Kentucky represented one of the last bastions of boodle for the nefarious loan sharks… Kentucky [was] known as the Bankruptcy State and Louisville as the Bankruptcy Capital of America."[9] Kentucky passed the Small Loan Law in 1934 and brought an end to legalized loan sharking. Borrowers enjoyed protection from most predatory small loan products from 1934 until payday lending re-emerged in Kentucky in 1992. The payday lending industry operated in the Commonwealth without the benefit of enabling legislation until 1998. In 1998 the General Assembly legalized deferred deposit transactions and freed the payday lending industry from the constraints of usury statutes.[10]

The majority of payday lenders in Kentucky are nationally owned, and their profits leave the state.

By 2008, 782 licensed payday lenders operated in 95 counties across the Commonwealth of Kentucky. In that year, they made an estimated 2.8 million loans totaling $997 million dollars and collected an estimated $158 million in predatory lending fees.[11] These estimates assume that those who take out five or more loans in a year are caught in the debt trap and the industry preys on their inability to repay within the terms of the loan.

In Kentucky, deferred deposit lenders may charge $15 dollars to borrow each $100 for a two-week period—an effective annual interest rate of 391- 459 percent.[12] Because charges are defined as fees rather than interest, they are not subject to the state's 19 percent general interest rate cap. Borrowers in the Commonwealth may have two payday loans at one time as long as the aggregate amount does not exceed $500.[13]

The Commonwealth does not allow lenders to roll over an existing loan for additional fees, but this does not prevent mounting fees as many borrowers repay their initial loan and then immediately take out a new loan with new fees. The Center for Responsible Lending estimates that 76 percent of all payday loan volume is attributable to this repeat borrowing.

The Geography of Payday Lending in Kentucky

As of 2008, 95 of Kentucky's 120 counties were home to 782 licensed deferred deposit lenders—also known as payday lenders. Using national data on number, size and fees associated with loans as well as information on average fees in Kentucky, the Center for Responsible Lending estimates local impacts of payday loans on a county-by-county basis (Table 3).

In Mason County, home to 17,414 Kentuckians, eight lenders made approximately 29,000 loans and borrowers paid an estimated $1.6 million in predatory fees in 2008. In Jefferson County, where the number of payday lenders went from 70 to 132 between 2000 and 2008, residents paid an estimated $26.7 million in predatory fees in 2008. Again, these figures reflect only estimates of those fees paid by borrowers who took out five or more loans

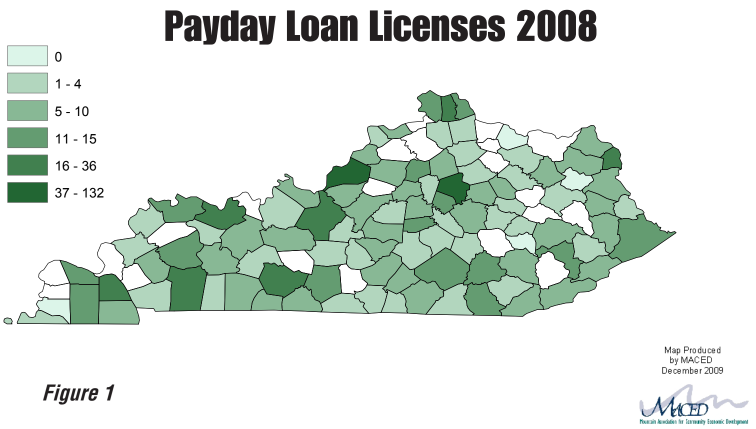


Figure 1

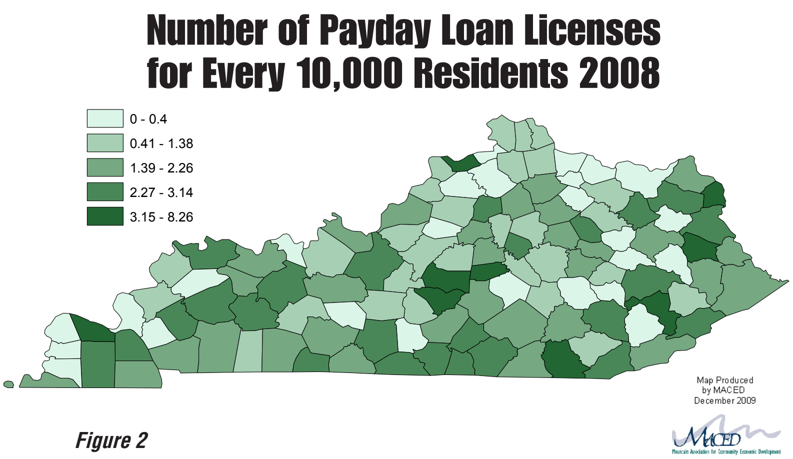


Figure 2

during that year.

County-level and census block data indicate that payday lenders operate in places where low- to moderate-income people live. Data on number of payday lending licenses show the largest numbers of licenses in counties with population centers: Jefferson and Fayette Counties, for example (Figure 1). Consistent with its 1930's reputation, Louisville Metro has the largest number of payday lenders.

Counties with 15 or more payday lending licenses in 2008			
County	Payday Lenders 2008	Number of Loans	Predatory Fees
Jefferson	132	480,876	$26,735,503
Fayette	36	131,148	$7,291,501
Hardin	27	98,361	$5,468,626
Warren	23	83,789	$4,658,459
McCracken	21	76,503	$4,253,376
Boyd	20	72,860	$4,050,834
Daviess	20	72,860	$4,050,834
Kenton	19	69,217	$3,848,292
Christian	18	65,574	$3.645,750
Whitley	15	54,645	$3,038,125

Table 1

Urban Landscape

Kentucky's more urban counties, with high population densities, include concentrated low-income communities that have become home to dozens of payday lending outlets (Figures 3 & 4).

Payday lending isn't a legitimate credit alternative. It's a debt trap

In population centers, due to larger population size and higher income of some residents, the impact of payday lending is not as obvious in the county-level data. Even so, consumers in Jefferson County (Louisville-Metro) borrowed what amounts to an estimated $235 plus $42 in loan fees for a total of $277 in loans and fees for every man, woman and child living in the county in 2008.

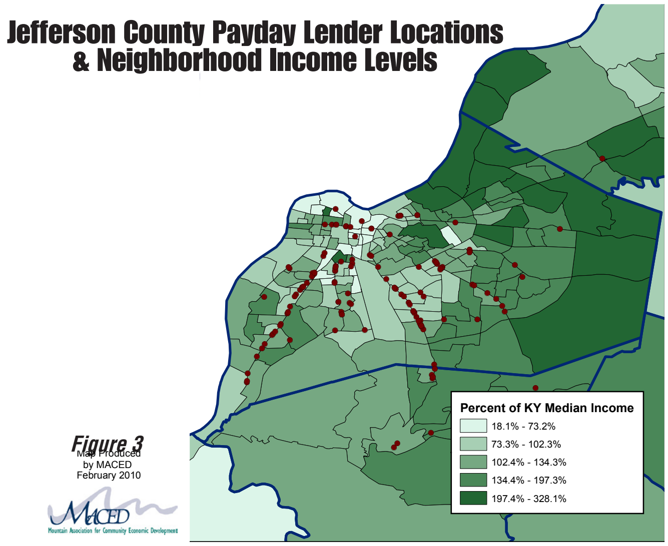


Figure 3

Source: Payday lender locations from the Kentucky Department of Financial Institutions. Income data from the 2000 U.S. Census.

Fayette County Payday Lender Locations & Neighborhood Income Levels

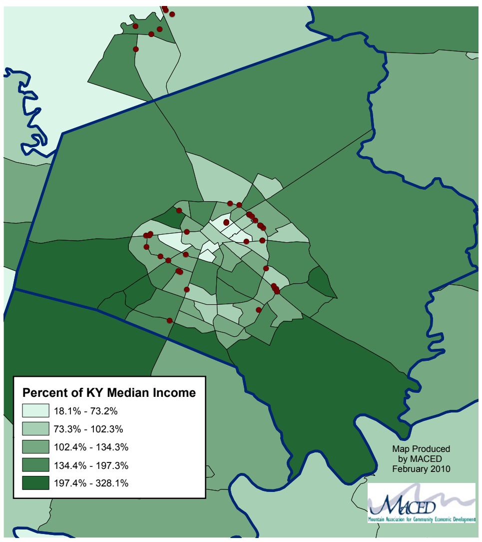


Figure 4

Source: Payday lender locations from the Kentucky Department of Financial Institutions. Income data from the 2000 U.S. Census.

The intensity of the impact of payday lending is most noticeable at the neighborhood level as illustrated in the maps of Louisville[14] and Lexington urban centers (Figures 3 and 4).

At the census block level, the focus on low-income neighborhoods means that African American communities tend to be target markets for payday lenders. African American families may be more vulnerable to high-cost, small-dollar lending as they are less likely to have assets to draw upon in the event of an unexpected financial emergency (Figures 5 and 6).[15]

Rural Landscape

Payday lending is not simply an urban concern. Rural counties may have fewer payday lenders, but the number of payday lenders per 10,000 people is highest in some of the Commonwealth's less populous counties. Perry and Henderson Counties are exceptional—they have 10 or more payday lending licenses and three or more licenses per 10,000 people (Tables 2 & 3).

Jefferson County Payday Lender Locations & Neighborhood Racial Composition

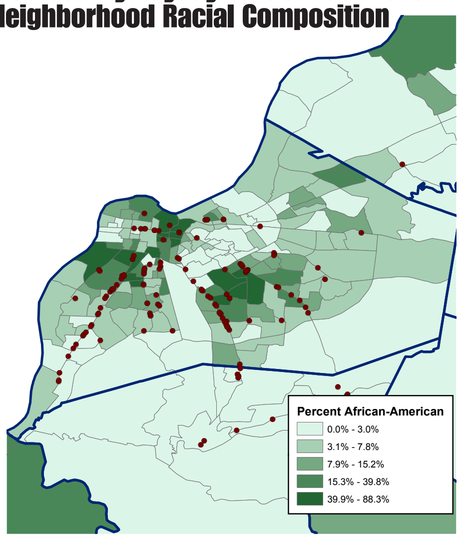


Figure 5

Map Produced by MACED February 2010

MACED Mountain Association for Community Economic Development

Source: Payday lender locations from the Kentucky Department of Financial Institutions. Race data from the 2000 U.S. Census.

Fayette County Payday Lender Locations & Neighborhood Income Levels

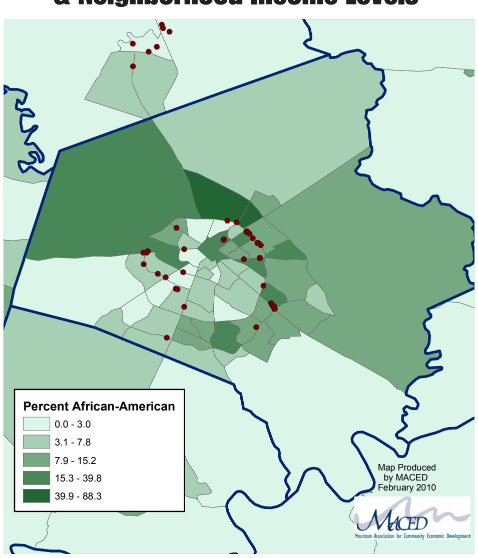


Figure 6

Source: Payday lender locations from the Kentucky Department of Financial Institutions. Race data from the 2000 U.S. Census.

Rural counties, which have smaller populations and often lower median household income, experience intense impact from high concentrations of payday lending. Twelve of the thirteen counties with three or more payday lenders per 10,000 people are home to less than 50,000 Kentuckians. In addition, in eleven of these thirteen counties, at least 15 percent of residents lived in poverty in 2008. Median income in these counties ranges from $25,029 to $43,720 compared to median household incomes of $50,267 and $46,745 in Fayette and Jefferson counties, respectively.[16]

> ***A rate cap does not outlaw payday lending; it simply regulates the industry to better protect consumers.***

Consumer Story

A struggling couple from Anderson County found themselves barely squeaking by financially, often not being able to live paycheck to paycheck. The husband had a disability which resulted in him not being able to work. The one activity he could do, not interfering with his disability, was playing the drums. He joined a band which was scheduled to tour the southeastern region of the country. Before the trip he needed money to pay for his share of the expected living expenses.

However, the couple found themselves in between paychecks and still had a week until payday. Looking for the easy fix, the wife went to a payday lending store and received a loan for $250.00. Unable to repay the loan she instead was required to renew paying $54.00 interest every two weeks. The couple was able to refinance their home and 18 months later pay off the loan. ***The total loan cost for the family, was $1,944, with $1,695 in interest (452%APR)****.*

Perry County, which has less than 30,000 Kentuckians, a poverty rate of 27 percent and a median household income of just over $28,000, had 13 payday lenders in 2008; and Mason County, which has only 17,414 residents and a poverty rate of 19 percent, was home to eight payday lenders in 2008.

In counties with three or more payday lenders per 10,000 people, estimates of 2008 per capita spending on loans and fees range from $456 in Lawrence County to $689 in Mason County (Table 2). This debt load is carried by only that portion of the population that uses the payday lending services, but these figures provide some sense of the magnitude of the impact in these counties.

Counties with 3 or more payday lending licenses per 10,000 people (2008)

County	Payday Lenders 2008	Per Capita Debt (Loans & Fees)
Mason	8	$689
Perry	13	$667
Boyd	20	$618
Whitley	15	$582
Boyle	11	$570
Carroll	4	$565
Johnson	9	$561
Taylor	9	$561
McCracken	21	$484
Clinton	3	$470
Caldwell	4	$466
Henderson	14	$462
Lawrence	5	$456

Table 2

Mason County carried a total debt and fees load of approximately $12 million in 2008. Borrowers in Mason County paid $1.6 million in predatory fees resulting from the debt trap created by the eight lenders operating in the county. This level of debt and the corresponding income paid in loans and fees takes a toll on community resources and hinders the capacity for citizens to build wealth.

Consumer Story

One of the Foothills Community Action Partnership credit counselors had been working with a young woman on credit and budget counseling trying to prepare her for a homebuyer program offered in one of the agency's service areas. The young woman had been doing a great job and was very close to being prepared to send in for approval by Rural Development for financing when she informed the counselor she had recently gotten married. The counselor then set up a meeting with the couple. They discovered the husband's credit was not very good. He had debt with a Rent-to-Own store as well as a local Check-n-Go establishment. As a result, the couple had to begin the credit counseling once again to begin paying off debts and doing "credit clean up". They now realize that they have to pay extremely high interest, fees, and penalties which could have been avoided by saving for purchases or even going to local financial institutions. The couple continues to work on their credit and budget issues, with the hope of becoming new homeowners in the future.

Policy Implications

Research on policies to curb the damage done by the payday loan industry suggest that the only effective way to end the cycle of debt and protect families is to institute a cap on the effective interest rate for deferred deposit transactions. The U.S. Department of Defense pushed for and won changes in federal law to cap interest at 36 percent APR for military families. Kentucky's hard-working civilian families deserve the same protections enjoyed by our men and women in uniform. The 2010 General Assembly should restore consumer protections and pass a 36 percent interest rate cap on payday loans.

Table 3

Payday Lending by County (continued on back page)

County	Licenses 2008	Loan Volume 2008	Fees Paid 2008	Predatory Fees 2008	Total Loan Volume plus Fees 2008	Population 2008	Lending Stores Per 10,000	Per Capita PDL Debt (Loans & Fees)	Per Capita Predatory Fees
Adair	4	$5,100,200	$900,185	$810,167	$6,000,385	17,773	2.25	$338	$46
Allen	4	$5,100,200	$900,185	$810,167	$6,000,385	19,090	2.10	$314	$42
Anderson	4	$5,100,200	$900,185	$810,167	$6,000,385	21,347	1.87	$281	$38
Barren	12	$15,300,600	$2,700,556	$2,430,500	$18,001,156	41,566	2.89	$433	$58
Bath	1	$1,275,050	$225,046	$202,542	$1,500,096	11,750	0.85	$128	$17
Bell	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	29,055	2.41	$361	$49
Boone	14	$17,850,700	$3,150,649	$2,835,584	$21,001,349	115,231	1.21	$182	$25
Bourbon	3	$3,825,150	$675,139	$607,625	$4,500,289	19,828	1.51	$227	$31
Boyd	20	$25,501,000	$4,500,927	$4,050,834	$30,001,927	48,560	4.12	$618	$83
Boyle	11	$14,025,550	$2,475,510	$2,227,959	$16,501,060	28,933	3.80	$570	$77
Breathitt	4	$5,100,200	$900,185	$810,167	$6,000,385	15,813	2.53	$379	$51
Breckinridge	2	$2,550,100	$450,093	$405,083	$3,000,193	19,132	1.05	$157	$21
Bullitt	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	75,028	0.93	$140	$19
Butler	1	$1,275,050	$225,046	$202,542	$1,500,096	13,276	0.75	$113	$15
Caldwell	4	$5,100,200	$900,185	$810,167	$6,000,385	12,866	3.11	$466	$63
Calloway	6	$7,650,300	$1,350,278	$1,215,250	$9,000,578	36,240	1.66	$248	$34
Campbell	12	$15,300,600	$2,700,556	$2,430,500	$18,001,156	87,038	1.38	$207	$28
Carroll	4	$5,100,200	$900,185	$810,167	$6,000,385	10,627	3.76	$565	$76
Carter	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	27,454	2.55	$382	$52
Casey	3	$3,825,150	$675,139	$607,625	$4,500,289	16,214	1.85	$278	$37
Christian	18	$22,950,900	$4,050,834	$3,645,750	$27,001,734	79,820	2.26	$338	$46
Clark	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	35,691	1.96	$294	$40
Clay	6	$7,650,300	$1,350,278	$1,215,250	$9,000,578	23,930	2.51	$376	$51
Clinton	3	$3,825,150	$675,139	$607,625	$4,500,289	9,568	3.14	$470	$64
Crittenden	1	$1,275,050	$225,046	$202,542	$1,500,096	9,244	1.08	$162	$22
Cumberland	2	$2,550,100	$450,093	$405,083	$3,000,193	6,817	2.93	$440	$59
Daviess	20	$25,501,000	$4,500,927	$4,050,834	$30,001,927	94,418	2.12	$318	$43
Estill	3	$3,825,150	$675,139	$607,625	$4,500,289	14,948	2.01	$301	$41
Fayette	36	$45,901,800	$8,101,668	$7,291,501	$54,003,468	282,114	1.28	$191	$26
Fleming	2	$2,550,100	$450,093	$405,083	$3,000,193	14,735	1.36	$204	$27
Floyd	8	$10,200,400	$1,800,371	$1,620,334	$12,000,771	42,094	1.90	$285	$38
Franklin	13	$16,575,650	$2,925,602	$2,633,042	$19,501,252	48,844	2.66	$399	$54
Fulton	1	$1,275,050	$225,046	$202,542	$1,500,096	6,855	1.46	$219	$30
Garrard	1	$1,275,050	$225,046	$202,542	$1,500,096	17,021	0.59	$88	$12
Grant	3	$3,825,150	$675,139	$607,625	$4,500,289	25,549	1.17	$176	$24
Graves	10	$12,750,500	$2,250,463	$2,025,417	$15,000,963	37,487	2.67	$400	$54
Grayson	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	25,497	1.96	$294	$40
Green	1	$1,275,050	$225,046	$202,542	$1,500,096	11,613	0.86	$129	$17
Greenup	8	$10,200,400	$1,800,371	$1,620,334	$12,000,771	37,388	2.14	$321	$43
Hardin	27	$34,426,350	$6,076,251	$5,468,626	$40,502,601	98,546	2.74	$411	$55
Harlan	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	30,783	1.62	$244	$33
Harrison	3	$3,825,150	$675,139	$607,625	$4,500,289	18,654	1.61	$241	$33
Hart	2	$2,550,100	$450,093	$405,083	$3,000,193	18,561	1.08	$162	$22
Henderson	14	$17,850,700	$3,150,649	$2,835,584	$21,001,349	45,462	3.08	$462	$62
Hopkins	13	$16,575,650	$2,925,602	$2,633,042	$19,501,252	46,338	2.81	$421	$57
Jefferson	132	$168,306,600	$29,706,115	$26,735,503	$198,012,715	713,877	1.85	$277	$37
Jessamine	12	$15,300,600	$2,700,556	$2,430,500	$18,001,156	46,716	2.57	$385	$52
Johnson	9	$11,475,450	$2,025,417	$1,822,875	$13,500,867	24,056	3.74	$561	$76
Kenton	19	$24,225,950	$4,275,880	$3,848,292	$28,501,830	157,629	1.21	$181	$24
Knott	2	$2,550,100	$450,093	$405,083	$3,000,193	17,385	1.15	$173	$23
Knox	3	$3,825,150	$675,139	$607,625	$4,500,289	32,810	0.91	$137	$19

Table 3 (continued)

Payday Lending by County (continued from page 7)

County	Licenses 2008	Loan Volume 2008	Fees Paid 2008	Predatory Fees 2008	Total Loan Volume plus Fees 2008	Population 2008	Lending Stores Per 10,000	Per Capita PDL Debt (Loans & Fees)	Per Capita Predatory Fees
Larue	1	$1,275,050	$225,046	$202,542	$1,500,096	13,722	0.73	$109	$15
Laurel	12	$15,300,600	$2,700,556	$2,430,500	$18,001,156	57,586	2.08	$313	$42
Lawrence	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	16,443	3.04	$456	$62
Lee	1	$1,275,050	$225,046	$202,542	$1,500,096	7,414	1.35	$202	$27
Letcher	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	23,890	2.93	$440	$59
Lincoln	1	$1,275,050	$225,046	$202,542	$1,500,096	25,072	0.40	$60	$8
Logan	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	27,117	1.84	$277	$37
Madison	14	$17,850,700	$3,150,649	$2,835,584	$21,001,349	82,192	1.70	$256	$34
Magoffin	2	$2,550,100	$450,093	$405,083	$3,000,193	13,151	1.52	$228	$31
Marion	3	$3,825,150	$675,139	$607,625	$4,500,289	19,063	1.57	$236	$32
Marshall	4	$5,100,200	$900,185	$810,167	$6,000,385	31,189	1.28	$192	$26
Mason	8	$10,200,400	$1,800,371	$1,620,334	$12,000,771	17,414	4.59	$689	$93
McCracken	21	$26,776,050	$4,725,973	$4,253,376	$31,502,023	65,109	3.23	$484	$65
McCreary	2	$2,550,100	$450,093	$405,083	$3,000,193	17,315	1.16	$173	$23
Meade	4	$5,100,200	$900,185	$810,167	$6,000,385	27,043	1.48	$222	$30
Mercer	4	$5,100,200	$900,185	$810,167	$6,000,385	21,920	1.82	$274	$37
Monroe	3	$3,825,150	$675,139	$607,625	$4,500,289	11,547	2.60	$390	$53
Montgomery	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	25,618	2.73	$410	$55
Morgan	3	$3,825,150	$675,139	$607,625	$4,500,289	14,156	2.12	$318	$43
Muhlenberg	9	$11,475,450	$2,025,417	$1,822,875	$13,500,867	31,187	2.89	$433	$58
Nelson	4	$5,100,200	$900,185	$810,167	$6,000,385	43,113	0.93	$139	$19
Ohio	6	$7,650,300	$1,350,278	$1,215,250	$9,000,578	23,789	2.52	$378	$51
Oldham	4	$5,100,200	$900,185	$810,167	$6,000,385	56,874	0.70	$106	$14
Pendleton	1	$1,275,050	$225,046	$202,542	$1,500,096	14,992	0.67	$100	$14
Perry	13	$16,575,650	$2,925,602	$2,633,042	$19,501,252	29,241	4.45	$667	$90
Powell	3	$3,825,150	$675,139	$607,625	$4,500,289	13,859	2.16	$325	$44
Pulaski	12	$15,300,600	$2,700,556	$2,430,500	$18,001,156	60,851	1.97	$296	$40
Rockcastle	2	$2,550,100	$450,093	$405,083	$3,000,193	16,788	1.19	$179	$24
Rowan	6	$7,650,300	$1,350,278	$1,215,250	$9,000,578	22,733	2.64	$396	$53
Russell	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	17,296	2.89	$434	$59
Scott	7	$8,925,350	$1,575,324	$1,417,792	$10,500,674	44,549	1.57	$236	$32
Shelby	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	41,157	1.21	$182	$25
Simpson	5	$6,375,250	$1,125,232	$1,012,708	$7,500,482	17,019	2.94	$441	$60
Taylor	9	$11,475,450	$2,025,417	$1,822,875	$13,500,867	24,069	3.74	$561	$76
Todd	1	$1,275,050	$225,046	$202,542	$1,500,096	12,173	0.82	$123	$17
Trigg	2	$2,550,100	$450,093	$405,083	$3,000,193	13,418	1.49	$224	$30
Trimble	1	$1,275,050	$225,046	$202,542	$1,500,096	9,012	1.11	$166	$22
Union	1	$1,275,050	$225,046	$202,542	$1,500,096	15,024	0.67	$100	$13
Warren	23	$29,326,150	$5,176,065	$4,658,459	$34,502,215	105,862	2.17	$326	$44
Washington	1	$1,275,050	$225,046	$202,542	$1,500,096	11,595	0.86	$129	$17
Wayne	6	$7,650,300	$1,350,278	$1,215,250	$9,000,578	20,696	2.90	$435	$59
Whitley	15	$19,125,750	$3,375,695	$3,038,125	$22,501,445	38,668	3.88	$582	$79
Woodford	3	$3,825,150	$675,139	$607,625	$4,500,289	24,526	1.22	$183	$25
TOTAL	782	$997,089,100	$175,986,226	$158,387,604	$1,173,075,326	3,951,628	1.83	$275	$37

The following counties did not have any payday lending licenses in 2008: Ballard, Bracken, Carlisle, Edmonson, Elliott, Gallatin, Hancock, Henry, Hickman, Jackson, Leslie, Lewis, Livingston, Lyon, Martin, McLean, Menifee, Metcalfe, Nicholas, Owen, Owsley, Robertson, Spencer, Webster and Wolfe.

1 Authored by Melissa Fry Konty, Research and Policy Associate at the Mountain Association for Community Economic Development, in collaboration with members of the Kentucky Coalition for Responsible Lending. Direct comments and questions to Melissa Fry Konty at mfrykonty@maced.org and to the Kentucky Coalition for Responsible Lending at KCRL@communityactionky.org.

2 King, Uriah, Leslie Parrish and Ozlem Tanik. 2006. *Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year.* Center for Responsible Lending. Last retrieved 01-13-2010 (http://www.responsiblelending.org/payday-lending/research-analysis/rr012-Financial_Quicksand-1106.pdf).

3 Parrish, Leslie and Uriah King. 2009. *Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume.* www.responsiblelending.org.

4 King, Parrish and Tanik. 2006, p.6. Also cited in King, Uriah and Leslie Parish. 2007. *Springing the Debt Trap: Rate caps are only proven payday lending reform.* www.responsiblelending.org, p.3

5 King, Parrish and Tanik. 2006, p. 7

6 Parrish and King. 2009.

7 Skiba and Tobacman (2008) and Agarwal, Skiba and Tobacman (2009) as cited in Parrish and King (2009), footnote 27: Using a database on payday borrowers of a large Texas-based payday lender, researchers find those approved for a payday loan were 88 percent more likely to file for Chapter 13 bankruptcy within two years than the rest of the Texas population. They were also 14 percent more likely to file for Chapter 13 bankruptcy than their peers who had applied—and then been denied—a payday loan. See Paige Marta Skiba & Jeremy Tobacman, *Do Payday Loans Cause Bankruptcy?*, Vanderbilt University Law School and University of Pennsylvania, (September 8, 2008), available at http://bpp.wharton.upenn.edu/tobacman/papers/rd.pdf. Using this same database of borrowers, the authors find that taking out a payday loan makes a borrower 92 percent more likely to become seriously delinquent on their credit card (i.e. 90 days or more late) during the year. See also Sumit Agarwal, Paige Marta Skiba, & Jeremy Tobacman. *Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles?* Federal Reserve Bank of Chicago, Vanderbilt University Law School, and University of Pennsylvania. (January 13, 2009). Available at http://bpp.wharton.upenn.edu/tobacman/papers/pdlcc.pdf.

8 These states include: Arkansas, Connecticut, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, West Virginia and Arizona, whose payday lending enabling policy will sunset in July 2010, re-establishing a 36% cap.

9 Lenihan, B.J. 1954. "Progress in Consumer Credit in Kentucky." *Law and Contemporary Problems* 19(1): 54-67.

10 See 1998 legislative enactment notes to KRS Chapter 286 Subtitle 9.

11 Estimates provided by the Center for Responsible Lending based on Kentucky Department of Financial Institutions figures on number of licenses, a national median loan size of $350 and national average 3,643 loans per store, and CRL findings that 76% of total loan volume is generated by "churning" borrowers from one loan to the next each pay period. Specifically, this is loan volume attributed to loans taken out within the same two-week pay period that a previous loan is paid back. See Parrish, Leslie and Uriah King. 2009. *Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume.* www.responsiblelending.org. Estimate of fees paid is based on the maximum allowable fee of 17.65% of credit extended in Kentucky. A survey of three major payday lenders in Kentucky found that two charged 17.65% of the amount borrowed (Check N Go and QC Holdings) and one charged 17.5% (Advance America). Regulator data from Florida, Oklahoma and Washington State show that 90% of fees are attributable to loans made to borrowers stuck in debt; that is, those loans made to borrowers with five or more loans a year. For our purposes, we estimate amount paid in predatory fees based on estimates of the number of loans that are going to people who are caught in the debt trap (i.e. have taken out five or more payday loans in a year). This means that our estimates do not assume that all fees are predatory and do not see occasional use of payday lending to meet financial needs as problematic. See Center for Responsible Lending. 2006. *Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year.* www.responsiblelending.org

12 KRS 286.9-100(1). The legislation states that licensees may charge $15 per $100 borrowed, but does not specify how the fees may be assessed. Payday lenders sometimes add on the fee to the hundred dollars. Under this approach, a consumer writes a check for $575 to borrow $500 for two weeks, an effective annual interest rate of 391% ($15 x 26 two-week periods). More often, lenders take the fee out of each $100 advanced. Under this approach, a consumer writes a check for $500, with fees totaling $75 for a $425 advance, or $17.60 per $100. Annualized, the interest under this approach is 459% (17.6 x 26 two-week periods).

13 HB 444, which passed and was signed into law during the 2009 Legislative Session clarified the existing practice that a borrower can have two loans totaling $500, and they can have two loans with the same lender or with two different lenders, as long as the total does not exceed $500.

14 Note that Louisville encompasses all of Jefferson County. These maps reflect the urban center of Louisville where more concentrated pockets of poverty and vulnerability are located.

15 Shapiro, Thomas. 2004. *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality.* New York: Oxford University Press.

16 U.S. Census Bureau, Small Area Estimates Branch. "Table 1: 2008 Poverty and Median Income Estimates—Counties." Release Date: 11.2009. Retrieved 01/13/2010 (http://www.census.gov/did/www/saipe/data/statecounty/data/2008.html). Number of payday lending licenses retrieved from the Kentucky Department of Financial Institutions web-site.