Center for Responsible Lending

Red Alert Rates: Annual Percentage Rates on $400, Single-Payment Payday Loans in the United States

June 2023

Charla Rios, Deputy Director of Research

Overview

Harmful single-payment payday loans remain accessible in over half of the United States. Single-payment[1] payday loans are small loans, often $500 or less, that are typically repaid in full at or within 14 days after their disbursement. Payday lenders charge exorbitant fees to borrowers without assessing their ability to repay, and the annual interest rates on these loans are in the triple digits. Over a decade of research demonstrates payday loans frequently lead to a continuous cycle of debt.[2] Researchers at the Consumer Financial Protection Bureau (CFPB) found that payday lenders collect 75% of their fees from borrowers with more than 10 loans per year, demonstrating that their business model is dependent on this long-term cycle of debt.[3]

A typical payday loan has an Annual Percentage Rate (APR)[4] just under 400%—well above most other credit products.[5] When a payday loan is due, these lenders are often the first in line for instant repayment due to having access to a borrower's bank account or postdated check. As a result, payday loans leave borrowers susceptible to a cascade of adverse financial consequences, including increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts, wage garnishment, and even bankruptcy.[6]

In 28 states, payday lenders still market single-payment payday loans, and borrowers are subject to the highest APRs in these states as a result. Payday lenders drain approximately $2 billion dollars in fees from these states, from those families that can least afford it.[7] The following map illustrates the APR in the states with these harmful products using state regulator information.

In 28 states, payday lenders still market single-payment payday loans, and borrowers are subject to the highest APRs in these states as a result.

It is worth noting that many states have a variety of subprime credit products. While this map addresses predatory single-payment payday loans, consumers in some states without single-payment payday loans still may be exposed to many other predatory consumer products, including high-cost loans made through "rent-a-bank" evasions and auto-title loans that put borrowers' cars at high risk of repossession. To date, 20 states and the District of Columbia have passed laws to cap payday lending rates around 36% APR, including fees, or requiring other measures to ensure that payday lenders do not impose interest rates and financing terms that create a long-term debt trap for consumers. Other states have passed some reforms for consumers using varying means, including lengthening loan terms on small loans, which results in APRs at or slightly above 100%.

Methodology

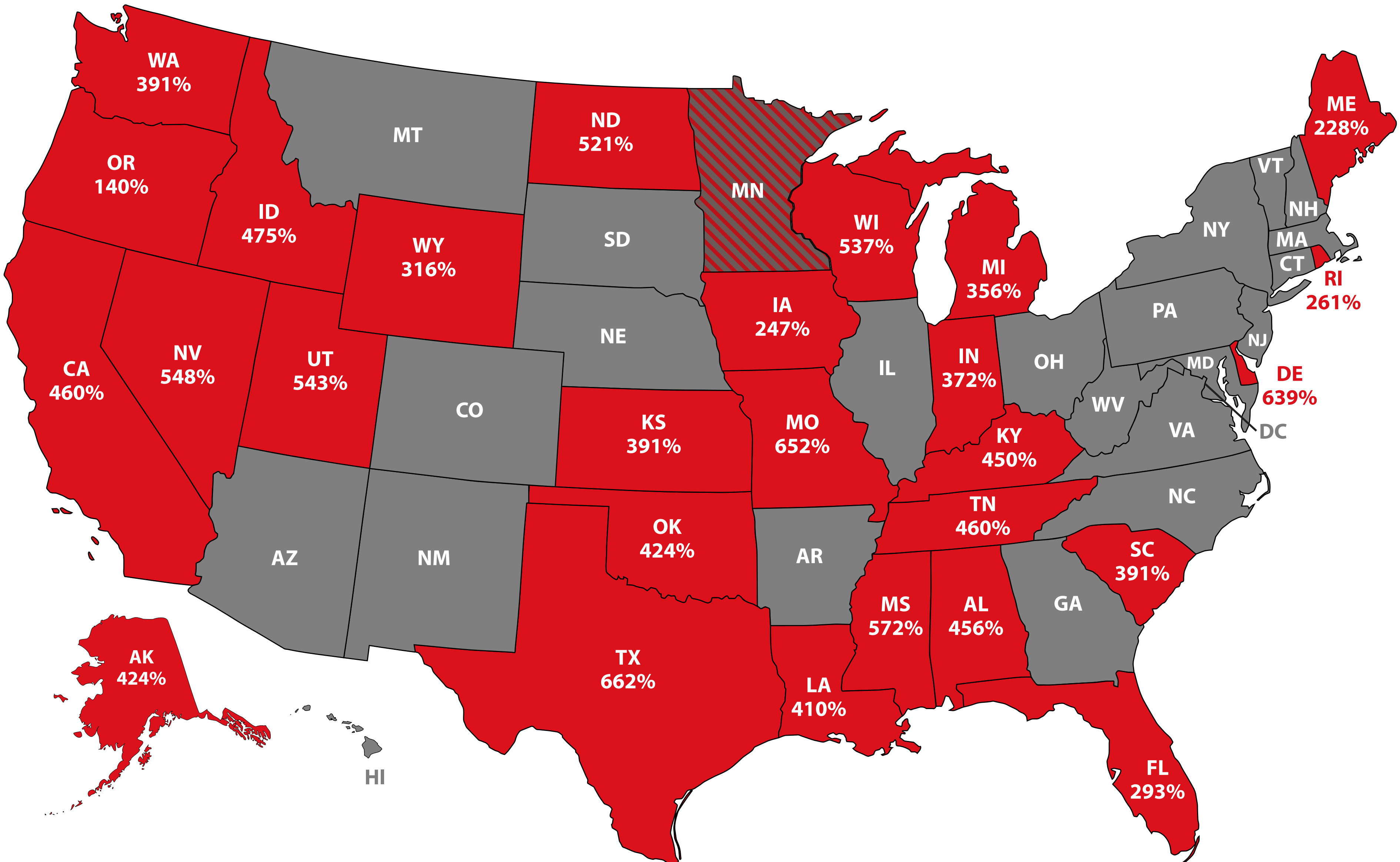
To reflect the current landscape, the map below identifies the many states that still allow single-payment payday loans despite their grave harms and cascading negative effects on consumers. We modeled a $400 loan due to the financial discourse around the percentage of Americans who could cover a $400 unexpected or emergency expense using cash or its equivalent.[8]

To obtain the typical APR for a $400, single-payment loan, we collected data from each state banking regulator using state-level equivalents of the Freedom of Information Act (FOIA). Where available, the average APR reported by the regulator was used, along with the reported average amount. For states where data were not available or loan amounts reported were noticeably less than $400, rates and terms were obtained for five online lenders to derive the APR for a $400, 14-day loan. In states where a $400 loan is not allowed, the highest allowable amount was used. These states include California ($255), Louisiana ($350), and Mississippi ($200). Two states—Maine and Oregon—have limits on fees and longer terms, respectively, however, both states still allow triple-digit interest rate payday loans.

On May 24, 2023, Minnesota Governor Tim Walz signed into law a rate cap on payday loans of 36% APR with underwriting standards on loans between 37–50%. Loans above 50% APR will not be allowed. This law goes into effect on January 1, 2024. The current, allowable APR in Minnesota is 220%. Minnesota is striped on the map to indicate the pending change.

Despite improvements in the payday loan marketplace, this map demonstrates that single-payment payday lending is still a concern in a large number of states. Many states that have no protections have substantial populations of Black and Latino communities, both of which are disproportionately targeted by payday lenders.[9] CRL recommends that states without meaningful usury caps and the federal government pass a cap on annual interest rates no higher than 36%, inclusive of fees, on small loans, to protect all Americans from the harms of payday lending and other exploitative forms of small dollar credit.

Annual Percentage Rates on $400, Single-Payment, Triple-Digit Payday Loans in the U.S.



$400, single-payment, triple-digit payday loans are issued

Legislation passed to eliminate $400, single-payment, triple-digit payday loans

$400, single-payment, triple-digit payday loans are not issued

See Appendix A for further methodology notes.

Appendix A: Additional Methodology Notes

California: APR based on a $255, 14-day loan as advertised online. California law does not allow for short-term loans above $300, inclusive of finance charges.

Delaware: APR as reported by state regulator as "average APR." Average loan size reported is $484.47.

Idaho: APR as reported by state regulator on a 17-day loan. Average reported loan size is $339.75.

Iowa: APR as reported by state regulator on average term of 18.6 days. Average reported loan size is $365.57.

Louisiana: APR based on a $350, 14-day loan as advertised online. Louisiana law does not allow for loans above $350.

Minnesota: On May 24, 2023, Governor Walz signed into law a bill that will eliminate loans of 220%, effective January 1, 2024. The 220% APR is reported by state regulator on an average reported loan size of $424.

Mississippi: APR based on a $410, 14-day loan. Mississippi law does not allow for loans above $410, inclusive of finance charges.

Oregon: APR as reported by state regulator based on maximum APR of 140.18%. Maximum loan amount recorded is $338.

Wisconsin: APR as reported by state regulator. Average loan amount is $375.01.

Wyoming: APR as reported by state regulator. Average loan amount is $535.

Endnotes

[1] Defined here as typically 14 days or two weeks. Oregon allows for single-payment, 31-day loans. Single-payment loans are different from installment loans. Single payment loans are paid with one payment, whereas installment loans typically extend for several months and are comprised of several payments over the course of the loan term.

[2] Glottmann, Sunny; Rios, Charla; and Constantine, Lucia (June 2023). The Debt Trap Drives the Fee Drain: Payday and Car-Title Lenders Drain Nearly $3 Billion in Fees Every Year. *Center for Responsible Lending.* https://www.responsiblelending.org/research-publication/debt-trap-drives-fee-drain-payday-and-car-title-lenders-drain-nearly-3-billion

[3] Consumer Financial Protection Bureau (April 2013). Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings. www.files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf#page=22

[4] APRs are a fundamental means of comparing costs of loan products and are required by federal law to be disclosed via the Truth in Lending Act (TILA).

[5] Glottmann, Sunny; Rios, Charla; and Constantine, Lucia (June 2023). The Debt Trap Drives the Fee Drain: Payday and Car-Title Lenders Drain Nearly $3 Billion in Fees Every Year. *Center for Responsible Lending.* https://www.responsiblelending.org/research-publication/debt-trap-drives-fee-drain-payday-and-car-title-lenders-drain-nearly-3-billion; Consumer Financial Protection Bureau (January 2022). What is a payday loan? https://www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567/

[6] Center for Responsible Lending (2009). Payday Loans: A Stepping Stone to Debt, Reduced Credit Options, and Bankruptcy. https://www.responsiblelending.org/research-publication/payday-loans-stepping-stone-debt-reduced-credit-options-and-bankruptcy

[7] Glottmann, Sunny; Rios, Charla; and Constantine, Lucia (June 2023). The Debt Trap Drives the Fee Drain: Payday and Car-Title Lenders Drain Nearly $3 Billion in Fees Every Year. *Center for Responsible Lending.* https://www.responsiblelending.org/research-publication/debt-trap-drives-fee-drain-payday-and-car-title-lenders-drain-nearly-3-billion

[8] Board of Governors of the Federal Reserve System (2022). Report on the Economic Well-Being of U.S. Households in 2021. https://www.federalreserve.gov/publications/2022-economic-well-being-of-us-households-in-2021-dealing-with-unexpected-expenses.htm

[9] Per the FDIC 2021 Unbanked and Underbanked Survey, nationally, 1.1% of households used a payday loan in the past 12 months. This percentage is higher for Black (2.4%), Hispanic (1.8%), and American Indian or Alaska Native (1.9%) households in comparison to white households (0.7%). For the remaining states with single-payment payday loans, California, Texas, and Florida have the largest Black and Hispanic populations.