

Too Much Month *at the* End *of the* Paycheck

Payday Lending in North Carolina

By

The Community Reinvestment Association of North Carolina

The Center for Community Capitalism
The Frank Hawkins Kenan Institute of Private Enterprise
The University of North Carolina at Chapel Hill

Photos by York Wilson

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January 2001

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*This book is dedicated to the memory of Mary Moore Parham,
a bright and caring woman who shared her gifts in producing
this project.*

A c k n o w l e d g e m e n t s

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Contents

Introduction	
<i>Peter Skillern</i>	iv
History of Consumer Lending	
<i>Peter A. Coclans</i>	1
Bill Whalen	
<i>Senior Staff Attorney, Pisgah Legal Services</i>	5
Constance Odim	
<i>Borrower</i>	7
Otis Meacham	
<i>Office of the Commissioner of Banks</i>	9
Clint Harris	
<i>Payday Lending Store Owner</i>	11
Melissa Barnes	
<i>Borrower</i>	13
Steve Grow	
<i>North Carolina Association of Check Cashers</i>	15
Octavia Rainey	
<i>Community Activist</i>	17

Larry Smith <i>Borrower</i>	19
Janet Bell <i>Borrower</i>	21
Nick Burks <i>Borrower</i>	23
Rebekah O’Connell <i>Consumer Credit Counselor at Triangle Family Services</i>	25
Bernice Stewart Yon <i>Borrower</i>	27
Rob Schofield <i>North Carolina Justice and Community Development Center</i>	29
Theresa A. Jones <i>Employee, Cash Advance USA</i>	31
Tina Brown <i>Borrower</i>	33
Alan Hirsch <i>Special Deputy Attorney General, Consumer Protection Division.</i> ..	35
The Public Policy Challenges of Payday Lending <i>Michael A. Stegman</i>	37
Math Problems	44

I n t r o d u c t i o n

Peter Skillern, Executive Director, Community Reinvestment Association of North Carolina

Like mushrooms after a spring rain, payday lending outlets have sprung up across North Carolina to meet a seemingly insatiable demand for short-term credit. The outlets provide borrowers with cash advances in return for their post-dated personal checks. Since 1997, the number of payday lenders in this state has grown from zero to more than 1,000 branches, generating over \$535 million in loans and over \$80 million in fees in 1999.

From biblical times, usury laws have attempted to balance the unequal relationship between people who have money and people who need it. This relationship has become increasingly complex in modern society. Today, government must balance the rights of entrepreneurs with protections for consumers and preservation of individual choice. Compounding the issue is the legacy of racial discrimination, which continues to determine who borrows from whom and at what cost.

The borrowers who appear in this book were identified by the Community Reinvestment Association of North Carolina through community outreach, and so are not a scientifically representative sample of payday patrons. Most borrowers who responded to our call for stories are African American and most used payday lending repeatedly to make ends meet. These stories focus the

attention on payday lending's biggest consumer protection issue — *rollovers*, in which a borrower pays interest or a fee to extend the time before the postdated check will be deposited to repay a previous payday loan.

North Carolina law expressly prohibits rollovers, but payday lenders are avoiding the prohibition by closing out the previous loan and immediately issuing a new loan for the same amount and a new fee. This is known as a *back-to-back transaction* and is the equivalent of a rollover. The borrowers' stories illustrate this process and its effects.

To start the book, Professor Peter Coclanis provides a historical analysis of credit in North Carolina to explain some dynamics of today's fringe banking system. Several lenders, borrowers, and community advocates then share their personal stories of how they have been affected by payday lending. Finally, Professor Michael Stegman discusses the policy issues that the North Carolina General Assembly will face as it reviews the state law that authorizes payday lending. That law will expire on July 31, 2001.

We hope that these photographs, interviews, and essays will not only inform the policy debate surrounding payday lending but will also help the viewer see the many sides of this complex and important story of money and community.

History *of* Consumer Lending

Peter A. Coclanis

If any topic in American economic history is little understood, it is consumer lending. It is not difficult to explain why; credit and debt are highly personal matters, and Americans, who are doubtful, if not downright prickly about both governmental and academic prying, have never been forthcoming about their borrowing. Lenders, fearing bad publicity or, worse, the attention of legal and fiscal authorities, have proven similarly disinclined to open their books to inquisitors. It was once believed that Americans — pious, sober, hardworking, and disciplined — had largely eschewed *consumer* debt until the rise of installment lending in the 1920s, and that consumer credit did not become really important until the charge- and credit-card industry took hold in the 1950s. Standard histories emphasized how the post-World War II boom unleashed a wave of hedonistic consumption, eroding the remnants of our earlier Puritan asceticism.

In recent years scholars have begun to look more closely at the history of consumer debt in America and, to simplify only slightly, the main finding is that Americans have *always* employed debt as a strategy for acquiring consumer goods. They have done so, first and foremost, for lack of other means to obtain goods, whether calico for shirt-making, a birthday present for a child, or bread for the table.

Before the “consumer revolution” of the 1920s, poor and working-class Southerners, like other Americans, traditionally relied heavily on three sources: pawnbrokers, illegal small-loan lenders, and family and friends. According to the Federal Census of 1920, there were 518 white pawnbrokers and money lenders in North Carolina alone. However, the region’s rural and agricultural orientation led many in the South to another source of credit: country store-keepers, who provided much of the working capital and consumer credit for Southern farmers until well into the 20th century.

While people in cities and towns chiefly went to pawnbrokers and money-lenders, rural Southerners who wanted credit or loans depended on plantation storekeepers, so-called furnishing merchants, and, in mining areas, company stores. These sources weren't cheap: annual interest rates estimated at 50 to 60 percent were common. Whether the rates reflected real risk and high transaction costs is debatable; no one doubts, though, that many rural Southerners paid through the nose for consumer credit.

By the 1920s consumer credit was changing, even in the South. With urbanization, rural storekeepers became less important, and in cities and towns new sources emerged, most notably department stores, finance companies, loan societies, credit unions, and "industrial" and commercial banks.

For poor and working-class Southerners, pawnshops remained important sources of consumer credit (even as they receded in significance for other groups). Over time, pawnshops were supplemented by a range of other subprime lenders: commercial check-cashing outlets, installment sellers, rent-to-own establishments, and the like. If credit from family and friends was not forthcoming, there was the "easy credit" appliance store, the "no money down" furniture house, or the "payday advance" currency exchange.

However important *class* is in explaining the incidence and prevalence of subprime lending in the South — and it is important indeed — *race* is perhaps more important still. For a variety of historical reasons, African Americans have been victimized and perhaps targeted by many lenders and credit institutions — not just in the modern subprime era, but really ever since the end of slavery. Until relatively recently, moreover, the role of the state has been to support and reinforce the prevailing lending regime, however inequitable.

Predatory lending, let there be no doubt, has a long, long history in North Carolina and the rest of the South. It didn't just begin in the past few decades with credit cards, discounted paychecks, the Fingerhut catalogue, and credit establishments such as Mr. Cash. And it won't end until public and private priorities shift sufficiently to demand the same standards in serving all borrowers, regardless of race or income.

Peter A. Coclanis is George and Alice Welsh Professor and Chairman of the History Department at the University of North Carolina at Chapel Hill.

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**PAYCHECK
ADVANCE**

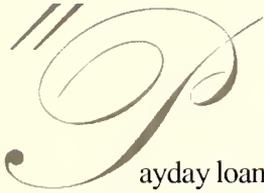
**CASH IN ADVANCE
OF YOUR PAYCHECK**

**PAYCHECK
ADVANCE
NOW OPEN**



Bill Whalen

Senior Staff Attorney, Pisgah Legal Services



ayday loans are not fulfilling their legal function — occasional, one-time use because of a certain incident. It's an opportunistic business. Unlike banks, most payday lenders won't check to see if a borrower can realistically pay back the loan. The people who can least afford more debt get the highest interest rates. The rates for continuous use would make a loan shark blush.

Payday lending is like any other vice — it's instant gratification but it's a bad deal over the long term. There are not adequate limitations to protect against gross abuse. People in financial crisis need financial counseling, not a quick fix. Not a loan that is financial cocaine.”

OPEN

INSTANT
CASH
UNTIL
PAYDAY



12345
67890
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CASH

C o n s t a n c e O d i m

Borrower



was behind in my car payment. It was just that one time I didn't have the money. But I never did have the \$300 to go on and pay the payday lender, so I kept renewing — just for that one time.

Now I know that I spent more than \$2,000 over a two-year period, just for that one \$261 loan.”



O t i s M e a c h a m

Office of the Commissioner of Banks



It is safe to say that there is a genuine need [for payday lending], otherwise we wouldn't have over 1,000 locations throughout the state.

Say you have someone in your family who is ill and all of a sudden you have a \$100 bill from the doctor and medicine that will cost another \$100. What cost are you willing to pay to obtain that \$200?

You can't sit down and be by the side of every borrower What role do I have to say, 'No, you can't have that [payday loan] because you already have two of these outstanding, and we as a government agency will not let you go to the third.' Is that right? Is that the proper role of government? That's not for this agency or the Commissioner. That is a legislative item, not for us."



Clint Harris

Payday Lending Store Owner



do my best to make sure that our loans are not the cause of our customers getting in over their heads. If [the staff] ever feel that someone [doesn't] fit the requirements, we just say we can't help them. I'll never be upset with anyone for saying no to a customer, for whatever reason. I don't want to be the cause of the customer getting in over their head.

If their check comes back to us I try to set up a time with them when they'll come by and take care of the check. I allow them to split it up if they have to, in halves or in quarters. We try to work with people. We talk to repeat customers about lowering the amount they borrow, so if they borrow \$260 one time ... why not next time borrow \$225, and then \$175, and then \$150?

The way I read the law, they can't have more than one out — or more than \$300 out — at any one store. I don't think the law prevents them from having more than one out at multiple locations. I don't think it's a good idea I think that's trouble. But I don't think the law says you can't."



Melissa Barnes

Borrower



've been using payday lenders for eight or nine months to pay my bills. I go to two of them every two weeks like clockwork. The money never even makes it to the drawer before they ... count it right back to me, minus the interest.

I haven't been able to give them the money and walk away. If I could get rid of the check loans I would be in a whole better way. It is worse than crack. You'll keep going back, keep going back just to get your bills paid."



PAY BILLS HERE

AT&T WIRELESS

- Bring your bill
- Pay
- Each

S t e v e G r o w
North Carolina Association of Check Cashers



he check-cashing business has identified a community need — people who have been disenfranchised by banks — and check cashers are filling it. The North Carolina statute that licensed and regulated us was something that we, the industry, fought to get passed, not something which we worked against. The law got a lot of riff-raff out of the industry.

Outlets that offer payday lending are essentially offering short-term loans to people who cannot get the money in other ways. The payday cash advance service allows consumers to choose a short term financial product for a short term fee because of its time-limited nature. You could take a taxi from Raleigh to Cary — or you could take that same taxi from Raleigh to Seattle for exactly the same rate, but the total expense would be ridiculous. It would be much cheaper to fly. The same is true with cash advance. It would be silly for a cash advance customer to take a single cash advance for an entire year. We cannot always control consumer behavior.”



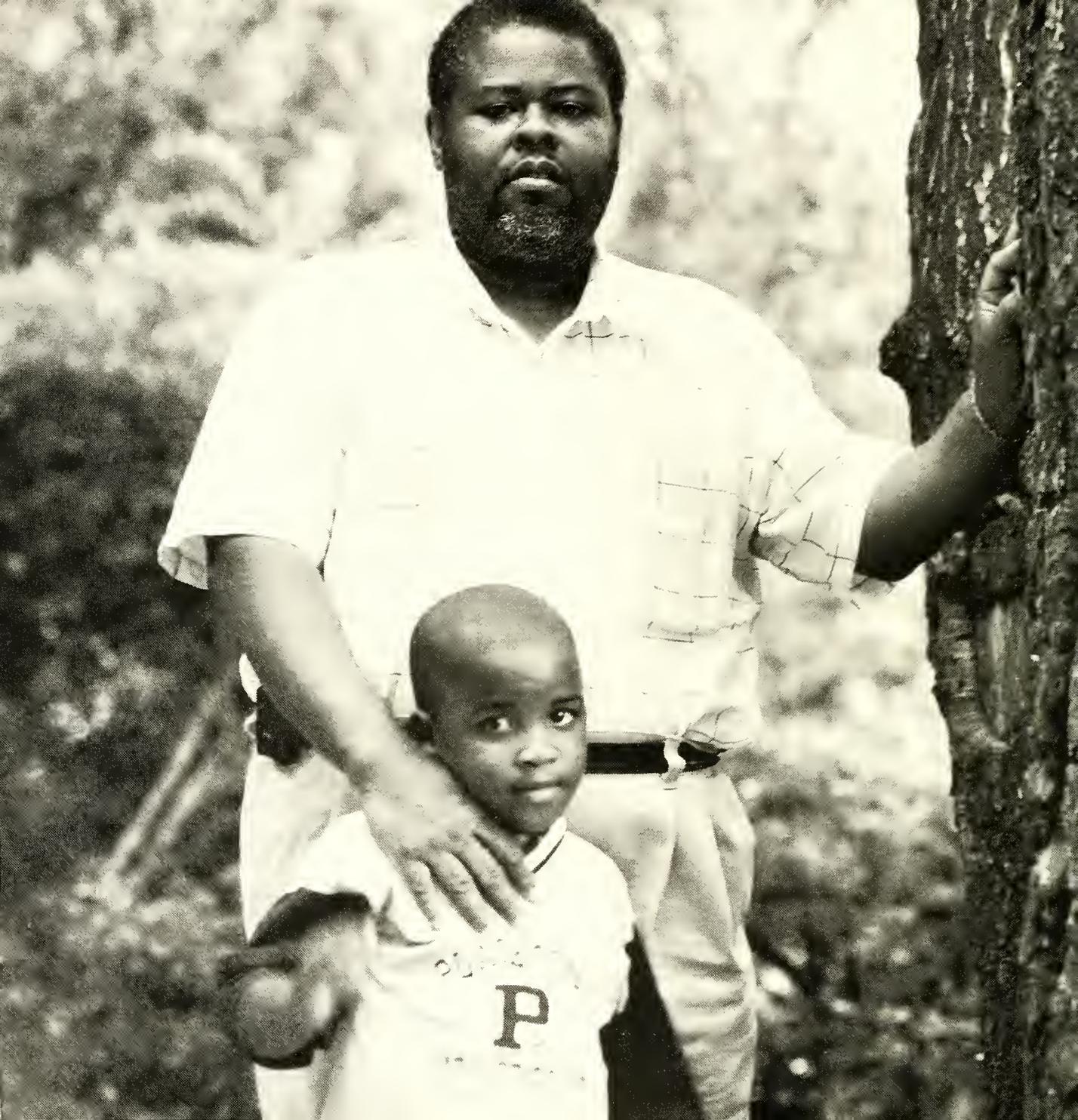
Octavia Rainey

Community Activist



In a neighborhood like ours, where you don't have a bank within walking distance, you will see within a three-block radius four payday lenders. I've noticed the check cashers have turned over to payday lending because they get more regular business: you go in this Friday and borrow money, and then in two weeks you're right back in again.

I worry about the future of the community. Homeownership would help the individual and the neighborhood, but how can you save for a mortgage if this money is gone out of every paycheck? And you already have a lot of people who never walk into a bank. What about the future, when banking is done online? You'll see even more 'unbanked' people — the ones who don't have a computer, don't have a telephone.”



L a r r y S m i t h

Borrower



od's been good. But He has some more good than He has given me. I have four [payday lenders]. On a monthly basis I pay \$350 worth of interest. That's my car payment right there in interest. I am making two car payments, but I have only one car.

In a way they are doing a favor for people, but in the long run it's not a favor. You have to pay them to get your money back so you can pay somebody else. It's not designed so you can get yourself together — it's designed for you to come back to them.”



J a n e t B e l l

Borrower



I have used a payday lender a couple of times. I think they are easier and quicker to deal with than going to a bank. Pawnshops seem to be shady places. The thought of it I don't want to give them anything of mine.

My experience with payday lenders? I have only had good experiences, and the people are really nice. I do feel it could be a little bit less interest Will I use them in the future? Probably I can go to them if I get into a desperate type situation, so it's good to know they are there."



 **ADVANCE AMERICA**

N i c k B u r k s

Borrower

was unemployed and needed quick money to pay a bill. I had heard of Advance America, where I could write a postdated check ... and go buy it back in two weeks for a small fee. Or what was a small fee back then. I thought, you know, free money.

Right now I'm kind of stuck with them. I've got a check for \$300 outstanding and I've been unable to roll it over or buy it back.

I think it is definitely a good service for people, but not for their target audience, people who are short on money. Their rates can be so high that it is pretty much impossible not to get in a cycle there.”



Rebekah O'Connell

Consumer Credit Counselor at Triangle Family Services



t'd be great if it was the middle class and it was just the plumber and all they need is \$200 this one time to get them by. But that's just not the reality. These are people who are really not making it They're not fixing a blown tire or a pipe — they're paying the rent.

[Payday lenders are] taking advantage of people in time of need We've got to get some controls on the interest rates. Three, four hundred percent? There ought to be a law."



Bernice Stewart Yon

Borrower



Which payday lender did I use? I used five. I went because I was on disability and my check only comes at the end of the month. I told them I couldn't pay every two weeks ... I had to go to the other ones, and this is how I got hooked. I got arrangements with all of them. I owe about \$1,000.

It is a nightmare. I warn people if you don't have to mess with them, please don't. You can get hooked on them ... so I warn, if you don't have to, please don't."



Rob Schofield

North Carolina Justice and Community Development Center



High-cost check cashers and payday loans are just the latest version of the age old story in America that the ‘poor pay more.’ Whether it’s groceries, insurance, used cars or money itself, we have this situation in which those who have the least to spend, pay the most for many necessities of life. Payday lenders simply capitalize on poverty. If all North Carolinians were paid a living income, most of these lenders would dry up and blow away.”



Theresa A. Jones

Employee, Cash Advance USA



I've been there, in a position where my debt had just overwhelmed me. I pawned my wedding ring. I gave away about \$1,000 and I only got \$45, you know? The value didn't replace the memories. I think I would have used a service like this.

I do everything I possibly can to help someone. I'm not supposed to, but I go in my pocket personally to help some people if they need a little extra \$50 to keep their lights on When they get over their head being with more than one check cashing company I feel for them because this is just adding to whatever situation they're trying to get out of. I can help them by just saying, 'No more advances.' When I see that this person needs more than just my help, I talk to them on how they can go to other sources, such as consumer credit....

It's just things that happen. We can always look for someone else to help ... but we're not victims. I think we're victors. On my car it's going to say, 'I did it' on the front tag and on the back, 'You can, too.'"



T i n a B r o w n

Borrower

// *D*

ifferent things were going on. My boss couldn't make payroll, I was drawing unemployment, I had just purchased a house ... the AC broke down. I had four [payday lenders] at a time. I owed \$1,200. Now I owe \$900.

They are harassing my references, my friends about my debt. 'Can you have Tina Brown contact us? Can you have her to call?' I am in a vicious cycle and I don't see a way out."



A l a n H i r s c h

*Special Deputy Attorney General,
Consumer Protection Division*



When the legislature enacted the law four years ago [payday lending] was especially rampant around military bases We had military commanders come in and say how bad this was for the troops ... all the young soldiers were getting into financial holes they couldn't get out of.

The problem is ... people end up with a permanent loan. The industry insists that they do not expect or want people to be permanent borrowers So at this point, we take them at their word. In evaluating the law, of course, we're going to have to make another judgment."

The Public Policy Challenges
of Payday Lending

Michael A. Stegman

For the same reasons that communities can neither grow nor renew themselves without access to capital markets, families without bank accounts or access to affordable credit are less likely than other Americans to have a cushion for emergencies, to save for a home, or to build retirement security. This is why matters of credit and consumer finance are an important area of public policy. This is also why policymakers should be concerned that, despite a booming national economy and the lowest unemployment rates in a generation, 10 percent of all families — including 25 percent of African Americans and Hispanics, and a quarter of all families with incomes under \$20,000 — are “unbanked.”¹ But having a checking account is not the same as using credit wisely. Nationwide, and in North Carolina, many families who do have checking accounts frequently pay a high price when conventional banks are either unwilling or unable to meet their acute credit needs. As the first-person accounts in this book so eloquently attest, for people who cannot or choose not to obtain credit from mainstream lenders, the growing network of alternative financial service providers (AFS) — check cashers, payday lenders, and pawnbrokers — can be both a blessing and a curse.

Simply put, payday loans are high-interest, short-term loans, backed by post-dated personal checks, that borrowers promise to repay out of their next paycheck.² In North Carolina, state law sets a ceiling of \$300 on the amount that can be borrowed at any one time, limits fees to 15 percent of the amount borrowed (which works out to \$45 on a \$300 loan), and provides for a maximum term to maturity of 31 days.³ In practice, according to state regulators, the vast majority of payday loans in North Carolina last only eight to 14 days, which, given the 15 percent simple interest rate, translates to an average annual percentage rate (APR) of approximately 460 percent.⁴

North Carolina has become fertile ground for AFS providers. Statewide some 200 licensed check-cashing companies operate in excess of 1,200 branches. While not all check cashers in the state extend credit, at year-end 1999, some 136 companies with more than 1,000 offices engage in payday lending.⁵ In 1999, payday lenders in North Carolina originated more than 2.9 million loans totaling more than \$535 million and in excess of \$80 million in fees.⁶ And these numbers are only part of the story of how non-bank financial companies are filling a critical credit void, since they exclude the 300 or so licensed pawnbrokers in North Carolina that provide their own unique brand of consumer credit.⁷

While AFS businesses are widely scattered throughout the state, many of them have concentrated in working neighborhoods of North Carolina's biggest cities. Charlotte, a growing regional money center and headquarters to two of the 10 biggest banks in the country, is also home to a very large contingent of AFS outlets. One recent report spotted more than 50 pawnshops in Mecklenburg County,⁸ and our own research has identified 91 check-cashing outlets inside Charlotte's city limits.⁹ We also found that check cashers and payday lenders are not scattered throughout the city, but are more likely to locate in high-minority and working class neighborhoods. Relative to population, there are one-third as many banking offices and more than four times as many check-cashing offices in high-minority neighborhoods as in low-minority neighborhoods.¹⁰

Because check cashers and payday lenders target working families with bank accounts — you need a checking account in order to patronize a payday lender — they are most likely to locate in moderate-income neighborhoods rather than in the city's poorest communities. Eighty-five percent of all check cashers in Charlotte (compared with 55 percent of all households) are in working class neighborhoods with median incomes of \$20,000-\$40,000.¹¹

The explosive growth of AFS providers in North Carolina appears to mirror national trends. Across the country, an estimated 6,000 check-cashing centers cash more than 180 million checks a year with a face value of \$55 billion.¹² Payday lending has been banned in 19 states because of its high costs and potential for abuse,¹³ but the number of outlets has grown nonetheless from just

a few hundred in the mid-1990s to approximately 10,000 today.¹⁴ One industry report estimates that there will be 25,000 payday lending stores by 2002, producing and \$45 billion in loan volume that will generate \$6.75 billion in fees annually.¹⁵

The most urgent policy and regulatory challenges posed by payday lending in North Carolina relate to the repeated use of such loans. Because of their high fees, after just a few renewals “borrowers may find themselves owing many times the amount they originally borrowed.”¹⁶ The issue of repeat use is critical because the industry defends its high fee structure on the basis that payday loans are the only accessible source of occasional short-term credit for hard-pressed consumers. Because individual borrowers are not supposed to use payday loans on a continual basis, the industry argues that the APR is not a relevant measure of the cost of credit.¹⁷ If many consumers use payday loans over longer periods, however, then the triple digit APRs charged by payday lenders may “[go] well beyond what is normal or fair, and, in some cases, particularly when the rollover usage pattern is taken into account, [appear] abusive.”¹⁸

That some families with fragile finances can become addicted to payday loans is confirmed by the narratives in this book and by recent reports from regulatory agencies in Indiana and Illinois. Indiana found that 77 percent of payday loans are rollovers, with the average payday customer averaging more than 10 loans per year.¹⁹ The pattern of repeat usage is even greater in Illinois, where the typical customer averages more than one payday loan per month.²⁰

While some might argue that the way to deal with such problems is for North Carolina to join the states that ban payday lending outright, I do not agree that this is necessarily the answer. The reality is that decent, hard-working families who end up with too much month left at the end of their money will go underground if necessary to get help. I was recently told by the owner of a check-cashing company in a state that prohibits payday lending that the neighborhood loan shark turns up in one of his busiest stores every Friday afternoon to extend credit and receive payments from customers who have just cashed their paychecks. “Everyone knows the rules of the game,” says the proprietor. “The loan shark charges 20 percent for a two-week loan.”

Because banning payday lending could force families underground in their desperate search for short-term credit, in its 1997 session, the North Carolina General Assembly decided to regulate rather than prohibit such activity. As indicated earlier, the North Carolina Check Cashers Act requires the licensing of check-cashing outlets and payday lenders, sets maximum fees and charges, and imposes disclosure requirements and other conditions for doing business in the state. To prevent the problems that have occurred in Illinois and Indiana — although the stories in this book suggest that these provisions are not working as intended — the General Assembly has prohibited lenders from extending, renewing or rolling over payday loans.²¹

The statute authorizing payday lending was “given an experimental period of existence — it expires on July 31, 2001, unless it is reauthorized or otherwise extended — in order to determine the practices of check cashing firms that offer this service and its effect upon the consuming public.”²² To help inform its collective judgment, the General Assembly has called upon the North Carolina Commissioner of Banks to prepare a report on payday lending, which should include “any evidence as to consumer complaints, unfair or deceptive trade practices, and the frequency of repeat use by individuals of postdated or delayed deposit checks.”²³

By putting human faces behind the Commission’s numbers, we hope that this book will help the Banking Commission and the General Assembly improve the payday lending law. It is clear from these stories that some hard-working people in North Carolina are becoming “hooked” on payday loans. Many are taking out repeated, back-to-back loans from the same payday lender, which is against the law. Others are borrowing from one payday lender to pay off another, which is permitted under N.C. law. Both practices result in additional loan fees, which can soon exceed the original principal and leave the borrower in a deeper hole than when she began.

While there are no simple answers to the consumer protection challenges posed by payday lending, this modest project suggests that policymakers, regulators, and mainstream banks carefully consider four issues. First, the Banking Commission should examine the books of payday lenders on a regular basis, paying

special attention to the issue of back-to-back transactions, including those at multiple locations. With respect to repeat usage, the current focus of Banking Commission is limited to the extent to which individual borrowers are repeat customers of the same lender. Currently, examiners make no effort to determine whether individual borrowers are borrowing from one payday lender to pay off another, or whether they have multiple payday loans outstanding at any point in time. Given the explosive growth of the industry and the additional time it would take examiners to properly document the extent to which borrowers are engaged in back-to-back borrowing from multiple payday lenders, the General Assembly must ensure that the Commission has sufficient examiners to do its work.

Second, while frequent examinations by the Banking Commission and stiffer penalties for violators can reduce the incidence of illegal back-to-back loans, these will not prevent consumers from borrowing simultaneously from two or more payday lenders, which violates the spirit of the law. This is why the General Assembly and the Banking Commission should look into how existing credit reporting technology might be adapted for regulatory purposes. Many payday lenders already incorporate this tracking technology into their risk management systems, and the Banking Commission could require all licensed companies to report all payday loans to a specified reporting agency. Then, either by law or regulation, the state could decide how many outstanding payday loans an individual should be permitted to hold at any one time, as well as the minimum time that must elapse before an individual is eligible to take out another payday loan, from the same or different lender.

Third, the General Assembly should make a bigger commitment to financial education. If nothing else, this collection of stories underscores the importance of having ready access to short-term credit and the consequences of not using that credit wisely. Too often, credit counseling begins when people are already in crisis. Through our educational system and community institutions, we all need to do a better job of helping families learn how to manage their finances, use credit more responsibly, and regardless of their race or income, obtain equal access to all available credit options. Because family money management is critical to many of the General Assembly's social and economic initiatives—

Work First and family self sufficiency, savings and asset building through individual development accounts, and helping more North Carolina residents buy their first home—the state should make financial education a greater priority.

Finally, this project suggests that North Carolina’s banking community should examine the implications of payday lending. The prolific growth and profitability of such lending reflects the fact that mainstream financial institutions have failed to meet the demand for short-term credit by working people who already have banking relationships. Moral obligations aside, banks, thrifts, and credit unions have a real market opportunity to “reach out to these consumers and provide responsible services for their legitimate needs.”²⁴

Michael A. Stegman is MacRae Professor of Public Policy and Business and Director of the Center for Community Capitalism at the Frank Hawkins Kenan Institute of Private Enterprise at the University of North Carolina at Chapel Hill.

Endnotes

¹ For a fuller description of the unbanked, see Congressional Testimony of Professor Michael A. Stegman, Before the House Committee on Banking and Financial Services, on H.R. 4490, The First Accounts Act of 2000, June 27, 2000. The data come from the Federal Reserve System’s 1998 Survey of Consumer Finances.

² Office of Thrift Supervision, Department of the Treasury, Memorandum for Chief Executive Officers, from Richard M. Riccobono, Deputy Director, Subject: Payday Lending, November 7, 2000, p. 1.

³ N.C. General Statutes Section 53-275, et seq. Article 22 of Chapter 53 is entitled “Check-Cashing businesses.” All further references to the North Carolina law governing the check cashing and payday lending industry refer to this statute.

⁴ Telephone interview with Otis Meacham, Deputy Commissioner of the North Carolina Office of the Commissioner of Banks, December 14, 2000.

⁵ Otis Meacham interview.

⁶ Otis Meacham interview.

⁷ Irwin Speizer, “Hoek Heaven: They’re Not High Finance, but Pawnshops Continue to Thrive as Lenders,” *Business North Carolina*, Charlotte, April 1, 1997, p. 47.

⁸ *Ibid.*

⁹ Anthony Kolb, “Spatial Analysis of Bank and Check-Cashing Locations in Charlotte, N.C.,” unpublished draft, December 30, 1999.

¹⁰ We identified 3.8 banks and 6.7 check-cashing outlets per 10,000 households in Charlotte neighborhoods that are at least 70 percent African-American, compared with 12.5 banks and 1.6 check cashing outlets per 10,000 households in neighborhoods that were less than 10 percent African-American. *Ibid.*

¹¹ *Ibid.*

¹² Michael A. Stegman, *Savings for the Poor: The Hidden Benefits of Electronic Banking*, Washington, D.C., Brookings Press, 1999, p. 63.

¹³ Marcy Gordon, “Senator Condemns ‘Payday Loans,’” *Associated Press*, December 15, 1999.

¹⁴ Remarks by Donna Tanoue, Chairman, Federal Deposit Insurance Corporation, Before the Seventh Annual Greenlining Economic Development Summit, June 13, 2000, p. 2.

¹⁵ *Ibid.*

¹⁶ Office of Thrift Supervision, Department of the Treasury, Memorandum for Chief Executive Officers, p. 1.

¹⁷ See, for example, “Unregulated Payday Lending Pulls Vulnerable Consumers into Spiraling Debt,” *The Woodstock Institute, Reinvestment Alert*, March 2000, p. 3.

¹⁸ Office of Thrift Supervision, Department of the Treasury, Memorandum for Chief Executive Officers, p. 2.

¹⁹ Cited in *Show Me the Money: A Survey of Payday Lenders and Review of Payday Lender Lobbying in State Legislatures*, The PIRG and Consumer Federation of America, February 2000, p. 8.

²⁰ *Ibid.*

²¹ Specifically, the law provides that “a licensee shall not, for any consideration, renew or otherwise extend any postdated or delayed check or withhold such check from deposit for a period beyond the time set forth in the written agreement with the customer.” Section 53-281 of the North Carolina Check Cashers Act.

²² Declaratory Ruling — Issues Under the North Carolina Check Cashers Act,” contained in correspondence from Hal D. Lingerfelt, Commissioner of Banks, to Ms. Jennie Dorsett, Executive Director and General Counsel, North Carolina Check Cashers Association, November 30, 1998.

²³ *Ibid.*

²⁴ Office of Thrift Supervision, Department of the Treasury, Memorandum for Chief Executive Officers, p. 1.

Math Problems for Payday Lending Patrons

- 1) Just as in the O’Henry tale, “Gift of the Magi,” you and your spouse have bought each other the ideal Christmas gift with the same and only \$250 in your checking account. (Neither of you entered your check in the register because you didn’t want to spoil the surprise.) On Christmas morning, after opening the gifts, you realize that on December 26, three checks totaling \$255 will bounce because of insufficient funds. For each bounced check your bank will charge \$25 and the retailer will charge \$20, costing you \$135 in fees. The local payday lender will give you \$255 in cash for a check of \$300 postdated for December 31, costing you \$45 in fees. How much will you save by using a payday lender rather than paying the fees for bounced checks?

Answer: \$90

- 2) You decide to get the payday loan. When you get your next paycheck on December 31, you pay your bills and are left with only \$45 dollars — not enough to cover the postdated \$300 check your payday lender has been holding since December 26. You need \$255 to keep that check from bouncing.

So you write a new postdated \$300 check to the payday lender in exchange for \$255 in cash. You put the \$255 plus the \$45 in the bank to cover the first \$300 postdated check, which the lender now deposits.

On January 15, you again have only \$45 after paying bills — not enough to cover the second postdated \$300 check, written on December 31. Once again you write a new \$300 check to receive \$255 in cash. You put the \$255 plus the \$45 in the bank to cover that second postdated check, which the lender now deposits. How much have you actually borrowed?

Answer: \$255

- 3) What are your total fees to the payday lender for borrowing this amount?

Answer: \$135

Math Problems for Payday Lenders

- 4) The cute couple who gave such neat gifts to each other for Christmas have become regular customers since December 26, conducting back-to-back transactions three times for a total of \$135 in fees. You are willing to reward loyal customers by continuing to honor their postdated checks, even though the risk of the loan going bad increases with each renewal. Because you receive \$45 per \$255 cash advance, after six transactions you have received \$270. On the 12th transaction you have received a total of \$540 in fees but you have really given the couple only that original \$255 (since all the subsequent cash advances were covered by the postdated checks). Finally the couple stops coming back. Their \$300 check — the one you're still holding — bounces. What is your net gain?

Answer: \$285

Math Problems for Community Reinvestment Advocates

- 5) Community reinvestment advocates are concerned about economic leakage — money that leaves a community rather than being reinvested to create household and community wealth. (Money that leaves the community is called economic leakage.) In 1999, payday lending transactions totaled over \$535,880,000 million in North Carolina. If all transactions were charged a 15% fee, what was the total amount of fees that flowed from households to payday lenders?

Answer: \$80,382,000

Math Problem for Regulators

- 6) North Carolina has some 1,000 payday lending branches. Two examiners must evaluate all of them for compliance with state law. If each evaluation takes eight hours, how many hours must each regulator work to evaluate every branch at least once a year for compliance?

Answer: 4,000 hours a year, or 10.95 hours a day for 365 days



