Stop Predatory Lending in Our Community

Predatory payday and deposit advance lending is a major area of concern for consumers across the country. Although there have been many policy advances in this area over the past decade, predatory lending promotes a vicious economic cycle that especially hurts low-income Americans and New Mexicans. We are advocating for a discussion about how predatory lending affects the safety and economic security of some of New Mexico's most vulnerable groups — including domestic violence survivors — and action to stop such practices.

While there is no formal legal definition of predatory lending, the Federal Deposit Insurance Corporation, or FDIC, broadly defines the practice as "imposing unfair and abusive loan terms on borrowers." These could include underwriting that does not take a borrower's ability to repay the loan into account and large prepayment penalties. Predatory lending takes many forms, including payday loans and deposit advances – an emerging form of predatory payday loans, this time made by banks. In 2012 payday lending made up approximately $29.8 billion of storefront paydays and $14.3 billion of online lending.

Predatory lending has damaged the national economy and individual households. Even before the recession, U.S. borrowers lost $9.1 billion annually due to these practices. This harm is disproportionately concentrated, with two-thirds of borrowers taking out seven or more loans per year. The consequences of this constant borrowing are stark. Households that utilized "deposit advances" – an emerging form of payday loans – were in debt more than 40 percent of the year, far more than the FDIC maximum limit of 90 days. In addition, many payday loans are used for common household expenses. Sixty-nine percent of borrowers, for example, used loans to pay for recurring expenses. This high level of debt and nonemergency usage encourages a vicious cycle of dependency on payday lenders.

Predatory lending, especially in the form of payday loans, undermines economic security by forcing borrowers to sell necessary assets. More than 50 percent of loan recipients defaulted on their loans, placing existing bank accounts at risk. Borrowers also could have their debts sold to a collection agency or face court action. These assets are essential to household economic security. Payday lending and other forms of predatory lending are antithetical to this goal; 41

percent of borrowers require a cash infusion to pay a loan, which could force them to sell possessions or request money from friends and family. This is even more troubling because fewer than half of the recipients have savings or assets from which to draw.

Payday lending is especially harmful because it disproportionately takes place in vulnerable communities. Seventy-five percent of payday-loan borrowers had incomes that were less than $50,000 per year in 2001, and payday lenders are concentrated in low-income areas. In Texas, for example, more than 75 percent of stores are located in neighborhoods where the median household income is less than $50,000. Moreover, many recipients of payday loans are desperate; 37 percent of borrowers stated that “they have been in such a difficult financial situation that they would take a payday loan on any terms offered.”

In Southern New Mexico predatory payday, title, installment, and tax anticipation loans are robbing low-income and impoverished individuals and families of assets they need to survive and build an independent financial future. In 2013 over 160,000 New Mexicans paid an average of $1,250 to repay the typical $650 loan over five months. Local economies were debilitated, autos and homes were lost, families were thrown into turmoil, and children were cast into perilously unstable circumstances.

The average 2013 New Mexico storefront loan tracked by state statistics carried an interest rate of 340%. Recognizing the danger of high-cost loans, many states and the United States Military have enacted interest rate caps of 36% or less. Consumer and credit counseling agencies statewide and nationally have urged that loans be limited to maximum interest rates of 36% or less. Several for-profit and non-profit organizations have demonstrated that short-term small loans can be provided at costs ranging from 10% to 36% APR. These include GECU, Turbo Title (auto title loans), Native Community Finance, the Community Loan Center, Prospero Financiero, and others.

With broad-based community support, Catholic Charities along with other faith-based nonprofit organizations is urging local credit unions and financial institutions to implement affordable short-term loan programs to support the financial needs of the 25% of New Mexicans who are currently at the mercy of predatory lenders. We are also urging our state and local governments to place a small portion of their treasury portfolios into investments that support the growth of low-cost loans to low-income borrowers.

Join us in our effort to stop predatory lending in our community!