Issue Brief for the RAISE Florida Network: The Payday Lending Industry in Florida

Compiled by: Research Institute on Social and Economic Policy (RISEP), Center for Labor Research and Studies (CLRS), Florida International University, March 10, 2014

Overview

Florida's payday lending industry is a $2.85 billion business that traps borrowers in a cycle of debt while also stripping more than $244 million of Florida's wealth (Veritec Solutions 2012). This report analyzes the economic effects of Florida's payday lending industry on its customers, our communities, and our state.

Payday lending industry and its effects on Florida:

With more than 1,600 stores, the payday lending industry has grown into $2.85 billion industry covering the majority of Florida. In fact, across Florida there were 7.2 million loans issued in 2012 by payday lending businesses distributed throughout North, Central, and South Florida (see table 1). Nearly all payday loans issued in Florida took place in eight of the largest regions in the state. However, population size does not seem to affect payday loan activity.

Table 1: Location of Payday Transaction by Volume

Region	Transaction volume %	Estimated Wealth Stripped from Fees
North	38.50%	$94,147,308
Central	19.10%	$46,706,846
South	42.30%	$103,439,769

Source: Veritec Solutions LLC 2012 and author calculations

The region with the greatest number of payday loans was Pensacola, with Miami and Orlando in distant second and third place, respectively. According to the U.S. Census Bureau, the Pensacola metropolitan statistical area has a population of about 455,000 compared to Miami's regional population of 5.7 million (2014). However, the Pensacola region was home to 39.9% of all Florida payday loan transactions in 2012 while the more populous Miami accounted for 17.8% of payday transactions. Since city population size is not a clear indicator of payday lending activity it reasons that the demographics associated with Pensacola's population may be driving its large share of payday lending transactions.

Table 2: Location of Payday Transaction by Volume		
Region	**Transaction volume %**	**Estimated Wealth Stripped from Fees**
Ft. Lauderdale	7.70%	$18,829,462
Ft. Myers	2%	$4,890,769
Jacksonville	2.40%	$5,868,923
Miami	17.80%	$43,527,846
Orlando	13.30%	$32,523,615
Pensacola	39.90%	$97,570,846
Tampa	3.80%	$9,292,462
West Palm Beach	13%	$31,790,000

Source: Veritec Solutions LLC 2012 and author calculations

While it is clear that the payday lending has an established presence in Florida its economic impact on the state is less clear. With 2.4 million borrowers across Florida the payday lending industry has real impacts on the Florida economy. The $2.85 billion payday lending industry collects an estimated $284 million in fees, revenues for payday lending businesses. The size of the payday lending industry is driven by loan "churning" as most borrowers renew loans or take out another loan within days of paying back a loan (Center for Responsible Lending 2013). This money-spinning industry relies on weak state regulations that allow payday lending companies to charge an average annual percentage rate (APR) of 280% for a two-week loan.

Payday Lending's Wealth Stripping Effects:

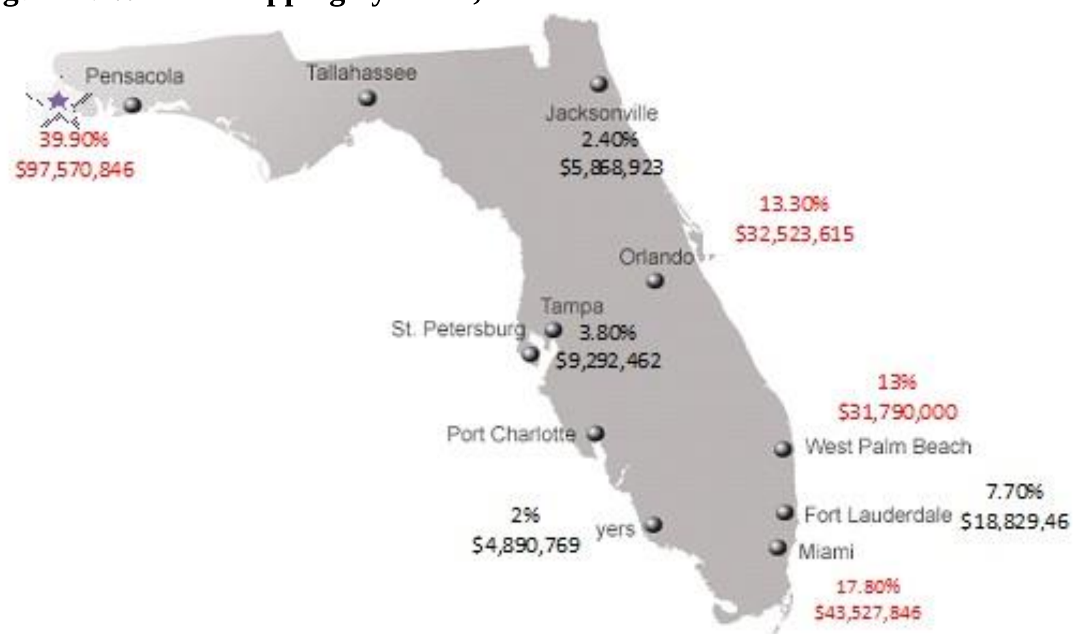
By capping the maximum interest that the payday loan industry can charge at 36%, policy makers could stop the wealth stripping of Floridians. In fact, in 2012 alone, the excessive interest and fees charged by payday lending businesses stripped more than $244 million of Florida's wealth. In concrete numbers, this is $244 million that would have remained in the pockets of Floridians if the maximum interest charged by payday lending businesses were capped to 36% APR.

Table 3: Payday Lending Industry Statistics					
# of Stores	**Total # loans**	**Estimated Wealth Stripping from Fees**	**Payday Loan Dollar Volume**	**Total Payday Fees**	**Total # borrowers**
1,600	7,200,000	$244,538,462	$2,850,000,000	$284,000,000	2,400,000

Source: Veritec Solutions LLC 2012 and author calculations

A closer look at the eight main cities in Florida where payday lending transactions are concentrated shows that Pensacola suffered an estimated $97,570,846 in wealth stripping due to the 280% APR charged by payday lending businesses. Residents of other cities throughout Florida also lost millions of dollars to the payday lending industry's excessive fees (see figure 1). It is important to note that a cap on the maximum interest charged by payday lending businesses to 36% APR would be straightforward and cost-effective solution to the negative wealth stripping effects of the payday lending industry. Additionally, a 36% APR cap would still give payday lending businesses more than $39 million in annual revenues.

Figure 1: Wealth Stripping by Cities, Florida



Source: Veritec Solutions LLC 2012 and author calculations

Florida is one of 29 states with no meaningful regulation of payday lending. Florida has codified payday lending industry backed "best practices"—such as extended payment plans, rollover bans, and cooling-off periods—that supposedly ensure that borrowers are not caught in a debt trap. However, research suggests that the existing regulations do not work and do not prevent the extensive level of wealth stripping that Floridians are facing (Center for Responsible Lending 2013; National People's Action 2012).

Payday lending debt trap:

The payday lending industry is designed to entrap borrowers in a continuous cycle of debt. On average, payday lending customers borrow $391 and pay $42.11 in fees per transaction. This means that on average, a payday lending transaction in Florida charges an APR of 280%. The typical payday lending customer uses 25% of their biweekly grow income on payday loans.

Table 4: Payday Debt Cycle

Average Loan Amount	Average Fee Charge per Transaction	Average # Loans per Borrower per Year	Average Annual Finance Charge (Fee)	Average Annual Cost of Average Loan	Average APR for a 2-week Loan	Percentage of a Borrower's Biweekly Gross Income Consumed by a Loan Payment (%)
$391	$42.11	8.8	$370.57	$761.57	280%	35%

Source: Veritec Solutions LLC 2012 and Center for Responsible Lending 2013

What's more is that nearly all payday lending customers are repeat borrowers, 98.4% of all borrowers. The typical payday lending customer takes out an average of 8.8 loans a year and therefore pays an average annual finance charge of $370.57. Therefore, the average annual cost of the average payday loan is $761.57.

Table 5: Share of Payday Loans Taken by Repeat Borrowers

Borrowers with 2+ loans per year	Borrowers with 5+ loans per year	Borrowers with 7+ loans per year	Borrowers with 12+ loans per year
98.4%	91.5%	85.2%	62.5%

Source: Veritec Solutions LLC 2012

The payday lending industry forces customers to become repeat borrowers due to the high fees associated with each loan. In fact, 39% of repeat borrowers take out another loan one day after paying off their existing loan and most, 86%, take an additional loan within two weeks of their previous loan.

Table 6: Share of Repeat Borrowers by Days Lapsed Between Payday Loans			
One day	**Within one week**	**Within two weeks**	**Within a month**
39%	75%	86%	93%

Source: Veritec Solutions LLC 2012

All adult Floridians are susceptible to falling in the payday lending debt trap. In fact, the majority, 70.3%, of payday lending customers are working-age adults (25-54). This means that the payday lending debt trap is affecting a considerable amount of Florida's working families. It is also worth noting that 22.4% of payday lending customers are seniors (55 and over).

Table 7: Age of Payday Borrowers		
Age group	**% of Transactions**	**% of Customers**
18-24	7.30%	10.40%
25-34	21%	23.10%
35-44	24.40%	22.90%
45-54	24.90%	22%
55-64	15.20%	13.90%
65 and over	7.20%	7.70%

Source: Veritec Solutions LLC 2012

The excessive fees associated with payday lending services make all types of debt servicing considerably more difficult for borrowers. As a result, payday lending customers are more likely to have overdraft fees and default on other loan obligations than the general public.

Recommendations:

Florida policymakers should require payday lenders to provide clear information of: 1) the periodic payment schedule, 2) the total repayment amount, 3) the total finance charge, and 4) the effective annual percentage rate (APR). Additionally, payday lenders should make sure that borrowers can repay the loans that they are given. Payday lenders should consider borrowers' income and expenses and determine their ability to repay the loan while also affording their regular expenses without taking out another payday loan.

In 2007, President George W. Bush and the U.S. Congress passed the Military Lending Act that placed a 36% APR cap for payday and car title loans to protect military families from the payday lending debt trap (Center for Responsible Lending 2012). In fact, the U.S. Department of Defense (2008) wrote that loans with 300% APR can weaken military readiness. Florida policy makers should likewise protect residents from the destructive effects of payday lending.

References:

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