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Drowning in debt

Payday borrowers can switch to lower-cost choices for loans

Sunday, March 25, 2007

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He's a teacher in Cleveland, and he was having trouble paying bills, so he took out a $200 payday loan two years ago.

Today, he estimates he owes $3,600 to six different payday lenders.

He asked me not to print his name, but he called after he saw a recent story about the growth of payday lending in Ohio.

"I'm just paying so much interest," he said. "I'm trying to dig myself out, and it's just not working."

Payday lenders say they serve a clientele that banks have abandoned: People who live paycheck to paycheck but need quick cash for emergencies.

But there's a catch. Ohio allows payday lenders to charge what amounts to a 391 percent annual interest rate.

And more than 90 percent of payday loan customers don't take out just one loan, a study by the Center for Responsible Lending found: They take out a series, paying off each by borrowing ever larger amounts of money, from a growing number of lenders, until they are adrift in debt.

Although not widely known, there are payday loan alternatives in Northeast Ohio:

Faith Community Credit Union in Cleveland offers Grace Loans and Amazing Grace Loans that carry a low interest rate and help borrowers build up a savings to help them get out of the cycle of debt.

Credit unions including Vantage Financial in Brook Park, Community United in Strongsville and Kent Credit Union in Portage County offer StretchPay, a cheaper alternative to traditional payday loans.

The Hebrew Free Loan Association offers small short-term loans that carry no fees, and astonishingly, no interest.

These products are aimed at getting consumers short-term cash without leaving them in worse financial shape than they started.

Not only are they less expensive than traditional payday loans, they also give clients more time to pay off the loans, reducing the chance consumers will have to borrow again to make the payment.

The real cost

of borrowing

Although payday lenders don't like to talk about loans in terms of the annual percentage rate, or APR, it's a term that borrowers should know.

APR is a lot like the grocery store's price per pound: It lets a consumer compare the real cost of a product, regardless of the size of the package, or in this case the size of the loan.

An APR is the cost of credit on a yearly basis. It's so important to a consumer trying to compare costs that federal law requires lenders - not just payday lenders, but credit card issuers as well - to show not just the dollar amount of interest but the annual percentage rate as well.

Small loans in Ohio are usually capped at 28 percent, but the legislature exempted payday lenders from that cap.

Payday loan stores in Ohio typically charge $15 in fees and interest for every $100 borrowed. A consumer who takes out a $250 payday loan today would give the lender a check to hold as security. In two weeks, he would have to pay back $287.50 - an APR of 390 percent.

But a consumer who doesn't have $250 extra this week isn't likely to have a spare $287.50 two weeks later - especially because he still has to pay regular bills and expenses, said Uriah King of the Center for Responsible Lending. He is likely to have to borrow again, only this time he will need a larger amount to pay off his current payday loan.

Julie Robie of Cleveland Legal Aid said that although the state prohibits payday lenders from rolling over loans more than once, many of her clients simply go to another lender to pay off the first loan. Once a payday loan is paid, the consumer can borrow again the next day.

Even though loans are constantly being paid, the consumer's debt is growing larger.

"The typical person who comes to us wants to pay it off," Robie said. "They just don't know how."

Increased

scrutiny

Congress is giving renewed scrutiny to payday lenders. Last week, Faith Community Credit Union's Rita Haynes and David Rothstein of Policy Matters Ohio testified about payday lending in Ohio before a House subcommittee.

Consumer groups, spurred by the success of an interest-rate cap on payday loans to military members, are agitating for the same thing to apply to all borrowers.

In response, the Consumer Financial Services Association, which represents about a third of the payday stores in Ohio, launched a $10 million national marketing campaign urging consumers to use payday loans prudently.

The piece that may be of most use to borrowers is a program that would give struggling consumers a once-a-year break, allowing them a longer period to repay loans.

CFSA spokeswoman Lyndsey Medsker said the particulars may vary from store to store, but association members have until July to put some type of program in place.

Whether lenders are members or not, local payday stores are sometimes willing to let struggling borrowers make installment payments over time, Robie said. It's worth asking.

Why don't more institutions offer alternatives to payday loans?

"Payday lenders aren't regulated like we are," said Haynes, chief executive of Faith Community Credit Union. Credit unions and banks, she said, have to answer to regulators for loans that go bad, and, in Faith's experience, small loans are time-consuming and not very profitable.

The upside that some financial institutions don't see, she said, is that customers come back: "They start to other products we have . . . eventually, we're able to transfer them into positive members and able to give them a [savings] or checking account."

Haynes said her grace loans have a better than 98 percent repayment rate: "They appreciate our service so much, they will pay us back. . . . Even if they lose their job, they come back and pay us."

If you have a consumer problem you haven't been able to resolve on your own, e-mail sherylharris@

plaind.com; write to Plain Dealing in care of The Plain Dealer, 1801 Superior Ave., Cleveland, OH 44114; or call the Plain Dealing help line at 216-999-6344. By submitting a question to Plain Dealing, you are agreeing to have it published in the paper. Because of the volume of calls, Plain Dealing can respond to complaints only through the column.

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