

State legislatures can require regulation and disclosure on Refund Anticipation Loans and Payday Loans, which are the key to ensuring that consumers are offered fair and appropriate loans. Several states, including New Hampshire, Oregon, Ohio, North Carolina, Arkansas, and D.C. have had success in protecting consumers from debt by regulating the payday, title and refund anticipation loan industry. Increasing awareness around these issues in an important step towards financial health for the communities of the Northern Plains. We must educate our leaders, legislators, neighbors and families about the often devastating effects of predatory lending and efforts to end these practices.

For more information about predatory lending in the Northern Plains Region:

Liz Stuewe
Policy Advisor, Banking and Lending
Rural Dynamics, Inc.
lstuewe@ruraldynamics.org
(406)-454-5719

Paul Andrews
Director of Public Policy
Rural Dynamics, Inc.
pandrews@ruraldynamics.org
(406)-454-5732

1. The Center for Responsible Lending (2008). <http://www.responsiblelending.org/issues/payday>
2. Arkansas Advocates for Children & Families (2005). http://www.aradvocates.org/_images/pdfs/Alternatives2.pdf
3. The Center for Responsible Lending (2006) <http://www.responsiblelending.org/policy/congress/page.jsp?itemID=29895875>
4. Consumer Federation of America/National Consumer Law Center. Refund Anticipation Loans: Updated Facts and Figures (2006). <http://www.consumerlaw.org>
5. Consumer Federation of America/National Consumer Law Center. Refund Anticipation Loans: Legislator Info (2007). http://www.consumerlaw.org/issues/refund_anticipation/content/SenateRALltr.pdf
6. North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options. November. (2007) http://www.nccob.org/NR/rdonlyres/4BB13853-F3B0-48E2-9A2B-1A59177018CF/0/NC_After_Payday.pdf



Predatory Lending in the Northern Plains

Consumers in Montana, Wyoming, North Dakota and South Dakota need access to capital, yet hardworking individuals and families are often charged exorbitant interest rates and fees for small short term loans which then drive them into unmanageable debt. Low to moderate income individuals and families often seek payday loans and refund anticipation loans in desperate situations without the full knowledge of the terms and conditions of these types of predatory loans. In order to create a fair and honest credit market for all consumers, the Northern Plains Initiative and Rural Dynamics, Inc. seek regulations and oversight for lending industries to lessen the negative impact of predatory lending in the region.

What is predatory lending?

Pay Day and Title Loans

Payday (also know as deferred deposit loans) and title loans are usually small loans advertised as one time emergency financial assistance to tide a person over until payday. However, research shows borrowers who receive five or more loans a year account for 90 percent of the lenders' business. Due to the nature of the loans and the high interest rates (often over 500%) payday loans create a cycle of debt which is nearly impossible for families to escape¹. Payday lenders are most often national companies with powerful interest groups who work to keep predatory lending practices legal. Payday and title loans drain millions of dollars out of the Northern Plains every year and have been shown to target both military personnel and minorities. Also, payday lending has a disproportionate effect on Native American communities due to the prevalence of unscrupulous lenders and a lack of banking infrastructure on many of the region's reservations.

We provide programs and develop partnerships to help youth, individuals, and families achieve economic independence.

According to a Center for Responsible Lending focus group of individuals from varied backgrounds who utilized payday loans, 79% were getting calls demanding money from creditors, 61% had credit card debt they could not pay, and 82% could not keep up with the monthly rent or utilities at the time they applied for these loans.² These statistics demonstrate the urgent and stressful situation many borrowers face when they seek payday loans, making them more vulnerable to predatory lending practices.

In 2006, The United States Congress and the Department of Defense worked together to cap pay day lending interest rates for military members at 36% APR³; acknowledging that the high interest rates charged by pay day lenders are unfair and a threat to American families.

Refund Anticipation Loans

A RAL works in the following way: A tax preparer will offer a loan for the amount of an anticipated refund to their client. There are no out of pocket expenses for the filer and they receive a check within a day or two. The IRS is directed to deposit the corresponding refund into an account set up by the tax preparer. If the refund amount is less than anticipated or if the deposit is delayed, the filer is responsible and must pay the difference.

The effective annual interest rate (APR) for a RAL can range from about 40% (for a loan of \$9,999) to over 700% (for a loan of \$200). Coupled with administrative fees, RALs can cost about 70% to over 1,800% APR. Approximately 12.38 million taxpayers received RALs in the 2004 tax filing season (for tax year 2003), paying a total of \$1.24 billion in loan fees, plus \$360 million in administrative fees. The tax-return industry and its lead bankers have built their growth strategies around RALs; more than a third of Jackson Hewitt's revenue comes from arranging these loans, and the company says the quick-cash offers are crucial in attracting its customers.⁴ Refund Anticipation Loans unfairly target low income Americans.

The Earned Income Tax Credit (EITC) is a federal anti-poverty program, intended to help working poor families. EITC recipients are disproportionately represented in the ranks of those who get RALs. Over half of the nearly 10 million taxpayers who received RALs in 2005 were EITC recipients, yet EITC recipients make up just 17% of the taxpayer population.⁵

Do regulations and disclosure requirements hurt individuals and families in need of credit?

No. In 2006, after North Carolina banned payday lending practices in the state the Commissioner of Banks requested a study to evaluate the household credit market without payday lending and researchers concluded that the absence of payday lending has had no significant impact on the availability of credit for households. In fact, more than twice as many former payday borrowers reported that the absence of payday lending has had a positive rather than negative effect on their household and most experienced no difference at all.⁶

The Center for Responsible Lending cites several loan alternatives including, payment plan with creditors, advances from employers, consumer credit counseling, emergency assistance programs, credit union loans, cash advances on credit cards, military loans, and small consumer loans. These alternatives offer critical support to consumers without trapping them in debt. Rural Dynamics, Inc. has partnered with Montana Credit Unions for Community Development to offer consumers products similar to payday loans with longer payback periods and reasonable interest rates not exceeding 18%. The credit unions participating have reported success with the loan program and low default rates. This shows that predatory lending is an unnecessary burden on our communities.

Predatory Lending on the Northern Plains

The Cost of Pay Day Lending by State

State	Cost of payday lending
Montana	\$8 million
South Dakota	\$87 million
North Dakota	\$6 million
Wyoming	\$10 million

www.responsiblelending.org/pdfs/rr012-Financial_Quicksand-1106.pdf

Average Loan Amount and APR by State

State	Average Loan Amount	APR
Montana	\$232	521%
South Dakota	\$338	417%
North Dakota	\$261	502%
Wyoming	\$325	521%

www.responsiblelending.org/pdfs/rr012-Financial_Quicksand-1106.pdf