Southern Bancorp
Community Partners

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Into the Light:

A Survey of Arkansas Borrowers
Seven Years after State Supreme Court Bans
Usurious Payday Lending Rates

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Summary of Findings

Southern Bancorp Community Partners (SBCP) surveyed 100 former payday loan borrowers on their financial experiences since Arkansas began enforcing its constitutional interest rate cap, making triple-digit interest rates illegal. Four main experiences were noted:

Borrowers say they are "better off" in the wake of Industry departure
Borrowers desire a "more fair" small loan product to address financial crunches
Borrowers acknowledge they are industry targets and want strong consumer protections enacted
Borrowers avail themselves of a number of safe, non-credit options to address financial shortfalls

Seeing Clearly

- Households are "better off" without payday loans.
- Households have an increased focus on budgeting.
- When extra money is needed, borrowers find safe alternatives for financial shortfalls.

Background and Context

In 2009, the last Arkansas payday loan store closed for business. At the industry's peak, three years earlier, payday lenders operated 275 stores across the Natural State. Arkansans Against Abusive Payday Lending (AAAPL - www.stoppaydaypredators.org), a coalition of forty (40) organizations including Southern Bancorp Community Partners (SBCP), played a key role in raising awareness about the abuses of payday lending. Payday loans trapped borrowers in ongoing debt due to triple-digit interest rates, in spite of the state Constitution's interest rate limit of 17 percent APR on consumer loans.[1] Research estimated that at that time, Arkansas borrowers paid, conservatively, $25 million annually in interest on payday loans.[2]

In addition to saddling borrowers in a prolonged cycle of debt, national research has shown that payday loans also increase borrower chances of losing a bank account, increase borrowers chances of initiating bankruptcy proceedings, and increase financial distress for families that are already facing financial challenges and shortfalls. Moreover, payday loan users are also twice as likely to become delinquent on credit card debt, and, although they are marketed as "short term" loans, borrowers are not able to pay off their payday loan in 14 days and find themselves renewing their loans over and over again. Half of payday loan borrowers default in the "first year" of use due to the debt trap. [3]

While no payday loan storefront has reentered the state since 2009, payday lenders continue to seek ways to trap Arkansans in their financial scheme. SBCP and other fair lending advocates maintain vigilance to ensure consumer loan interest rate laws are upheld in the face of repeated attempts to reinstate payday lending in the state. Advocates also closely monitor federal rules and regulations, including those from the Consumer Financial Protection Bureau (CFPB) to ensure that they support and strengthen the prohibition in Arkansas and expand similar protections for consumers across the country.

SBCP hopes that in preparing for its upcoming rule on payday lending, CFPB will be informed by this analysis of surveys of ex-payday borrowers and credit counselors in Arkansas. The enclosed recommendations will be shared with the CFPB and others, as the effort is aimed at extending the protections the state of Arkansas provides its residents to people across the United States.

1 Arkansas's State Constitution effectively bans payday lending by prohibiting interest rates higher than 17 percent annual interest and severely limiting fees on consumer loans. A typical interest rate for a traditional payday loan is 391% or more.

2 "Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year" Center for Responsible Lending, 2006

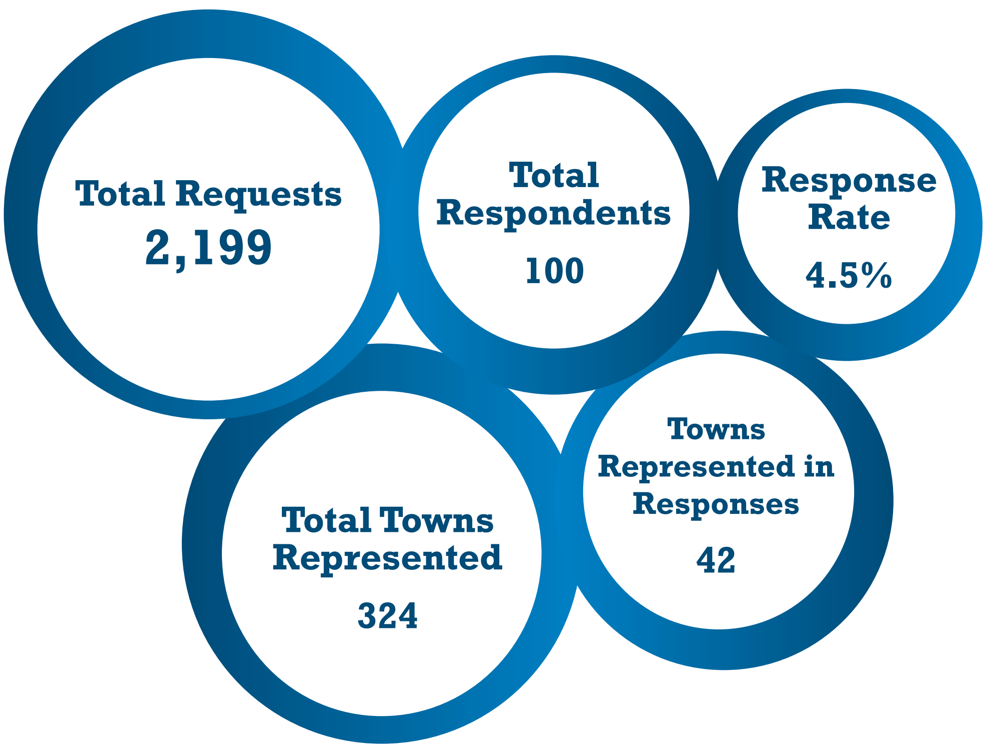
3 National Consumer Law Center. (2010). Stopping the payday loan trap: Alternatives that work, ones that don't. Boston, MA. Available at www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-stopping-payday-trap.pdf

Borrower Survey Findings

SBCP sought to understand the impact of enforcement of the Arkansas constitutional interest rate cap on the payday lending industry and so collected testimony from ex-payday borrows on their financial life after storefront payday lending. Ex-borrowers were contacted from lists provided by Mr. Hank Klein, Founder of Arkansans Against Abusive Payday lenders (AAAPL) and the Arkansas Attorney General's office. These borrowers had lodged complaints[4] about payday lenders with AARP and/or the state Attorney General's office in the years prior to the 2009 cessation. SBCP sent letters to all ex-borrowers asking them to complete a survey on paper or online.

In 2015, SBCP worked with the ex-borrowers to collect written testimony that might be potentially shared with the Arkansas Legislature as well as with the CFPB as it prepares its rule on predatory payday lending.

Survey Results



4 Arkansas Supreme Court declared payday lending unconstitutional in 2008, and all payday stores were closed by 2009. These are borrowers who filed complaints prior to 2009.

Borrower responses showed several themes listed below:

Most respondents indicated that they are better off now than they were when payday lending was allowed in Arkansas.

"We have done better."

"Our life is thankfully much more financially stable."

Fully solving the problem requires federal action and continued state enforcement since online and out of state lenders still operate in Arkansas, and payday lenders in border states continue to market to Arkansans.

"I didn't use [storefront lenders] because of the convenience of online payday lenders."

"Never used the storefront services but utilized the online services. Either way, glad they are banned from this state."

Ex-borrowers recommend and use a variety of methods to meet their financial needs, though they use different ones from the ones they recommend.

"I found that I really could do without them. I work terms with my creditors. They are willing to accept something from you. I have actually paid off debts by a little at a time. I keep more money in the home and not having to pay back loans that triple the amount borrowed."

"Put a little back each payday for emergencies."

For some, payday lending is a high-priced convenience, since without them, former borrowers work more, get loans from friends or banks, or use credit cards to meet their financial needs. Borrowers may take this view because payday lenders almost never reject applicants, the likelihood of payday approval is less embarrassing than possible rejection from a more traditional lender, and ease of the payday loan requires borrowers to make no immediate lifestyle changes.

"First ask friends or family for help, even if it's embarrassing."

"It was easy to get the money [from payday lenders] but it was hard to get out of it."

Consumers express a need for access to small dollar credit, but respondents do not want predatory, cyclic options, and they do not want their personal information shared with other lenders.

"Don't have such a high rate in paying back, some of us really need the help."

"Keep it out of AR. They should never be allowed to charge more interest than banks do."

"How has your life and/or your family's life changed since payday lenders left the state?"

Total Responders: 68

Generally Better:

40

59%

"Well, it makes me more responsible with my finances. If I don't have the funds, I just deal with [it] and wait until my next pay period."

"Our life is thankfully much more financially stable."

"Much better financially. You don't continue to repeat the vicious cycle."

"My life has changed for the better. If I need money. I just sign up for extra hours at work. It was easy to get the money but it was hard to get out of it. Something always came up. You just have to manage your money better. Live within your means and if you can't afford something then you don't need it. I learned that the hard way."

"I try to plan better for the rainy days. I have learned that there is no quick fix to financial issues."

Generally the Same:

20

29%

"I am still in need of money, but I will never do that again."

"My life is the same way it was before they left."

"I have learned to save money and spend less. "

"I have learned to be more responsible with my money."

Generally Worse:

8

12%

"This decreased my ability to make ends meet."

"We now have to use the local pawn shop and pawn something of value with the chance of losing it if something comes up by not paying the loan or interest on time. With the payday loan stores you could go and talk to them and work out some type of a arrangement. They were a big help for a good many people that the banks did not or would not help. But you should not depend on the payday loan as a way of life."

Impressions - Alternatives to Payday Lending

	Borrower Recommended Alternatives to Payday Loans	Alternatives Actually Used by Former Borrowers
Save Money	20	14
Negotiate w/ Creditors	6	0
Increase Income	6	12
Decrease Spending	4	0
Pray	6	0
Friend/Family Loan	22	36
Bank/Credit Union loan	15	12
Credit Cards	11	21
Overdraft Protection	2	4
Online Lender	0	8
Pawn Shops	3	19
Non-bank high cost	1	6
Check Cashers	0	3
Payday (In another State)	0	1
Paycheck advance	1	1
401K withdrawal	0	1

Respondents were given the option of stating more than one recommended or used alternative

Impressions - Suggestions for the Future

"The Consumer Financial Protection Bureau (the federal agency that regulates payday lending) will be reviewing their laws concerning payday lending. What would you like for them to know about the practice of payday lending?"

Total Responders: 62

29
47%

Lower the Interest:

"Low interest rates are important. Previous lending rates seemed to be designed to get you behind."

"Decrease the interest so that people can pay off the loans timely."

17
27%

Payday lenders should be banned:

"Payday lending is not a legit thing and I think it should be illegal in all states, whether it be online or in an actual store."

"It should not be allowed. It is a short term fix that leads to a downward spiral financially."

"Keep it out of AR."

"Shut them all down."

9
15%

Better terms, lower fees:

"Have a limit per person to borrow from lender."

"High interest rates. Give people sensible timing to pay them back."

7
11%

Prohibit sharing customer information:

"I believe they do not protect your information and other payday lenders get copies of your personal information because so many other loan companies contact you constantly."

Arkansas Credit Counselors' Observations

SBCP conducted a survey of Arkansas credit counselors to determine what changes, if any, they have observed in their work with consumers since payday lending ended seven years ago. The survey also asked counselors to summarize current and previous financial behaviors of clients who previously used payday loans. This information indicates a strong case for the Arkansas Legislature and the CFPB to ensure in-state consumer loan interest rate laws are upheld and industry attempts to create end-runs around interest rate laws are prevented.

SBCP sought input from credit counselors at agencies certified by the US Department of Housing and Urban Development and/or certified by the Arkansas Development Finance Authority. There are seven (7) such agencies operating within the state of Arkansas. Below are the findings from this survey:

- There are very few long term, established consumer credit counselors in Arkansas.

- As might be expected, counselors noted more counseling clients had outstanding payday loans in 2008 than did in 2014, suggesting an actual decline in Arkansans' use of the payday loan product, notwithstanding the availability of online and border-state payday loans.

- Counselors reported the overall debt load for consumers remained the same or increased somewhat. Counseling clients in 2014 have the same or more bad debt than clients did in 2008. This information aligns with under-banked data as well. A number of factors could contribute to this finding including, but not limited to, the failure of wages and salaries to increase on-par with the cost of living, the impact of the mortgage crisis and economic recession negatively impacting consumers in the years following 2009.[5]

- Careful monitoring, enforcement and rule-making was a universal recommendation from credit counselors. As one credit counselor noted, noted, "CFPB is 'the only thing that has helped.'"

5 Bureau of Labor Statistics, http://data.bls.gov/pdq/SurveyOutputServlet

Conclusions and Recommendations

The finances of Arkansas households have fared much better since the departure of the payday loan industry. Borrowers report the ease and availability of the loans was ultimately what made payday loans attractive (borrowers are never denied). But, the accompanying debt trap ensnared borrowers almost immediately, causing stress and anguish along with a ripple effect of ancillary hardships and financial distress with other vendors, companies, service providers, etc.

Based on our findings, we recommend the following:

1. The CFPB Rule should not undermine Arkansas'-- or any other state's -- interest rate cap.
2. The CFPB Rule should require payday lenders to follow the CFPB Rules.
3. The CFPB Rule should require payday lenders to maintain a database of payday loan borrower transactions and that information is used to ensure that the information can be used to monitor the impact of payday borrower experience and inform possible corrective measures.
4. The CFPB Rule should enable the Arkansas Attorney General to continue its work to eliminate all forms of payday lending in Arkansas, refuse to enforce any creditor claim for interest exceeding the maximum state interest rate against Arkansans, and document Arkansas borrower complaints of internet or border-state payday lending impacting Arkansans.
5. The CFPB Rule should require all small loan lenders operating in the State of Arkansas and doing business with Arkansans to advise borrowers of the following alternatives to high cost loans, many of which were utilized by former payday loan customers:

US Treasury CDFI Fund

- Utilizes federal resources to invest in and build the capacity of CDFIs to serve low-income people and communities lacking adequate access to affordable financial products and services.
- Made more than $500 million in awards to loan funds, banks, credit unions, and community development venture capital funds.

Cash Advances on Credit Cards

- Credit card companies offer either cash advances at about 30% APR on an unsecured card or a secured credit card, often tied to a savings account.
- Widely available through many banking credit lines

Military Loans

- All branches of the military have relief societies that provide emergency assistance to members of the armed forces at no cost to them.
- All of the branches relief societies can be found at Military OneSource.com.

Emergency Assistance Programs

- Faith based and community organizations often provide emergency assistance either directly or through social service programs. Arkansas Rent Assistance, Arkansas Health Care Access Foundation, Arkansas Kids First, Emergency Food Assistance, Arkansas Supplemental Nutrition Assistance Program, Refugee Resettlement Program, Arkansas Child Care Development Fund, Arkansas Weatherization Assistance program and many other state and local Social Service departments provide these services.

Consumer Credit Counseling

- Services available, at little to no cost, to create debt repayment plans specific to the individual's needs and financial situation through non-profits, employers, credit unions, banks, and housing authorities. For example, the National Foundation for Credit Counseling offers counseling, debt management plans, money management education, and homeowner counseling and education programs.

Payment Plan with Creditors

- Many creditors will work with a debtor to refinance and create a new, more affordable payment structure with partial payments over a longer period of time. For example, Entergy Arkansas provides customers with minimum payment options.

Advances from Employers and Family

- Many employers offer advances on employees' paychecks with no fees or interest.
- Able family members will often offer financial assistance, provided borrowers are not too embarrassed to share their financial needs.

To find a CDFI near you, visit www. cdfifund.gov

Acknowledgements: SBCP thanks the Center for Responsible Lending for providing funding for this survey, the Office of the Arkansas Attorney General, Mr. Hank Klein, founder of Arkansans Against Abusive Payday Lending, and the survey respondents. Without their effort, the completion of this report would not have been possible.

Appendix I:

Borrower Survey Methodology

Goal

The goal of interviewing Arkansas storefront payday loan borrowers is to learn more about the experiences of people who had, at some point in the past, turned to a payday lender to make ends meet. We wanted to know more about the circumstances leading to their decision to take out a payday loan, their experiences as a borrower, their reaction to the shuttering of payday lending stores, and how they view their current options to manage financial shortfalls. By obtaining this information, we hope to make a strong case for the CFPB to ensure payday lending restrictions are upheld and/or strengthened.

Survey population

In December 2014, SBCP received a list of 37 former payday borrowers from Arkansans Against Abusive Payday Lending. Each of the borrowers had contacted AAAPL between 2008 and 2010 to note their personal concerns about payday lending. In January 2015, SBCP contacted each person and obtained borrower consent to ask the interview questions shown below. The interviewer recorded the responses, and each interviewee received a $10 Walmart gift card as compensation for their time.

We were very pleased when, in late June 2015, the Arkansas Attorney General's office provided contact information for 2,162 Arkansans who had made a complaint to between 2007 and 2009. SBCP sent each person a paper survey with the questions below along with a letter of explanation, instructions and a self-addressed return envelope. The letter contained a link to an online version of the survey and indicated that respondents would be entered into a drawing for three $100 Walmart gift cards.

Interview Questions

The following questions will be asked of selected and willing ex-borrowers in face-to-face meetings. The dialogue will be recorded.

1. **Would you be able to provide testimony (tell your story) about your experience with Arkansas storefront payday lenders to members of the Arkansas 90th General Assembly in early 2015? If so, would you be interested?**

2. **What do you think of when you hear the term "payday loan"?**

3. **Tell us about your experience with Arkansas storefront payday lenders (benefits, challenges, difficulty paying the loan back, effect on you and your family, etc.).**

4. **How has your life and/or your family's life changed since payday lenders left the state?**

5. **Since payday lending is no longer an option in Arkansas, what are some other ways in which you get money or loans when you are struggling financially (e.g. credit cards, pawn shops, check cashers, bank loans, asking friends or family for loans)?**

6. **The Consumer Financial Protection Bureau (the federal agency that regulates payday lending) will be reviewing their laws concerning payday lending. What would you like for them to know about the practice of payday lending?**

Towns represented

Survey respondents were from all over the state of Arkansas, representing both urban and rural areas. In addition, the respondent group includes some individuals who live in towns near the state line, thus possibly in close proximity to storefront payday lenders in other states. Addresses were requested so that respondents could be compensated.

El Dorado	Caraway	Harrison	Little Rock	Rogers	Thornton
Alma	Cherokee Village	Hope	Malvern	Russell	Van Buren
Arkadelphia	Clarendon	Hot Springs	Mountainburg	Russellville	Waldo
Bella Vista	Dardanelle	Jacksonville	North Little Rock	Searcy	Ward
Bismarck	Elldins	Jonesboro	Osceola	Sherwood	Warren
Bluns	Grady	Junction City	Perryville	Smackover	Washington
Cabot	Gurdon	Lepanto	Pine Bluff	Sweet Home	White Hall

Appendix II:

Counselor Survey Methodology

Goal

The purpose of conducting a survey of Arkansas credit counselors is to determine if/how their practice has changed since payday lending ended five years ago. The survey will also ask counselors to summarize current and previous financial behaviors of clients who previously used payday loans. By obtaining this information, we hope to make a strong case for the Arkansas Legislature and the CFPB to ensure restrictions are upheld on consumer loan interest rates.

Survey population

In December 2014, SBCP will conduct a survey of Arkansas credit counselors to learn about their client base and how/if the end of payday lending affected the credit counselors' work. Licensed Arkansas credit counseling agencies providing services in Arkansas were identified.

Credit counselors are often well positioned to identify trends in financial issues. Recognizing that, we reached out to credit counselors at agencies certified by the US Department of Housing and Urban Development and/or by the Arkansas Development Finance Authority.

Interview Questions

The following questions were asked of Arkansas credit counselors using an electronic survey account through Survey Monkey.

Have you been an active credit counselor since at least 2008?

Yes
No [END SURVEY]

Approximately how many credit counseling clients did you have in 2008?

<10
Between 10 and 20
More than 20

Approximately how many credit counseling clients did you have in 2013?

<10
Between 10 and 20
More than 20

Approximately what percentage of your 2008 clients had payday loans?

<25%
Between 25 and 50%
More than 50%

Approximately what percentage of your 2013 clients had payday loans?

<25%
Between 25 and 50%
More than 50%

Please note any differences in your clients goals and challenges comparing 2008 to 2013: [1 is "Not at all True;" 10 is "Completely True;" N/A]

Compared to my 2008 clients, my clients in 2013 had less complex credit issues.

Compared to my 2008 clients, my clients in 2013 were more likely to borrow from family, use pawn shops, request a title loan, or find other sources of funds.

Compared to my 2008 clients, my clients in 2013 were more likely to have a savings account or credit card.

Compared to my 2008 clients, my clients in 2013 were more likely save money, borrow less, or just do without.

Please provide any comments that highlight notable similarities or differences in your credit counseling clientele between 2008 and 2013. [Free response]

Agencies represented in survey pool

Counseling agencies are located across the state of Arkansas, representing both urban and rural areas. Some agencies have multiple counselors. Fourteen counselors responded, of which, seven had been counselors since at least 2008. Since the survey was anonymous, we do not know which agencies those seven represented. However, since SBCP is a counseling agency and is in communication with other counselors, we know that our one Arkansas counselor responded, as did counselors from Credit Counseling of Arkansas and Dream Makers Housing Counseling Agency.

Counseling Agency	Town	County
Arkansas River Valley Area Council, Inc.	Dardanelle	Yell
Better Community Development, Inc.	Little Rock	Pulaski
Boys, Girls, Adults Community Dev. Center	Marvell	Phillips
Community Resources Tech	Little Rock	Pulaski
Crawford-Sebastian Community Dev. Council	Fort Smith	Crawford
Credit Counseling of Arkansas	Fayetteville	Washington
Dream Makers Housing Counseling Agency, Inc.	Pine Bluff	Jefferson
Family Service Agency	Conway	Faulkner
HOME Source, Inc.	Hot Springs	Garland
In Affordable Housing, Inc.	Little Rock	Pulaski
Jonesboro Urban Renewal & Housing Authority	Jonesboro	Craighead
Mississippi County Arkansas EOC	Blytheville	Mississippi
Money Management International	El Dorado	Union
Neighborhood Assistance Corporation of America	Little Rock	Pulaski
Northwest Regional Housing Authority	Harrison	Boone
Promise Land CDC	Little Rock	Pulaski
Southern Bancorp Community Partners	Helena	Phillips
Universal Housing Development	Russellville	Pope