POLICY POINTS

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TURNING A CYCLE OF DEBT AND DEPENDENCY INTO FINANCIAL SECURITY: REROUTING PAYDAY LOAN CONSUMERS IN MISSISSIPPI

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INTRODUCTION

In 2013, Mississippi's liquid asset poverty rate was 57.7 percent, which meant over half of its households had insufficient funds to subsist at the poverty level for three months without income.[1] Many households classified as liquid asset poor also have subprime credit, making them unable to obtain a loan from a traditional financial institution. Without emergency savings or access to bank loans, many consumers turn to predatory lending measures such as payday loans. Payday loans, sometimes referred to as paycheck advances, are small-dollar, short-term loans borrowers can quickly access. These loans are obtainable by leaving a check with the lender for the amount of the loan, plus any fees to be held until the next payday.[2] To qualify, a borrower must have a checking account and proof of income, including employment, social security, child support, disability or even unemployment benefits.

In providing a quick, financial boost for Mississippi households, payday lenders rely on a predatory business model involving loan terms that trap their consumers in a perpetual debt cycle. According to the Center for Responsible Lending, the "churning" of existing borrowers' loans every two weeks accounts for three-fourths of all payday loan volume. Furthermore, repeat borrowers comprise 98 percent of payday loan volume.[3] Many borrowers are unable to pay back their loans within the required two weeks and are forced to take out new loans to cover the loan and interest. When borrowers cannot pay the original loan amount, predatory lenders encourage them to take out a new loan for the same amount—paying a new fee—to cover the loan, or go to another payday lender to borrow to pay off the first loan.[4] As a result, borrowers are faced with revolving and increasing amounts of debt. Payday loan consumers in Mississippi take out an average of nine payday loans, paying nearly 500 percent in interest rates and fees before they begin paying off the original balance.[5]

In addition to the cycle of debt problem, research has shown that using payday loans also increases the chances of losing a bank account, increases the number of bankruptcy filings, and causes further financial distress for families. Moreover, payday loan users are also twice as likely to become delinquent on a credit card, and half of payday loan borrowers default in the first year of use.[6]

Payday lenders have flourished in Mississippi for the last two decades, and they are highly concentrated in areas of the state with persistent poverty, such as counties located in the Delta. For instance, Bolivar County has one

MISSISSIPPI PAYDAY LOAN FACTS

- PAYDAY LOANS GENERATE MORE THAN $270 MILLION IN FEES FROM MISSISSIPPI COMMUNITIES EACH YEAR.
- MISSISSIPPI HAS THE HIGHEST CONCENTRATION OF PAYDAY LENDERS PER CAPITA IN THE COUNTRY, WITH ABOUT 1,000 LOCATIONS MOSTLY CONCENTRATED IN LOW-INCOME AREAS.
- THE AVERAGE BORROWER PAYS $1,000 IN FEES FOR A $325 LOAN, AND TAKES OUT 9 PAYDAY LOANS BEFORE EVER ABLE TO PAY OFF THE ORIGINAL BALANCE. EACH NEW LOAN INCURS A NEW FEE, WHICH CAN TOTAL MORE THAN 500 PERCENT IN INTEREST RATES.

check casher for every 620 households and a poverty rate of 34.2 percent. On the other hand, Madison County has one check casher for every 1,430 households and a poverty rate of 13.6 percent (see chart on page 3).[7]

Despite many legislative attempts and efforts by various consumer protection advocates such as the Mississippi Center for Justice and Mississippians for Fair Lending to enact legislation for payday lending reform, the payday lending industry continues to thrive. Based on the industry's legislative support, the chances of eliminating payday lending in Mississippi are slim. As such, consumer protection advocates have begun to shift their attention to ensuring the availability of safe, affordable, and financially appealing alternative payday loan products that lessen the need to rely on payday lenders.

The purpose of this paper is to 1) provide an assessment of the current payday lending environment in Mississippi; 2) highlight the need for successful payday loan alternative products and strong asset building policies by showcasing lessons learned in Arkansas, a state similar in geography and demography; 3) offer recommendations for increased financial security for Mississippians, including payday lending reform; and, 4) feature a new alternative payday loan approach in Mississippi, the New Roots Credit Partnership, which is facilitated by the Mississippi Center for Justice through traditional financial institutions and employers throughout the state.

THE THRIVING PAYDAY LENDING INDUSTRY IN MISSISSIPPI

Background

Payday lenders in Mississippi operate under the Mississippi Check Cashers Act. Institutions licensed as check cashers are authorized to cash checks as well as make payday loans, which Mississippi law refers to as "delayed deposit" transactions. Thus, all payday lenders are classified as "licensed check cashers" by the Mississippi Department of Banking and Consumer Finance (DBCF). "Delayed deposit" transactions are authorized by the Mississippi Check Cashers Act and regulated by the DBCF to meet the following criteria:[8]

- The maximum deferred deposit transaction allowed is $400. In addition, the total checks being held for each borrower (which includes payday loans and interest) cannot exceed $400 per check casher at any time.
- The maximum fee a check casher can charge is 18 percent of the face amount of the check. For example, if a customer wants to receive $100 in cash, the customer must write a check for $121.95, because 18 percent of $121.95 is $21.95. Therefore, check cashers are effectively licensed to charge 21.95 percent of the loan in fees, which amounts to 572 percent APR for a 14 day loan and 267 percent APR for a 30 day loan.[9]
- The maximum loan term is 30 days.
- Check cashers cannot "renew or otherwise extend any 'delayed deposit' check." State regulations allow check cashers to set up a payment plan for the borrower to repay the loan if unable to repay by the due date.[10]

Since its authorization as part of the Mississippi Code of 1972, amendments have been made to the Check Cashers Act. Most recently during the 2013 Mississippi Legislature, HB 559 removed the repealer from Section 75-67-539 of the Mississippi Code of 1972, which mandated the legislature to review statutes regarding loan interest rates periodically or the law would sunset. As such, the legislature no longer has the obligation to assess the payday lending industry and determine if any changes are needed.

MISSISSIPPI PAYDAY LOAN BORROWERS TAKE OUT AN AVERAGE OF NINE LOANS AT A RATE OF NEARLY 500 PERCENT BEFORE PAYING OFF THE ORIGINAL BALANCE.

Payday Lending in Mississippi Today

In Mississippi, the payday lending industry is thriving, with profits of approximately $270 million each year from fees paid by its consumers.[11] According to a 2013 study by the Mississippi Department of Banking and Consumer Finance, the state has 1,014 licensed check cashers, equating to one check casher for every 1,073 households. Furthermore, due to HB 559 passing during the 2013 legislative session, the requirement to review loan authorization has been deleted. This legislation means elected officials may never have to debate interest rates on payday loans again.

Due to the high liquid asset poverty of low-income areas, payday lenders know residents within those communities will be in more need of their services. As a result, financially distressed communities have a disproportionate number of payday lenders. Additionally, when the presence of banks increases, the presence of payday lenders decreases; as such, there is a significantly positive relationship between the number of banks per capita in counties and a region's income per capita.[12] Further, the lack of traditional financial institutions and the prevalence of payday lenders may cause many people to use financial services outside of the mainstream. As seen in the chart on page 3, the ratio of the number of licensed check cashers (payday lenders) to the number of households in each county is disproportionate to the county's poverty level and number of banks present.

Banks & Check Cashers, in MS Counties with Southern Bancorp Branches, 2013				
County	% of Persons Below Poverty Level	# of House-holds	# of Banks *	# of Licensed Check Cashers **
Bolivar	34.2%	12,410	10	20
Coahoma	37.4%	9,276	8	16
Madison	13.6%	35,774	15	25
Pearl River	21.8%	20,519	7	17
Quitman	37.8%	3,155	3	3
Sunflower	34.7%	8,369	5	13
Tallahatchie	32.2%	4,637	3	1
Washington	37.5%	18,395	8	25

* Does not include the number of branches a bank may have in each of the counties.

** More check cashing services may be available, but are not licensed or approved by the DBCF.

Source: Mississippi Department of Banking and Consumer Finance (DBCF); Federal Deposit Insurance Corporation (FDIC); U.S. Census Bureau; SBCP analysis.

CASE STUDY: ARKANSAS

The need for successful alternative products and effective asset building policies is demonstrated by the current dilemma facing Arkansas. Five years ago, Arkansas shuttered the storefront payday lending industry and closed all payday loan shops. However, the issues rooted in why many Arkansans used payday lenders remain today. Eliminating payday lending in Arkansas meant fewer loans to consumers, and because of the lack of a good alternative product being offered, borrowers turned to other high-cost financial services.[13]

Prior to 2009, payday lenders operated 275 stores across the Natural State. Arkansans Against Abusive Payday Lending (AAAPL), a coalition of organizations including Southern Bancorp Community Partners, played a key role in raising awareness about the abuses of payday lending. Payday lenders trapped borrowers in ongoing debt due to triple-digit interest rates, in spite of the state Constitution's interest rate limit of 17 percent a year on consumer loans. Needless to say, when the payday loan industry left, advocates for family economic security throughout Arkansas celebrated the victory and new opportunity for many families to achieve financial stability.

Fast forward to 2014, where it is still impossible for an individual to obtain a predatory loan from an Arkansas storefront. However, despite the absence of Arkansas payday loan shops, the underbanked rate of Arkansans has increased by almost 6 percent since 2009 according to the FDIC.[14] Households defined as "underbanked" are those that have used non-bank money orders, non-bank check cashing services, non-bank remittances, payday loans, rent-to-own services, pawn shops, or refund anticipation loans (RALs) in the past 12 months.[15] The percentage of Arkansas underbanked households in 2009 was 22.3 percent. In 2013, four years after payday lending storefronts closed in Arkansas, the underbanked rate is 28.1 percent, the third worst in the country. With payday lenders gone, one would naturally ask why such an increase. One could make the case that eliminating payday lending in Arkansas caused the spike in the state's underbanked rate for three reasons: (1) even though Arkansans cannot get a payday loan from an Arkansas storefront, they can obtain payday loans from other places, such as online or from any state that borders Arkansas; (2) no alternative payday loan product was ever implemented in Arkansas and/or (3) while being underbanked does not necessarily mean one is only using payday loans, it does mean one is using products outside of the financial mainstream, which translates into other high cost financial products like check cashing or pawn shops.

A 2012 study by the Pew Safe Small-Dollar Loans Research Project supports the theory of why Arkansas's underbanked rate increased. The study explains that consumers who previously used payday loans are unlikely to turn to more formal institutions, like banks, if they are no longer able to get a payday loan. Based on the study, borrowers who were once payday loan consumers will choose options such as borrowing from friends or family, selling or pawning personal possessions, or delay paying bills before getting a loan from a bank.[16] Evidence from other states that have abolished payday lenders supports Arkansas's current payday lending dilemma that previous payday loan borrowers switch to pawnshops for short-term credit needs when payday lending is outlawed.[17] Moreover, Pew's same study shows if a state eliminated payday lending, *would-be* borrowers would elect to not use payday loans online or otherwise. However, that is not what is happening in Arkansas. While the ability to easily get short-term credit providing a quick financial boost through a payday lender is gone, the need is still very much there for many Arkansans. Thus, even though payday loan shops are no longer in the state, the former Arkansas payday loan store consumers are continuing to go outside the financial mainstream for short-term, small-dollar credit

Accordingly, while it is generally agreed that eliminating predatory payday lenders is a critical step towards achieving family economic security, it cannot be prescribed as the sole remedy for statewide financial insecurity. It is important for Mississippians to understand the predicament Arkansas faces because when it comes to the poverty of its residents, they fare about the same (AR – 18.7 percent, MS – 22.3 percent).[18] Nearly one-fifth of each states residents may need access to short-term, affordable credit to cover expenses due to insufficient household income at some point, regardless if payday lenders exist in the state or not.

WHAT MISSISSIPPI CAN DO TO IMPROVE CONSUMER PROTECTION

Based on the case study presented on Arkansas, even if Mississippi were to completely eliminate payday lending, many of the problems Mississippians face regarding family economic security would not go away. Mississippians who could not qualify for a loan from a traditional financial institution could take their business to other high-cost financial services, such as pawn shops in the state, or borrow from an online payday lender or a payday loan store located in a bordering state like Alabama, Tennessee, or Louisiana. Therefore, it is imperative that a number of actions are taken to help ensure financial security for Mississippians.

- **Offer more and better alternative payday loan products.** Southern Bancorp currently offers an alternative payday loan product in the Mississippi counties of Sunflower and Coahoma, known as the Liberty Line. The Liberty Line has a one-time application fee of $25 and an interest rate equal to the sum of prime rate and 5 percentage points (which with current prime of 3.25 is 8.25 percent), and no collateral requirements. Southern has made 99 Liberty Line loans, with an average outstanding balance of nearly $1,000 out of an average available credit line of $1,600. Customers can withdraw funds the same day they apply, with loan amounts up to either 1.5 times their monthly gross income or 20 percent of their net worth, whichever is less. Defaults are practically zero, but there is not enough data to determine the product's long-term success and scalability.

  In addition to the Liberty Line, Mississippi's BankPlus also offers an alternative titled CreditPlus loans according to the National Consumer Law Center (NCLC). If a consumer wanted a CreditPlus loan, he or she could borrow up to $500 with a credit score below 500 and up to $1,000 if the borrower's score is higher. The rate is only 5 percent APR with no fees and a 12- to 24- month repayment period. Half the loan proceeds are placed in an interest bearing savings account and put on hold until the loan is fully repaid. Even considering the interest paid on the savings half, the terms are very affordable. Borrowers are also required to take a three-hour course on financial literacy. Based on the aforementioned terms of CreditPlus, NCLC touts this loan program as providing an alternative that most effectively competes with a payday loan.[19]

Other States with Payday Lenders Offering Safe, Effective, and Affordable Products[20]

State	What it is	Why it works
FL	Eglin Federal Credit Union has a SAFE Loan Salary Advance of up to $500 or half of the borrower's monthly pay, whichever is less. The loan term is 90 days at 16.9% APR interest, with no fees other than the Florida documentary stamp fee of $0.35 per $100 borrowed. Even with the fee, the APR is 19%. Direct deposit is required.	Payments can be made by payroll deduction but is not required. The minimum payment, due each payday, is $25 weekly, $50 biweekly/semi-monthly, or $100 monthly. Members who have 2 SAFE loans are required to take budget counseling before obtaining a third SAFE loan.
IA	Veridian Credit Union offers a Payday Loan Alternative from $200 to $1,000 and a $20 application fee. The borrower can choose 19% interest with automatic payment, or 21% without. Borrowers must have paycheck direct deposit. Payments are due every payday.	Half of the loan amount requested is deposited into a savings account and is available after the loan is repaid. Checking accounts are not required.
OK	Bank of Commerce offers small dollar loans out of its Stilwell branch as part of the FDIC pilot program.* Loans range from $200 to $1,000 with a 12-month term. The interest rate does not exceed 13.75%, with an origination fee of $25 to $50. A credit report is obtained for the underwriting process, but the bank does not require a certain credit score.	A loan can be underwritten in less than an hour. Borrowers can choose to add 25% to the monthly payment for deposit into a linked savings account. Checking accounts are not required. Results from the first-year of the program indicate the loans were profitable and helped establish customer relationships.

* Stilwell is rural, with a large concentration of low to moderate income households, similar to many of the communities in Mississippi where payday lenders have a large presence.

- **Work to pass other legislation promoting family economic security.** As proven in Arkansas, eliminating payday lending operations is not enough to increase financial security among its residents. Therefore, in addition to offering sound alternatives to payday loan products, Mississippi must also look at policies that could lessen the reliance on high cost emergency financial products and increase available cash for families to meet unexpected expenses. Options that have been suggested include Medicaid expansion, increasing the minimum wage, revising its state tax code, offering tax credits for working families, financially supporting an Individual Development Account (IDA) Program, or providing college savings incentives. During the 2014 Mississippi Legislature, a bill will be introduced entitled the Family Savings Initiative Act. This bill will seek to legislatively mandate the provision of IDAs administered by the Department of Human Services and funded by Transitional Employment Assistance (TEA) monies from the State Treasury. The Coalition for a Prosperous Mississippi, of which Southern is part, is the group of advocates behind this bill. In addition to IDAs, this bill has other financial security goals, which includes:
    - Providing individuals and families with limited means an opportunity to build assets;
    - Facilitating and mobilizing savings;
    - Promoting savings for education, homeownership, microenterprise, retirement, and automobiles; and,
    - Stabilizing families and building communities.

- **Last but not least, payday lending reform.** A 572 percent APR on a payday loan is predatory, forcing consumers into long-term cycles of debt. Elected officials must put the interests of hardworking Mississippians before predatory industry profits by: endorsing state legislation that lowers fees, caps consumer loans at 36 percent APR, provides longer repayment periods for consumers, and requires a database of lenders; collaborating with local banks or credit unions to encourage them to offer small-dollar loans; and hosting public forums to help constituents better understand the perils of payday lending and the alternatives available to them.

CONCLUSION

According to the FDIC, the objective in passing state policy to impose an APR cap of 36 percent is so no financial service provider can charge exorbitant interest rates on consumer loans. The effects that payday loans and like products can have on a household's financial stability

CONSUMER PROTECTION SPOTLIGHT ON **MISSISSIPPI CENTER FOR JUSTICE**

The Mississippi Center for Justice (MCJ) is a nonprofit, public interest law firm committed to improving the lives of Mississippians by advancing racial and economic justice. The mission of MCJ is to tackle discrimination and poverty statewide and create a just society by building healthy communities across Mississippi. Through their various policy initiatives, MCJ engages elected officials, faith-based leaders, media, community activists, educators, childcare providers, healthcare professionals and other advocacy partners.

A current initiative of MCJ is focused on consumer protection, specifically predatory lending. MCJ heads Mississippi's anti-predatory lending coalition, Mississippians for Fair Lending - a coalition of more than 40 businesses, financial institutions, faith-based organizations and nonprofits. MCJ is presently working with several banks and credit unions throughout Mississippi to help in the creation and implementation of affordable small-dollar loan products.

One such example of offering an affordable small-dollar loan is MCJ's work in establishing the New Roots Credit Partnership. Through the Partnership, MCJ is working with larger employers throughout the state, seeking to educate them and their employees about the detrimental impact payday loans have as well as assisting them in offering financial literacy classes and alternative payday loan products. Using employers, rather than traditional financial institutions, lenders will seem less daunting to borrowers as much of their personal information is already provided and a trusting relationship already exists. Most recently, the City of Jackson approved New Roots Credit Partnership and, with 2,400 employees, became the largest employer in the state to provide its employees an alternative to predatory lending.

For more information about these efforts, contact Paheadrea Robinson, Director of Consumer Protection, at pbrobinson@mscenterforjustice.org.

can be wide-ranging and devastating, leaving Mississippi families less economically secure and unable to build assets or save for a rainy day. Therefore, to improve the financial stability of nearly a quarter of Mississippi households and lessen the reliance on costly financial products, traditional financial institutions must offer good alternatives. Through financially appealing alternative products, Mississippi households that formerly used short-term, high-cost financial services may no longer need these emergency financial products.

While eliminating predatory payday lenders in Mississippi would be the ideal, there are many other initiatives policymakers and family economic security advocates can currently promote to work toward financial stability for all Mississippians. Presently, family economic security advocates cannot prevent Mississippians from obtaining a payday loan, but they can educate and introduce them to safe, affordable, and financially appealing alternative products and facilitate development of such loans. As seen in Arkansas, the need for short-term credit does not go away with the elimination of payday lenders; therefore, advocates must use this time to educate people on sound alternatives to payday lending regardless of whether payday lenders ever leave the state of Mississippi. If legislation cannot be changed to decrease the interest rates on payday loans or eliminate predatory lending altogether, policymakers and advocates can work to decrease the rate at which Mississippi families are living in poverty.

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