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Read the Policy Brief:
http://keystoneresearch.org/publications/research/payday-lending

Legalizing Payday Loans Bad News for PA Consumers and Economy

New analysis finds bill would siphon hundreds of millions from consumers and cost good PA jobs

HARRISBURG, PA (May 8, 2012) – Legislation that would legalize payday loans at triple-digit interest rates would cost Pennsylvania consumers hundreds of millions of dollars and result in the loss of good jobs from the state's economy, according to an analysis by the Keystone Research Center.

Pennsylvania has one of the strongest laws in the nation protecting consumers from predatory payday lending. Annual percentage interest rates are currently capped at about 24 percent, saving Pennsylvania consumers $234 million in excessive fees each year.

House Bill 2191, the subject of a House Consumer Affairs Committee meeting Wednesday, would significantly weaken the law. It would permit a $300 two-week loan to carry a fee of $43, amounting to an annual percentage rate of 369 percent. It would create a few poverty wage jobs while erasing more than 1,800 good jobs in the rest of the economy.

Payday loans are typically targeted to low-income borrowers who are in financial straits. When payment on the loan is due, many borrowers are no better off than they were 14 days earlier. Fees continue to mount if a check bounces, and borrowers often take out an additional loan, as payday lending fees add to the shortfall in their family budgets.

"Payday loans are a debt trap for working families," said Mark Price, Ph.D., a labor economist with the Keystone Research Center. "Customers take out nine payday loans a year on average because once they pay back one loan they need another to keep the lights on and food on the table."

Research has found that payday borrowers are twice as likely to file for bankruptcy as applicants who are denied a payday loan. Pennsylvania, like other states that have strong consumer protections from predatory payday lending, has a low rate of bankruptcy, with only three bankruptcies per 1,000 people. On average, there are five bankruptcies per 1,000 people in states with minimal or weak protections against predatory payday lending.

Supporters of the bill tout it as a job creator, although the fine print says most of the jobs created would pay poverty-level wages and come nowhere close to the money lost by consumers to excessive fees and interest rates.

Keystone researchers estimate that excessive fees would result in the loss of 1,843 jobs – and this doesn't even count the potential economic costs of increased bankruptcies or other social costs that accompany the expansion of payday lending.

"This bill simply transfers money from Main Street to Wall Street," Dr. Price said. "We should strive to create jobs that boost middle-class families and not ones that leave families trapped in debt."

Research in other states that permit predatory payday lending finds that payday lenders tend to concentrate in low-income urban and rural communities.

"The expansion of payday lending, with unemployment high and many working families still struggling, represents a significant threat to the well being of Pennsylvania's rural communities," said Stephen Herzenberg, Ph.D., executive director and economist with the Keystone Research Center.

Read the full policy brief at http://keystoneresearch.org/publications/research/payday-lending

The Keystone Research Center is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy. Learn more: www.keystoneresearch.org.