



MISSISSIPPI PAYDAY LENDING FACT SHEET

Overview

A payday loan, sometimes called a paycheck advance, is a small, short-term loan that allows a borrower to cover urgent expenses until their next paycheck. To obtain such a loan, an individual must leave a check with the lender for the amount of the loan plus any fees, to be held until their next payday. To qualify, a borrower must have a checking account and be able to demonstrate employment. In order to make payday loans in Mississippi, a company must be licensed as a “check casher”.ⁱ According to data released in April 2007, Mississippi has 1,069 licensed check cashers,ⁱⁱ or one check casher for every 1,014 households.ⁱⁱⁱ This is one of the highest concentrations of payday lenders in the nation. While not all payday loans are predatory, payday lending practices can result in predatory loans, in which borrowers get caught in a cycle of debt. This fact sheet provides information about the payday lending industry in Mississippi and nationwide, how it harms consumers, and several efforts to curb payday lending.

Characteristics of a Predatory Payday Loan

The Center for Responsible Lending (CRL) defines predatory payday lending as loans to borrowers with five or more transactions per year. It reports that 91% of payday loans fit this description. After multiple rollovers, the typical payday loan borrower repays \$793 for a \$325 loan.^{iv} CRL has identified the following characteristics of predatory payday lending^v:

Predatory Characteristic	Definition	Relevant Research Findings
Short loan terms	Loan term is shorter than 90 days.	The average payday loan has a loan term of two weeks. ^{vi}
Triple digit interest rates	Lender charges an annual interest rate of at least 100%.	The average APR charged for a payday loan is 470%. ^{vii} In Mississippi, a borrower is typically charged 572% APR for a two week loan. ^{viii}
Loan renewal or flipping	Borrower renews the loan at the end of the loan term and pays additional fees because he/she is unable to repay the loan when it is due.	Ninety-nine percent of payday loans are made to repeat borrowers, and 91% of payday loans are made to borrowers who have had five loans per year or more. ^{ix}
Borrowing from multiple lenders	Borrower has payday loans from multiple lenders at the same time.	Research shows that many borrowers have loans from three or four payday lenders at a time. ^x

Predatory Characteristic	Definition	Relevant Research Findings
No concern for the borrower's repayment capacity	Lender does not conduct repayment analysis based on the borrower's income.	The amount of a payday loan is not based on the borrower's credit history. In order to receive a payday loan, borrowers generally only have to have a checking account and demonstrate employment. ^{xi}

Most of these characteristics are prevalent in Mississippi, and as demonstrated by state law, all except for renewing or flipping loans are legal.

Mississippi Check Cashers Act

Institutions licensed as check cashers in Mississippi are authorized to cash checks as well as to make payday loans, which are called “delayed deposit” transactions in Mississippi law.^{xii} These transactions are authorized by the Mississippi Check Cashers Act and regulated by the Mississippi Department of Banking and Consumer Finance, as follows:

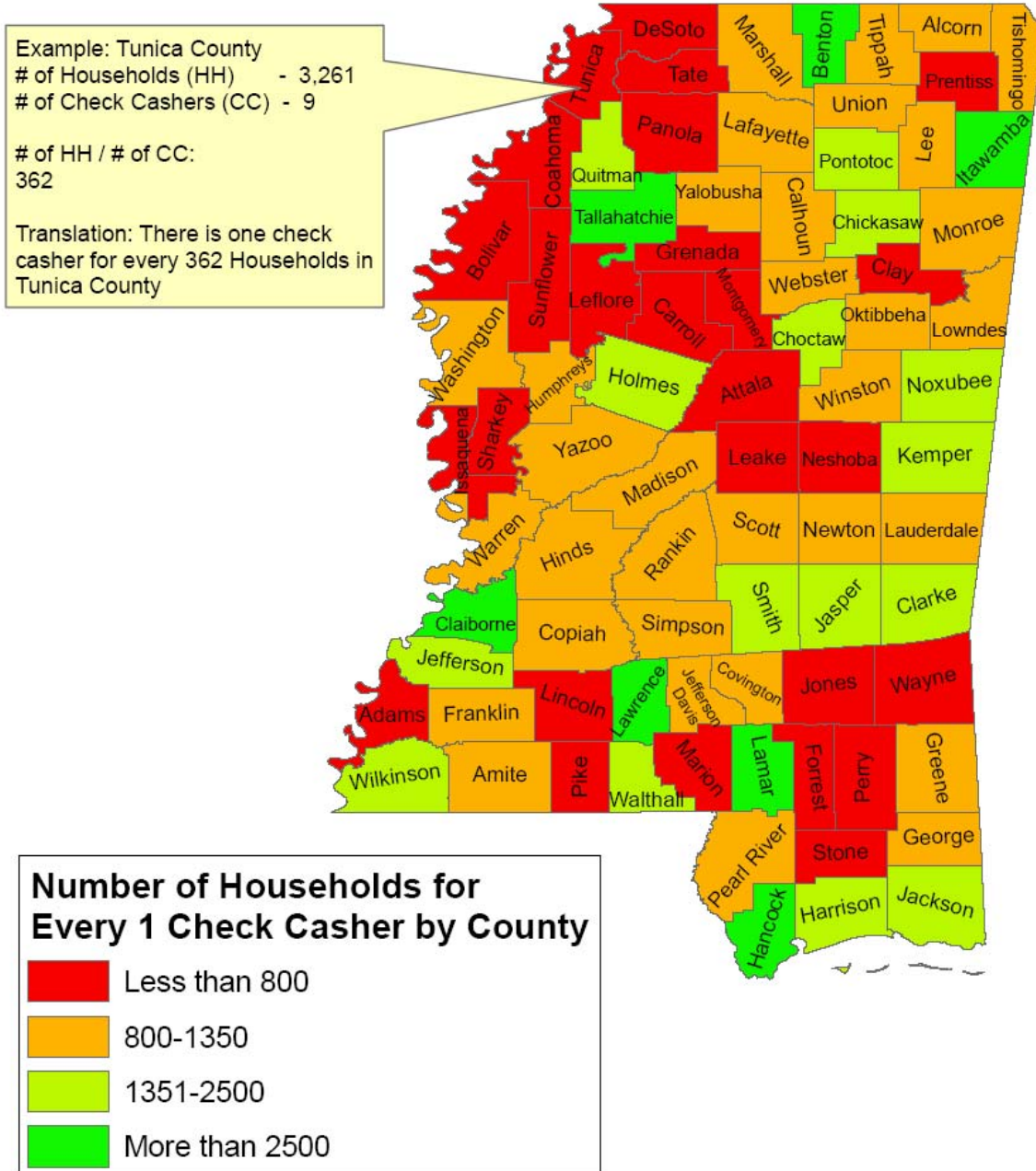
- The maximum deferred deposit transaction allowed is \$400. In addition, the total checks being held for each borrower (which includes payday loans and interest) cannot exceed \$400 per check casher at any time.^{xiii} Even though Mississippi has capped the loan amount, national research shows that many borrowers have payday loans from three or four lenders at a time, as they are trying to manage their financial crisis.^{xiv}
- The maximum fee that a check casher can charge is 18% of the face amount of the check. For example, if a customer wants to receive \$100 in cash, he/she must write a check for \$121.95, because 18% of \$121.95 is \$21.95.^{xv} Therefore, check cashers are effectively licensed to charge 21.95% of the loan in fees, which amounts to 572% APR for a 14 day loan and 267% APR for a 30 day loan.
- The maximum loan term is 30 days.^{xvi}
- Licensed check cashers cannot “renew or otherwise extend any delayed deposit check.”^{xvii} State regulations do allow the check casher to set up a payment plan for the borrower to repay the loan if a customer is unable to repay the loan on the due date.^{xviii}

Payday Lending Volume

The payday lending industry is booming. Between 2000 and 2006, total sales volume has almost tripled from \$10 billion to \$28 billion nationally.^{xix} The Center for Responsible Lending (CRL) estimates that in 2005 predatory payday lending cost customers \$4.2 billion in excessive fees. In Mississippi, predatory payday lending in 2005 cost borrowers an estimated \$135 million.^{xx}

According to a 2004 report by Stephens, Inc., Mississippi has the highest concentration of payday lenders in the nation.^{xxi} As of April 18, 2007, there were 1,069 licensed check cashers in Mississippi,^{xxii} or one check casher store for every 1,014 households in the state.^{xxiii} Map 1 shows the concentration of check cashers in Mississippi by county.

Map 1
Number of Households for Every One Check Casher, By County
Mississippi, April 2007

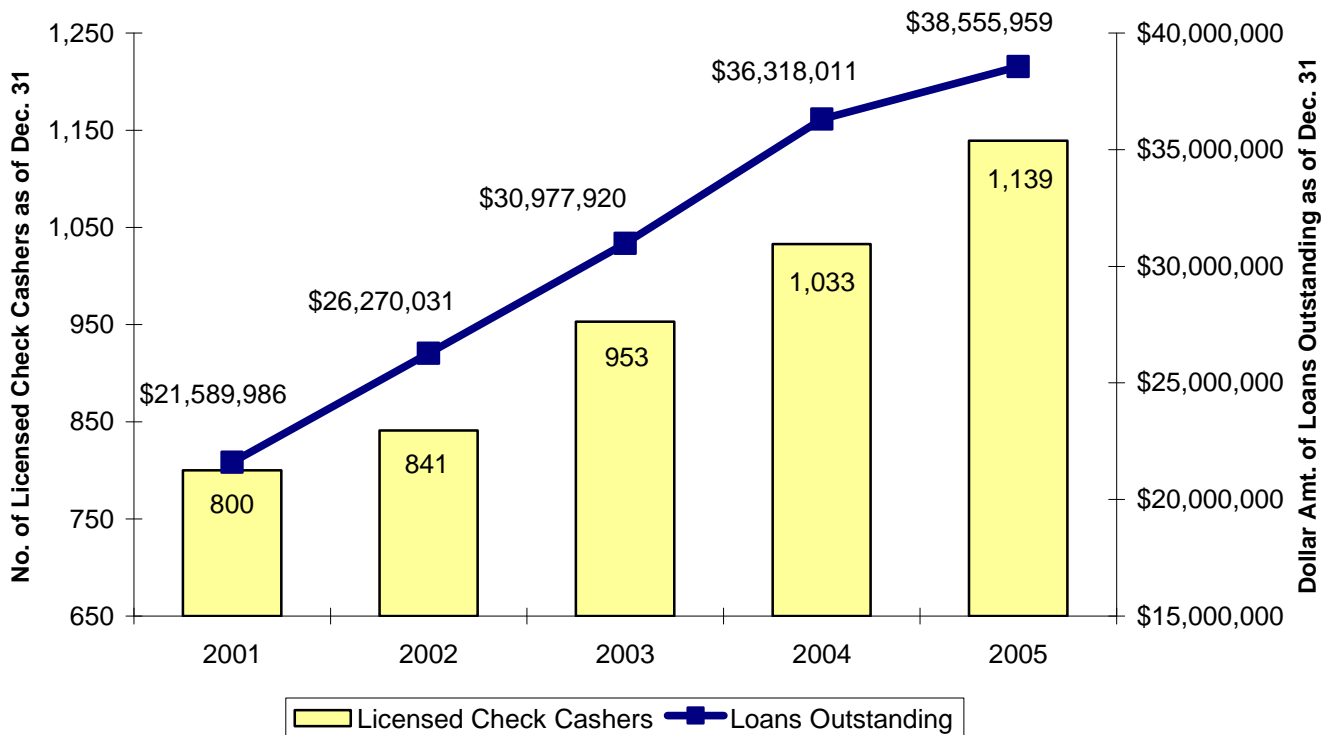


Source: Mississippi Department of Banking and Consumer Finance; U.S. Census; MEPC Analysis

As demonstrated by the map, nearly one-third of Mississippi’s counties have at least one check casher for every 800 households. Almost half of the counties have at least one check casher for every 1,000 households.^{xxiv}

Currently there is no good set of measures to assess the impact of payday lending in Mississippi. The data reported by the Department of Banking and Consumer Finance only includes the number of licensed check cashers, the number and amount of loans outstanding as of December 31 of each year, and the civil penalties assessed and refunds paid each year. Chart 1 demonstrates the growth in check cashing locations and loan volume from 2001 through 2005.

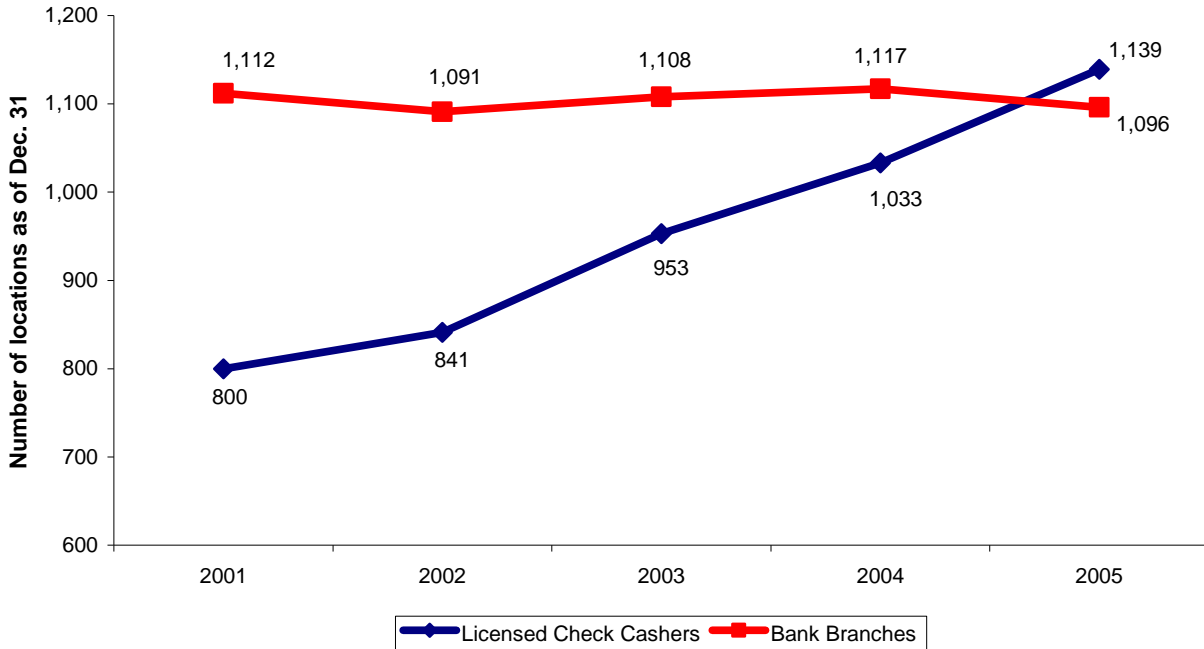
Chart 1
Number of Licensed Check Cashers in Mississippi, 2001 - 2005



Source: Mississippi Department of Banking and Consumer Finance

Chart 2 compares the number of check cashers in Mississippi with the number of bank branches in the state between 2001 and 2005. In 2005, the number of bank branches exceeded the number of check cashers in Mississippi. As of December 31, 2005, there were 1,139 licensed check cashers and 1,096 bank branches.

Chart 2
Licensed Check Cashers vs. Bank Branches in Mississippi, 2001 - 2005



Source: Mississippi Department of Banking and Consumer Finance

Borrowers

According to CRL, 99% of payday loans are made to repeat borrowers, and 91% of loans are made to borrowers who have had five loans per year or more.^{xxv} National research of payday loan borrowers shows that:

- The average payday loan borrower flips the loan between 8 and 13 times.^{xxvi}
- Over half of borrowers report that they have another outstanding payday loan.^{xxvii}
- The average borrower of a payday loan earns an annual income of between \$25,000 and \$50,000, is under the age of 45, and has steady employment.^{xxviii}
- Forty-two percent of borrowers are homeowners.^{xxix}
- Sixty-two percent of payday loan customers are women.^{xxx}
- African American households are 2.5 times more likely to use payday loans than white households.^{xxxi}
- After controlling for socioeconomic characteristics, African Americans are five times more likely to have multiple payday loans than whites.^{xxxii}
- Military personnel are three times more likely to use payday loans than civilians.^{xxxiii}
- Borrowers of payday loans are three times more likely to be debt burdened than consumers of other products.^{xxxiv}

Addressing Payday Lending in Mississippi

The growth of payday lenders in Mississippi and across the country demonstrates the ease of entry into the payday lending market. However, there are many approaches to limiting predatory payday lending. In most cases there are alternatives to payday loans offered by credit unions, banks, and other financial institutions, that do not charge excessive fees or use predatory practices. Several states have taken steps to outlaw or severely restrict predatory payday lending in order to direct customers to more affordable alternatives. Most recently, the U.S. government instituted a limit of 36% APR on all payday and other small loans made to U.S. Military personnel and their dependents.

Legislative Reforms

Recent legislative reforms include:

- **North Carolina:** The North Carolina State Legislature outlawed payday lending in 2001 by allowing the payday lending licensing law to sunset without reauthorizing it. Numerous suits have resulted in the exiting of payday lenders from North Carolina and the allocation of settlement funds to consumer credit counseling by non-profit organizations.^{xxxv} Payday lending store fronts no longer exist in North Carolina.
- **Georgia:** In May 2004, the state of Georgia enacted an interest rate cap on small consumer loans of 60% per year. The law also adds stiff criminal and civil penalties for violators, and bars non-bank lenders from partnering with banks to avoid Georgia's usury laws.^{xxxvi}
- **Federal Law limiting APR to 36% for Military Personnel:** At the request of the Department of Defense, Congress passed legislation in September of 2006, capping the annual interest rates for loans to military borrowers at 36%. In addition, the law prohibits that the lender access the borrower's bank account or car title as collateral for a small loan. The law becomes effective in October 2007.^{xxxvii}

Alternative Products

Alternative products available to payday loan customers range from credit card cash advances to consumer loan products available at banks and credit unions. The average annual interest for a credit card cash advance from a bank is 20.23% APR^{xxxviii} compared to 572% APR on a 14 day payday loan in Mississippi.

Many banks and credit unions offer small term loans which allow borrowers to repay the loan over several months. And the Federal Deposit Insurance Corporation (FDIC) is encouraging banks to increase the availability of such products. On June 19, 2007, FDIC issued guidance on developing affordable small dollar loans. This guidance encourages institutions to offer small amortizing loans with a maximum APR of 36%, and with a streamlined application and underwriting process for existing customers. The agency also suggests that small loan programs include a savings component, structured either to put a portion of each loan payment into a savings account, or to allow the borrower to place a portion of the loan amount into a savings account at the time of the loan.^{xxxix} Efforts to support FDIC regulated institutions in implementing the guidance are needed to increase the supply of cost effective products for consumers in need of small short term loans.

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- ⁱ Email conversation with Ronny Harrison, Chief Examiner, Consumer Finance Division, Mississippi Department of Banking and Consumer Finance, July 17, 2007.
- ⁱⁱ “List of All Active Companies – Licensed Only, For Check Casher”, April 18, 2007, Mississippi Department of Banking and Consumer Finance.
- ⁱⁱⁱ Mississippi Department of Banking and Consumer Finance and U.S. Census. This calculation is based on data from the 2005 American Community Survey, which estimated that there were 1,084,034 households in MS in 2005.
- ^{iv} King, Uriah, Leslie Parrish, and Ozlem Tanick. “Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year”, Center for Responsible Lending, Nov. 30, 2006.
- ^v “Nine Signs of a Predatory Payday Loan”, Center for Responsible Lending, www.responsiblelending.org, accessed on July 16, 2007.
- ^{vi} “Payday Loan Consumer Information Facts”, Consumer Federation of America, www.paydayloaninfo.org, accessed July 17, 2007.
- ^{vii} Ibid.
- ^{viii} Mississippi Check Cashers Act Regulations, Mississippi Department of Banking and Consumer Finance, Consumer Finance Division, Feb. 20, 2003, available at www.dbcf.state.ms.us.
- ^{ix} King, Uriah, Leslie Parrish, and Ozlem Tanick. “Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year”, Center for Responsible Lending, Nov. 30, 2006.
- ^x Predatory Payday Lending Traps Borrowers”, Center for Responsible Lending Fact Sheet, 2005, available at www.responsiblelending.org.
- ^{xi} King, Uriah, Leslie Parrish, and Ozlem Tanick. “Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year”, Center for Responsible Lending, Nov. 30, 2006.
- ^{xii} Mississippi Code of 1972, § 75-67-519, Mississippi Check Cashers Act.
- ^{xiii} Ibid.
- ^{xiv} Predatory Payday Lending Traps Borrowers”, Center for Responsible Lending Fact Sheet, 2005, available at www.responsiblelending.org.
- ^{xv} Mississippi Code of 1972, § 75-67-519, Mississippi Check Cashers Act.
- ^{xvi} Ibid.
- ^{xvii} Ibid.
- ^{xviii} Mississippi Check Cashers Act Regulations, Mississippi Department of Banking and Consumer Finance, Consumer Finance Division, Feb. 20, 2003, available at www.dbcf.state.ms.us.
- ^{xix} King, Uriah, Leslie Parrish, and Ozlem Tanick. “Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year”, Center for Responsible Lending, Nov. 30, 2006.
- ^{xx} Ibid.
- ^{xxi} King, Uriah, Leslie Parrish, and Ozlem Tanick. “Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year”, Center for Responsible Lending, Nov. 30, 2006.
- ^{xxii} “List of All Active Companies – Licensed Only, For Check Casher”, April 18, 2007, Mississippi Department of Banking and Consumer Finance.
- ^{xxiii} Mississippi Department of Banking and Consumer Finance and U.S. Census. This calculation is based on data from the 2005 American Community Survey, which estimated that there were 1,084,034 households in MS in 2005.
- ^{xxiv} Mississippi Department of Banking and Consumer Finance, 2000 U.S. Census, and MEPC Analysis.
- ^{xxv} Predatory Payday Lending Traps Borrowers”, Center for Responsible Lending Fact Sheet, 2005, available at www.responsiblelending.org.
- ^{xxvi} Center for Responsible Lending website, www.responsiblelending.org.
- ^{xxvii} Stegman, Michael, “Payday Lending”, *Journal of Economic Perspectives*, vol. 21, no. 1, winter 2007.
- ^{xxviii} “Reforming Payday Lending in Mississippi: A Project of the Legislative Clinic at the University of Mississippi School of Law,” University of Mississippi School of Law, 2005.
- ^{xxix} Stegman, Michael, “Payday Lending”, *Journal of Economic Perspectives*, vol. 21, no. 1, winter 2007.
- ^{xxx} “The Debt Cycle: Using Payday Loans to Make Ends Meet”, National Endowment for Financial Education, Feb. 2002, available at www.nefe.org.
- ^{xxxi} “Reforming Payday Lending in Mississippi: A Project of the Legislative Clinic at the University of Mississippi School of Law,” University of Mississippi School of Law, 2005.
- ^{xxxii} Stegman, Michael, “Payday Lending”, *Journal of Economic Perspectives*, vol. 21, no. 1, winter 2007.
- ^{xxxiii} Ibid.
- ^{xxxiv} “A Lifetime of Assets”, National Community Reinvestment Coalition and Woodstock Institute, Sept. 2006, available at <http://www.ncrc.org>.
- ^{xxxv} “Payday Lending on the Way Out in NC”, North Carolina Attorney General’s Office, March 1, 2006.
- ^{xxxvi} “Georgia’s Payday Loan Law: A Model for Preventing Predatory Payday Lending”, Center for Responsible Lending, June 2006, available at www.responsiblelending.org.
- ^{xxxvii} “Passage of SA 4331: Consumer Credit for Service Members”, Center for Responsible Lending, <http://www.responsiblelending.org/policy/congress/page.jsp?itemID=29895875>, accessed July 18, 2007.

^{xxxviii} “Existing Options for Arkansas Consumers: Avoid the Payday Loan Debt Trap”, *Paycheck and Politics*, Arkansas Advocates for Children & Families, Issue 38: June 2006.

^{xxxix} “Affordable Small-Dollar Loan Guidelines”, FDIC, www.fdic.gov, June 19, 2007.