



“Turning everyday people into money heroes!”

Impact of Payday Lending on Families in Greater Grand Rapids

Original Report: July 7, 2015

Updated: January 23, 2018

Background



In 2015, after preaching a sermon where I addressed payday lending, a church member contacted me about her financial situation. She was caught in a payday debt cycle and had lost hope. In fact, she said that she was considering ending her life because she felt like her life had already ended. Praise God, the church came to her rescue by helping her to pay off her payday loan. Her story may be unique in its magnitude. However, she is not the lone victim of payday lending.

There is a local school teacher who contacted me after I appeared on a local news program discussing our fair lending advocacy work. This teacher had been trapped for two years using one payday loan to pay off another, and she needed a way out.

There is another story of a young single mother who only got a payday loan because she had no other way to repair her car, which she needed to get to her medical job. She also financed the car itself for 26% interest because of damaged credit.

There is another local family caught in the payday loan debt cycle currently (Jan. 2018) who receives 7 collection calls per day on average.

Payday loans are a financial collision at the intersection of sincere need and perverse greed. Payday loans are small-dollar, short-term loans that are due in full at the borrower's next pay period. They are appealing to prospective borrowers largely because of the ease of access. However, the on-ramp to payday lending is much smoother than the exit. Because the full balance of the loan plus fees is due in two weeks, most borrowers are often not able to repay according to schedule. Therefore, they rewrite their loan for an additional two weeks – with a new set of fees.

Moreover, the interest charged on payday loans is exorbitant to say the least! In Michigan, the fee (simply stated) is \$15 for each \$100 borrowed. Although this sounds like 15%, when annualized, it is the equivalent to 390% APR! The Center for Responsible Lending reports that more than half of payday loan borrowers rewrite their loans 9 times before they can escape. With a fee of \$15 per \$100 borrowed, that means that more than half of borrowers pay \$135 (9 x \$15) for every \$100 that they borrow!

This report summarizes many of our findings as we sought to measure the impact of payday lending on families in Greater Grand Rapids. We hope that our awareness and advocacy work will reverse some of those negative effects as we seek to turn everyday people into money heroes!

Sincerely,

Dallas Lenear, Director
Project GREEN

Impact of Payday Lending in Michigan

Table 1

Payday Loan Activity in Michigan, June 2006 to June 2007

Number of Transactions	2,517,807
Monthly Avg # of Transactions	193,667
Total Advance Amount	\$1,009,276,778
Monthly Avg Advance Amount	\$77,636,675
Total Service Fees	\$131,794,558
Average Advance Amount	\$400.86
Average Service Fees	\$52.34

Per "Report on the Business of Providing Deferred Presentment Service Transactions in Michigan," State of Michigan Office of Financial and Insurance Services, July 31, 2007.

According to the United Way of Michigan's report entitled "ALICE (Asset-Limited, Income-Constrained, Employed): Study of Financial Hardship:"

"Communities across Michigan continue to have concerns regarding the state of financial hardship that exists with 40 percent of Michigan households, and the growing need for programmatic and policy solutions to help our friends and neighbors reach financial stability. (2017, page ii)"

"ALICE households pay more for goods and services. ALICE faces increased expenses through basic cost of living increases, as well as greater costs for using alternative financial products. Through the Great Recession and a period of low inflation, a time when the cost of most goods and services decreased, the cost of basic household necessities continued to increase. In addition, without access to mainstream borrowing, ALICE households in Michigan resort to using riskier financial options, such as payday lenders, 'Buy Here, Pay Here' car loans, and 'contract for deed' home purchases." (2015, page 3)
"Alternative Financial Products (AFPs) provide a range of services including non-bank check cashing, non-bank money orders, non-bank remittances, payday lending, pawnshops, rent-to-own agreements, and tax refund anticipation loans. In 2011, more than half of Michigan households with an annual income below \$30,000 had used an AFP in the previous 12 months, and 39 percent of households with an annual income between \$30,000 and \$50,000 had used an AFP, while for households with an annual income above \$75,000, that figure was less than 30 percent (Federal Deposit Insurance Corporation, 2013)." (2015, page 38)

"... There are the 781¹ payday lending stores in Michigan, making loans that must be repaid at the next payday or the borrower will face service fees of \$76 as well as interest rates as high as 400 percent annually. Payday lenders in Michigan make on average 3,000 loans per year in the amount of \$400 or less per loan (Sullivan, 2005; Center for Responsible Lending, 2010). By comparison, there are 290 credit unions with 950 branches in the state (U.S. Census, County Business Patterns, 2010; Credit Unions

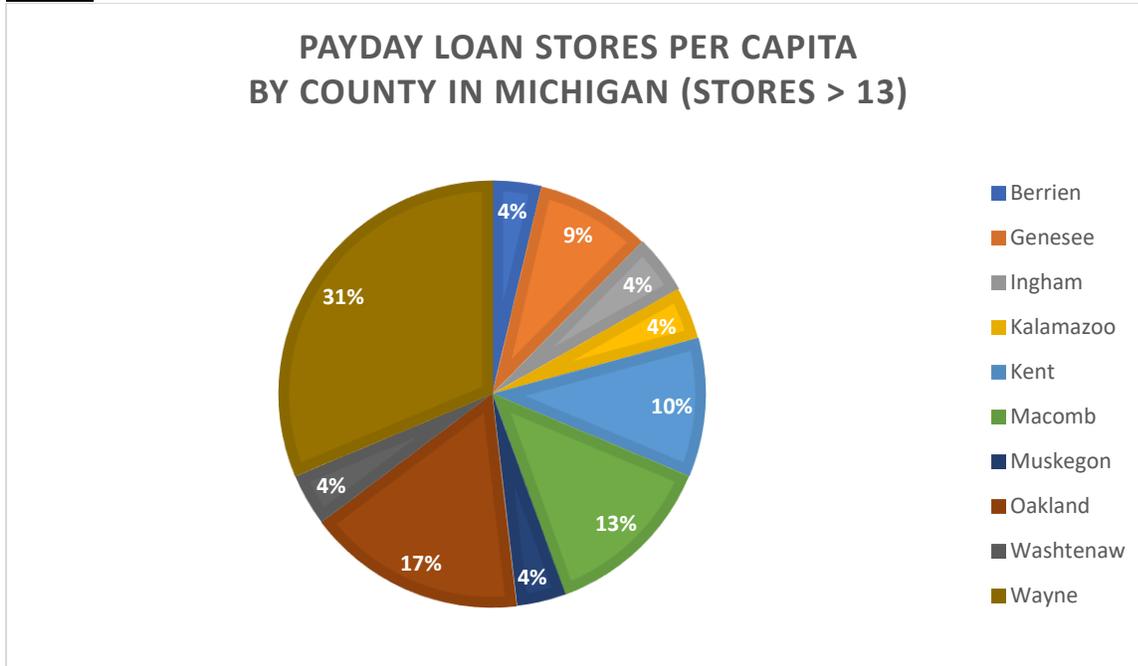
¹ This number was reported in United Way's "ALICE: Study on Financial Hardship," dated September 2014. This number likely represents a point-in-time measurement from United Way and may differ from the number of stores in Michigan listed elsewhere in this report.

Feel the Churn

The high level of payday loan "churn"—when borrowers either directly renew loans or pay back a loan but take out another shortly thereafter—underscores the existence of a long-term debt trap. The Center for Responsible Lending (CRL) published "Phantom Demand" (Parrish & King, 2009), which quantified the level of loan churn by examining the length of time between successive payday loans. The paper found that most successive loans are originated shortly after a previous loan is paid back. Half of repeat loans were opened at the borrower's first opportunity, 87% within two weeks, and 94% within one month of the previous loan.

Online, 2014). Payday lenders are tightly regulated in Michigan; lenders must be licensed, and the state maintains an online database of licensed lenders and outstanding transactions. [But,] the cost of the service is still high compared with loans made through traditional markets (Schuette, 2014).” (2015, page 39)

Chart 1



This chart shows the number of payday loan stores per capita by county among the top 10 counties across the State of Michigan. The percentage was calculated by dividing the number of stores in each county by the total number of stores across the State. To be included on the chart, a county needed to have more than 13 stores.

Impact of Payday Lending in Kent County

Table 2

Number of Transactions	178,368
Monthly Avg # of Transactions	13,721
Total Advance Amount	\$67,281,915
Monthly Avg Advance Amount	\$5,175,532
Total Service Fees	\$8,736,078
Average Advance Amount	\$377.21
Average Service Fees	\$48.98

Per "Report on the Business of Providing Deferred Presentment Service Transactions in Michigan," State of Michigan Office of Financial and Insurance Services, July 31, 2007.

Calculating APR

Based on this table, it appears that the APR for payday loans in Kent County would be 13% (\$48.98 / \$377.21). However, since the fees are due in 2 weeks, you must multiply 13% x 26 (since there are 26 two-week periods per year) to get the **average APR, which is 338%!**

The U.S. Census Bureau reports a total of 234,570 households in Kent County, 2012-2016. At a monthly average advance amount of \$5.1M, that is the equivalent of \$265 in payday loan advances per household!

Table 3

Provider Location Zip Code	County	Transaction Volume	Total Advance Amount	Total Advance Fees	Average Advance Amount	Average Advance Fees	Count of Licensee Locations
49319	Kent	4,216	\$1,475,775.00	\$178,755.75	\$350.04	\$42.40	1
49321	Kent	10,151	\$4,310,846.00	\$564,857.54	\$424.67	\$55.65	2
49341	Kent	501	\$167,175.00	\$22,935.50	\$333.68	\$45.78	1
49418	Kent	244	\$94,520.45	\$12,514.25	\$387.38	\$51.29	1
49503	Kent	2,212	\$854,214.00	\$113,219.85	\$386.17	\$51.18	1
49504	Kent	3,123	\$1,058,300.00	\$142,132.00	\$338.87	\$45.51	1
49505	Kent	3,787	\$1,104,425.00	\$147,856.00	\$291.64	\$39.04	3
49507	Kent	7,386	\$2,310,140.00	\$306,632.94	\$312.77	\$41.52	3
49508	Kent	15,259	\$5,956,428.00	\$765,945.86	\$390.36	\$50.20	5
49509	Kent	39,523	\$15,149,453.99	\$1,958,161.64	\$383.31	\$49.54	7
49512	Kent	18,352	\$7,460,945.31	\$983,347.36	\$406.55	\$53.58	4
49519	Kent	2,020	\$669,048.33	\$88,938.24	\$331.21	\$44.03	3
49525	Kent	22,463	\$9,173,819.60	\$1,165,634.82	\$408.40	\$51.89	5
49534	Kent	5,123	\$1,877,875.00	\$228,939.85	\$366.56	\$44.69	2
49544	Kent	11,547	\$4,202,357.00	\$544,065.12	\$363.94	\$47.12	3
49548	Kent	15,408	\$5,476,956.85	\$720,263.67	\$355.46	\$46.75	6
TOTALS		161,315	\$61,342,279.53	\$7,944,200.39	\$364.44	\$47.51	48

*Kent County has 40 payday lending locations.
That is more than the 32 McDonald's restaurants
in the county!*

The office of State Representative Winnie Brinks provided us with a report on payday lending:

1. By statute, the State was only required to generate one "Report on the Business of Providing Deferred Presentment Transactions in Michigan" in July 2007, which was 12-15 months after the industry was initially regulated. A new law would have to be passed to require an annual report for the deferred presentment industry.
2. The lack of an annual report on total loan volume inhibits consistent tracking of the size and revenue of the industry.
3. The State does not have a regulation process for online payday loan operators that do not have a physical locale. This means that those lenders can circumvent the deferred presentment transaction registry and loan to borrowers who already have two outstanding loans, which is the maximum allowed.

“Tell Us Your Payday Lending Experience”

Project GREEN conducted a survey of local residents entitled “Tell Us Your Payday Lending Experience.” Participants were sought via Facebook, during 3 community forums, at community events, and at area grocery stores. 370 respondents completed the survey. Excerpts from the survey follow:

1. In your opinion, what is/are the main reason(s) that people use payday lending? [Top 3 responses]
 - a. Household help: utility bills, home repairs, new furniture, financial emergencies.
 - b. To make ends meet financially (bills exceed income).
 - c. Transportation: car repairs, car payments.

2. In your opinion which one of the following best describes the effects of using payday lending?
 - a. 20% of respondents described payday lending as “just postponing people’s financial problems.”
 - b. 58% described payday lending as “creating new financial problems.”
 - c. 21% stated that payday lending actually “helps people with their financial problems.”

3. Would you recommend using payday lending?

77% of respondents would not recommend using payday lending. Some of the reasons were:

 - a. “The fees put you more in debt than you were before u borrowed the money.” [sic]
 - b. “Quick fix for certain, but the fees you wind up paying are outrageous... much higher than a late fee on a late bill or the like.”
 - c. “The interest rates are rapacious.”

4. If you could change one thing about payday lending, what would it be?
 - a. “Do away with the process, or at a minimum, change the practice and interest rates that so often trap individuals.”
 - b. “Demand reasonable interest rates and pay-back schedule.”
 - c. “Eliminate them.”

Recommended Solutions

1. Developing Grassroots Financial Advocates

- a. To create place-based economic empowerment resources.
- b. To distribute those resources.
- c. To do place-based economic justice advocacy projects.



2. Create a statewide fair lending coalition in 12 Michigan cities.

- a. To raise awareness on the impact of payday lending statewide.
- b. To develop business plans for fair lending alternatives.
- c. To prepare for an advocacy project to cap the interest rate at 36% at the State.

3. Expand Fair Lending Alternatives

- a. Inner-City Christian Fellowship's (ICCF's) "Just Loans" as a template.

4. Developing Faith-Based Individual Development Accounts (IDA's).

5. Creation of Community Development Credit Union.

6. Engaging a Local Municipal Response.

- a. More than 200 cities across the USA have implemented local ordinances to regulate payday lenders. These include geographic ordinances that limit saturation, maximum interest rate ordinances, and ordinances that require payday lenders to provide information on fair lending alternatives. Project GREEN recommends working with local partners in strategic cities across Michigan to pursue similar consumer protection ordinances.

With support from the W. K. Kellogg Foundation, Project GREEN launched its programming in March 2016 in pursuit of recommendations 1 and 2 above. That work is summarized on the next page.

Micah Center – Project GREEN Summary

Program Description

Project GREEN stands for the Grand Rapids Economic Empowerment Network². The overall goal of Project GREEN is to create networks of individuals and organizations locally and statewide that will marshal existing community assets to create and increase family economic stability. Project GREEN will equip low- and moderate-income residents - who are the target audience of payday lenders - to become grassroots financial advocates. We will provide the framework for an equity exchange whereby residents will share their techniques for surviving and thriving economically in the face of challenges, and we will equip them to advocate for the financial policies and entities needed in their community. This model will become a template used to replicate across the state of Michigan as we build a coalition of anchor organizations in key cities who will coalesce around the goal of fair lending statewide.

Project GREEN will feature two core activities:

Grassroots Financial Advocates

Project GREEN will equip residents of 10 identifiable communities in Greater Grand Rapids to become Grassroots Financial Advocates. Through a series of deep-listening sessions, GREEN will capture the strategies used by the working poor to survive and thrive economically. This will then be formed into a place-based financial empowerment curriculum to teach others. Ten grassroots leaders will then be trained on teaching strategy and facilitation in order to serve as the grassroots financial instructors. GREEN will also provide advocacy training for grassroots leaders on how to navigate the local governmental systems in order to advocate for policies that best serve their needs and those of the larger community – with emphasis on the financial services industry.

Statewide Fair Lending Coalition

GREEN will develop a statewide network of anchor institutions from 12 targeted communities across Michigan who would work to counteract the negative economic impact of payday lending. Together, this coalition will:

Network to share strategies.

Collect payday loan stories from consumers.

Raise community awareness on predatory lending.

Develop a shared vision and strategy with partner organizations that will lead to an eventual public campaign.

Build the capacity of partner organizations and develop potential solutions.

Organize a fair lending education and advocacy campaign.

Work with traditional lending institutions to provide fair and responsible lending options within their communities.

² This was GREEN's original meaning before changing to "Grass Roots Economic Empowerment Network."

The Reach of Project GREEN

1. Grand Rapids Non-Profit Organization Partners
 - a. Baxter Community Center
 - b. Grand Rapids Urban League
 - c. Home Repair Services
 - d. Heart of West Michigan United Way
 - e. Inner City Christian Federation
 - f. LifeQuest Ministries
 - g. NAACP of Greater Grand Rapids
 - h. The Micah Center
 - i. West Michigan Center for Art and Technology

2. Statewide Fair Lending Coalition
 - a. 12 Proposed Cities
 - i. Ann Arbor / Ypsilanti
 - ii. Battle Creek
 - iii. Bay City
 - iv. Detroit
 - v. Flint
 - vi. Grand Rapids
 - vii. Holland
 - viii. Kalamazoo
 - ix. Lansing
 - x. Muskegon
 - xi. Saginaw
 - xii. Traverse City

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