



**DENVER**  
THE MILE HIGH CITY

**Human Rights & Community Relations**

Denver Women's Commission  
Chaer Robert, Director  
201 W. Colfax Avenue, Dept 1102  
Denver, CO 80202  
p: 720-913-8465  
f: 720-913-8470  
[www.denvergov.org/women](http://www.denvergov.org/women)

Prepared by Chaer Robert  
September 25, 2008

## Instant Money Troubles: Pay Day Loans

Instant money troubles: You break a tooth. Your car won't start. Your kid's backpack and everything in it is stolen. Who do you turn to for help? Maybe you are one of those people who really has 6 months income in an emergency savings fund sitting in the bank. Or maybe you have a Visa or MasterCard with credit left which will help you absorb the loss and repay over time.

Or maybe you are one of the 250,000 Coloradans who work, but do not make enough to meet basic needs. So you have not accumulated an emergency fund. You may be tempted by the easy money promise of your nearby neighborhood pay-day loan office, where you are greeted like the valuable customer you are. You show proof of steady income, a recent phone bill and bank statement and your photo ID, give them a check for the loan amount and fees and almost instantly you get up to \$500. You see no reason why you won't be able to pay the \$75 fee and repay the loan on your next payday....until the day gets closer and new emergencies occur. On payday, you can repay part, but not all. But your only option is to roll-over the loan with another \$75 payment. Hopefully next payday will be different.

In 2007, the AVERAGE Colorado payday borrower took out a loan of \$354 and paid \$573 in fees in addition to repaying the \$354. The AVERAGE borrower took out nine loans. This is equivalent to an Average Percentage Rate (APR) on Colorado pay day loans of 348%.

The average borrower is a woman in her 20s or 30s. The average pay day borrower earns \$2417 per month. The average female borrower earns \$2219 per month ([www.thebell.org](http://www.thebell.org)). According to the Colorado Center for Law & Policy's self-sufficiency standard ([www.cclponline.org](http://www.cclponline.org)), a parent with a preschooler needs an income of \$2821. per month to meet basic needs without help from family, government or non-profits.



Under Colorado law, banks and credit cards are subject to usury limits of 45% APR. In 2000, Colorado created an exception to the usury limits for pay day lenders. Why? If legislative protection from exorbitant fees is appropriate for bank loans and credit cards, why not for pay day loans? The charge-off rate (in which the lender never received the principal loan amount) in 2006 was 4.2% for pay day loans. The charge-off rate for all consumer loans that year was 2.1%. And for credit cards that year, the rate was 3.5%. Pay day borrowers do not appear far more riskier than other consumers. About 1,800,000 payday loans were made in Colorado in 2006.

In 2007, the Pentagon insisted that Congress pass a 36% APR cap on payday loans to protect military families from pay day lenders, calling the previous practice predatory lending. The Department of Defense listed criteria for predatory lending:

- lending without regard for the borrower's ability to pay
- charging excessive fees and interest
- unrealistic repayment schedule
- encouraging repeated loan refinances

In late September, 2008 the U.S. House passed the Credit Cardholders Bill of Rights Act to protect us credit card holders from exorbitant fees and interest rates charged by some credit cards. Some advocates ([www.consumersunion.org](http://www.consumersunion.org)) suggested that the U.S. Senate tie protections for credit card holders to any bail-out of financial institutions. There is a role for regulation in the financial sector to set reasonable ground rules. There is no reason to exempt the most financially vulnerable from protections.

Last year State Representative Mark Ferrandino sponsored HB 1310, which would have capped pay day loans at 45% APR and allowed people 30 days to pay off their loans. After passing the Colorado House, this bill was gutted, then killed, in the State Senate. Expect to see a similar state bill in 2009.

If you are concerned about this issue, contact the Denver Women's Commission: [chaer.robert@denvergov.org](mailto:chaer.robert@denvergov.org) and we can add you to our mailing list.

For more information see: *The Truth About Payday Loans: How Hardworking Coloradans Take the Bait and Get Caught in a Cycle of Debt* by Center for Policy Entrepreneurship [www.c-pe.org](http://www.c-pe.org) and The Bell Policy Center [www.thebell.org](http://www.thebell.org) , February 2008.