



## New Mexico Fiscal Policy Project

### QUICK FACTS – THE TRUTH ABOUT PAYDAY LENDING

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**MYTH** Payday lending fills an unmet need.

**FACT** According to payday lending industry studies, only 6 percent of their customers have no alternative loan source.<sup>1</sup> Most payday loan customers have the options of asking their employer for an advance on their paycheck, getting a cash advance on a credit card, and negotiating with existing creditors for a payment plan. Special resources are also available for members of the military.<sup>2</sup>

**MYTH** Banks don't make these small short-term loans anymore.

**FACT** Short-term borrowing from banks and credit unions is easier than ever. Instead of giving you one loan at a time, banks give you credit cards.

**MYTH** Payday lenders need to charge 300 percent interest because the up-front cost of making the loan has to be amortized over such a short period.

**FACT** Only 10 percent of payday loans are paid off during the initial loan period. In fact, 90 percent of the industry's revenue comes from "rollovers" – extending the loan.<sup>3</sup> Some 40 percent of payday lenders' customers have payday loans for more than three months out of a year.

**MYTH** Payday lending is perfectly legal.

**FACT** In most states that allow payday lending, it is only legal to charge such high annual percentage rates for emergency, short-term loans. But because payday lenders do not base the loan amount on the customer's ability to repay it during the loan period, very little of their actual business qualifies as "short term."<sup>4</sup>

#### PAYDAY NUMBERS<sup>5</sup>

**\$4.2 BILLION** – the amount Americans pay in fees and interest to payday lenders every year.

**\$793** – the average amount a customer ends up paying to borrow \$325.

#### NEW MEXICO NUMBERS<sup>6</sup>

**285** – The number of payday lending-type stores in New Mexico

**\$309** – The average amount borrowed.

**21.63%** – The average fee (the fee, while a percentage of the loan amount, is added on top of the interest charge)

**564%** – The average annual percentage rate (APR) charged

**\$27,168,518** – The amount payday loans cost New Mexicans every year

<sup>1</sup> David B. McMahon, Attorney at Law

<sup>2</sup> New Mexico Attorney General's Office

<sup>3</sup> Center for Responsible Lending

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> State regulator data