



BROKE

HOW PAYDAY LENDERS CRUSH ALABAMA COMMUNITIES



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ALABAMA APPLESEED
CENTER for LAW & JUSTICE

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EXECUTIVE SUMMARY

There are more payday and title lenders in Alabama than hospitals, high schools, movie theaters, and county courthouses combined.¹ Their business model depends on churning a profit out of desperate, financially fragile customers. Alabama provides them with plenty. About 18.5 percent of people in Alabama live at or below the poverty line, which is \$24,257 for a family of four, making us America's sixth poorest state.²

More than three-fourths of American workers report living paycheck to paycheck with little or no savings, making payday lenders a tempting option for many people with financial emergencies.³ But in Alabama they hurt more than they help. Payday lenders are responsible for bringing financial hardship to hundreds of thousands of Alabamians and their families every year, swooping in to extract profits from the struggles of hard-working people. Unless the state Legislature decides to act, the scourge of predatory payday loans will continue to decimate family budgets and local economies.

The Consumer Financial Protection Bureau defines a payday loan as “a short-term, high-cost loan, generally for \$500 or less, that is typically due on your next payday.”⁴ These loans are not hard to get: all a prospective borrower must do is provide proof of income and

not exceed \$500 in total payday loan principals at any given time. There is no assessment of the borrower's ability to repay the loan, nor are there credit checks. Borrowers are asked to write a post-dated check for the full amount of the loan plus \$17.50 per \$100 borrowed.⁵ Once they sign the check and a contract, the deal is done — sometimes in mere minutes. Across Alabama, nearly 5,000 payday loans are taken out every single day.⁶

Though made out to be easy and fast, for most borrowers, these loans create long-term damage. The loans are not designed to be used as advertised. The fine print on payday loans includes annual percentage rates (APR) up to 456 percent.⁷ With astronomical rates like that, “small-dollar,” “short-term” loans frequently become expensive, multi-year burdens for Alabamians. And because we know that 85 percent of payday loans are taken out to cover emergencies or bills like rent, groceries, or utilities, we know that these long-term burdens are only making hard times harder for families across the state.⁸ When these lenders sap our neighbors' household budgets and drain money from our local economies, we all lose.

In 16 states and the District of Columbia, rate caps prevent payday lenders from operating.⁹ This includes our pro-business,

Alabama has the third highest concentration of payday lenders in the nation, and the payday lending industry extracts more than \$100 million from the pockets of low- and middle-income Alabama borrowers every year in loan fees.

Southern neighbors of Georgia, North Carolina, and Arkansas. There are 95 million Americans who live in communities where payday lending is no longer permitted, and if current trends continue, that number will only grow as more states protect their residents from these deceptive financial products.¹⁰ So far, Alabama has not. As a result, the state has the third highest concentration of payday lenders in the nation,¹¹ and the payday lending industry extracts more than \$100 million from the pockets of low- and middle-income Alabama borrowers every year in loan fees.¹²

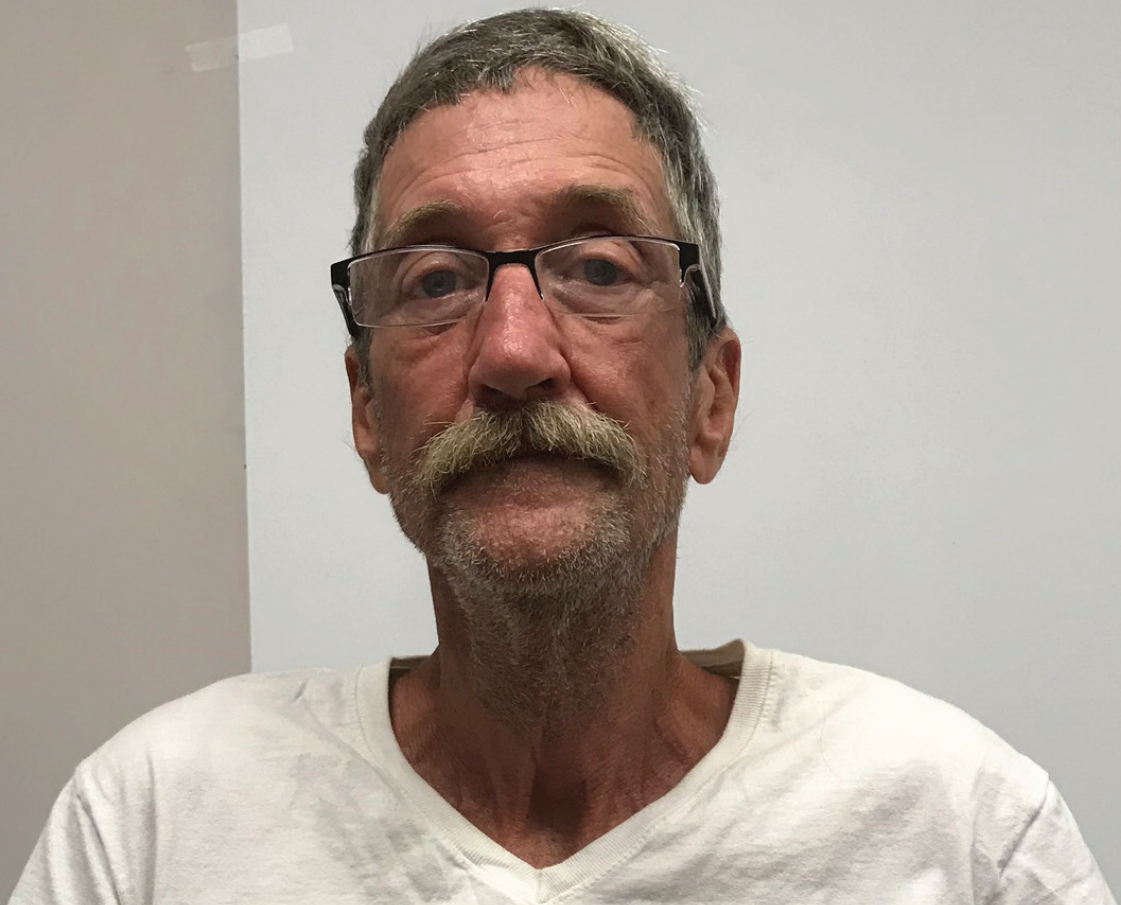
Predatory lending is a highly profitable activity. Over the next decade, lenders are on pace to take more than a billion dollars out of Alabama. Most of that total will be siphoned out of neighborhoods and communities badly in need of those dollars. The money will flow to out-of-state companies headquartered in states like Ohio, Illinois, Kansas, and South Carolina, and it will deepen the economic difficulties of the Alabamians left behind.¹³

This report brings together payday loan usage data for the state of Alabama (2015-2018), statewide public opinion polling data, and interviews

with borrowers, direct service providers, and faith leaders across the state. We found a lending system that has harmed tornado victims, families with disabled children, veterans, and a mother with a good job who just needed her car repaired.

The overwhelming majority of Alabamians want to see payday lending either significantly reformed or banned from our state entirely. It is time for lawmakers to listen to the voices of their constituents and address the harms caused by predatory payday lenders.





“Doesn’t matter how many kids I had when I said that we were fixing to lose our home. Just didn’t matter. They wanted their money.”

TERRY KNOWLES // Huntsville Borrower



Introduction

Terry Knowles took out his first payday loan because his daughter was suffering from scoliosis, and he could not afford her care. “She’s got it pretty bad,” he said. “We couldn’t afford any prescriptions. Couldn’t afford to lose any time out of work [for her appointments] either, but I did.” When he went to the payday lender and explained what was going on, they expressed concern for her health. “When you first go in and you’re there to get money, they are sympathetic. But after it’s all done and over with and you sign, it changes, and they know they got you.”

“We needed the money,” Knowles said. “I had a kid that was in the hospital. I didn’t realize it was gonna be that expensive paying it back.”

As his payday debt mounted, Knowles and his family began to struggle keeping up with the payments while still buying groceries. Eventually, they could no longer afford to pay rent. Knowles tried to negotiate with the lender about making payments, but the lender wouldn’t hear it. “Doesn’t matter how many kids I had when I said that we were fixing to lose our home. Just didn’t matter. They wanted their money.” Knowles, his wife, and their young children became homeless.

In the dead of winter, they were evicted from their apartment and left out in the cold. Knowles had a friend who owned a trucking company. Knowles reached out to him, and the friend allowed the family to move into an unheated, 400-square-foot tin storage shed on the lot.

“It was because of the payday loan that we had to go to the storage shed,” Knowles said. “We didn’t have nowhere else to go. It was

cold. Kids didn’t have no place to sleep other than all together. We had to try to keep them kids warm any way we could, and it was pretty tough.” The family lived in the tin shed for six months. Knowles was employed and working the whole time. A significant portion of his income went to the payday lender.

“So many times my kids would ask, ‘dad, what are we gonna do?’ And that’s a very bad feeling when you don’t know what to tell them,” he said. At one point while living in the shed, with most of his income going toward debt and struggling to keep his family fed, Knowles had to take out a second payday loan to cover bare living expenses. “Some of my oldest children, they knew what got us there,” he said. “My oldest daughter, I think she was 6 or 7, she said, ‘dad, don’t do this again.’”

“We should limit them to a certain amount that they can charge for these loans,” Knowles said. “When I did that, you pay three, four times what you borrowed from them. There were really times when we needed that money. People are trying to get rich off of the poor people — people who have doctor’s bills and kids that aren’t well, and struggling to survive and to raise their children the best way they can,” Knowles said. And he’s right. Because while he and his children shivered in a tin shed in North Alabama, a payday lender far away was making a profit.

PHOTOGRAPHY BY
Dana Sweeney

ALABAMA HISTORY

Payday Lending in Our State

The high-interest, small-dollar, short-term lending products known as payday loans are a recent development in Alabama. For most of the 20th century, small loans in Alabama were regulated under the Alabama Small Loan Act, which had an annual percentage rate (APR) below 40 percent.¹⁴ Alabama's Small Loan Act — like similar pieces of legislation in states around the country — was passed to rein in the proliferation of loan sharks at the beginning of the 20th century.¹⁵ But as banking regulations began to loosen in the last quarter of the century, a new industry — payday lending — began to creep into Alabama and disburse money at rates well above what was allowed by the Small Loan Act.¹⁶

In 1994, the Attorney General of Alabama said that payday loans must be subject to the Small Loan Act and Truth-in-Lending requirements.¹⁷ The industry had other ideas. After an intense, multi-year lobbying campaign, payday lenders succeeded in getting the Deferred Presentment Services Act (DPSA) passed through the state Legislature in 2003.¹⁸ The law enabled lenders to charge exorbitant annual percentage rates under the guise of origination fees for loans. Alabama has never been the same.

The DPSA is an industry carve-out that grants payday lenders the unique power to issue short-term loans at rates that would not be permissible for mainstream lenders. It allows payday lenders to create loans for terms as short as ten days, and permits a loan fee of \$17.50 for every \$100 loaned.¹⁹ Borrowers who are unable to repay the full amount of the loan plus the loan fees at the end of their loan term

must pay additional fees to “roll over” the loan into a new loan term. If they do not, the lender will forcibly take the cash from the borrower's bank account (typically without notifying the borrower in advance) by cashing a post-dated check signed by the borrower when the loan was issued, or even by directly debiting the borrower's account.²⁰ If the borrower does not have sufficient funds, the lenders will clear out whatever cash the borrower does have, often leaving borrowers to deal with empty bank accounts, overdraft fees, and the balance of a debt that won't stop growing.²¹

A good way to understand what this loan fee and rollover structure means for borrowers is to look at how it plays out as an annual percentage rate (APR). An APR is “used to evaluate the true cost of borrowing money,” including origination fees and other loan costs.²² The Truth in Lending Act of 1968, which envisioned APRs as “a uniform measure for comparing the cost of various credit transactions,” requires lenders to disclose this figure.²³ The most common payday loan period in Alabama is fourteen days, which results in an APR of 456 percent for the most common loan structure.²⁴ A person who borrows \$250 at that rate would pay \$1,140 in fees over the course of a year, and at the end of that year the borrower would still owe the entire \$250 amount of the original loan. There would be no off-ramp for such a borrower, and no ceiling on how much they might be forced to pay. Until they could pay off the full principal debt and the rollover fees, they would be trapped.

For the low-income borrowers most often targeted by these loans, the cycle can quick-

The CEO of Cash America stated plainly at a 2007 conference for industry insiders that the payday model is to “get that customer in, work to turn him into a repetitive, long-term customer, because that’s really where the profitability is.”

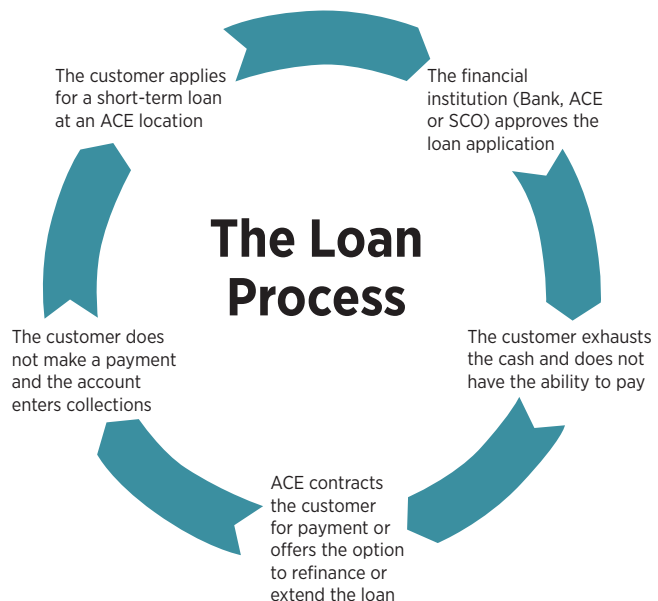
ly become inescapable. If a person takes the maximum allowable \$500 payday loan and cannot repay it fully, the borrower must still pay \$87.50 to roll the loan over to the next period, with no reduction at all in the debt owed.

From the perspective of lenders, the trap is not a flaw, but a feature of the system that guarantees repeat customers. In private, payday industry leaders “specifically train new employees to encourage repeat borrowing,” as demonstrated in this graphic pulled from the “Ace Cash Express New Hire Training Manual.”²⁵ Though payday lenders publicly present themselves as essential sources of one-time, short-term emergency credit, the CEO of Cash America stated plainly at a 2007 conference for industry insiders that the payday model is to “get that customer in, work to turn him into a repetitive customer, long-term customer, because that’s really where the profitability is.”²⁶ Indeed, nearly half of all payday loan fees come from borrowers who get trapped in debt cycles where they are taking out new payday loans on a monthly basis. In the process, household financial resources beyond those needed for essentials like rent, food and power — and sometimes even those — get diverted to roll over payday loans to the next two-week cycle. This financial squeeze can prevent the borrower from saving up any funds that might enable full repayment of the loan. The trap springs, and lenders secure their long-term money-making scheme at the expense of the financially least fortunate Alabamians.

Payday Lending Drives Alabama’s Racial Wealth Gap

This business model is clearly visible in the communities that payday lenders target. Payday loan storefronts are heavily concentrated in neighborhoods with high poverty rates and sizable communities of color.²⁷ Because of centuries of discrimination, enslavement, exclusion from social investments, and institutional obstacles to building wealth, people of

EXCERPT FROM THE ACE CASH EXPRESS NEW EMPLOYEE TRAINING MANUAL



SOURCE Center for Responsible Lending, who acquired this flow chart from the ACE Cash Express New Hire Training Manual

color are disproportionately likely to have low incomes and limited cash reserves.²⁸

The incomes of black and white Alabamians are dramatically disparate. In 2013, the median household income for white Alabamians was \$49,465. African-American households' median income the same year was \$29,210 — only about 59 percent of the figure for white people.²⁹

But as stark a picture of inequality as the racial income gap paints, it is only part of the story. Rather, household wealth — total assets minus total debts — is the factor that “can be the difference between a family maintaining and strengthening their economic status or flailing in economic insecurity.”³⁰

Income does not guarantee wealth, or even economic security. Simply put, people who own homes and have savings in the bank, the stock market, retirement accounts, or coming to them in the form of inheritances — and people whose families have access to those kinds of assets — have far more to fall back on than those who do not.

In 2011, a typical white family in the bottom income quintile (earning less than \$19,000 annually) owned \$15,000 in wealth. A typical African-American family earning the same amount owned just \$100 in wealth.³¹ In fact, due to the difference in median household net worth between the races, “[t]he median Latino or black household would have to save nearly 100 percent of its income for at least three consecutive years to close the gap.”³²

Black families, after adjusting for household income, actually have a higher rate of savings than white families — but no family can save 100 percent of its earnings.³³ For these reasons and many others, the income gap is just a single factor among many present-day contributors to the racial wealth gap, both in Alabama and nationally. Looking at overall household wealth, African-American families have a nationwide median of \$11,000 in net worth compared to \$134,000 held by white families.³⁴ Data on household wealth by race is not available for Alabama, but it is reasonable to assume the wealth gap here is significant.

Obstacles to Reform

Consumer advocates in Alabama have opposed high-interest payday loans since they were proposed and passed, but meaningful reform has been difficult to achieve because of the significant lobbying power of the payday lending industry. During the four-year legislative cycle from 2015-18, payday lenders and their lobbyists made campaign contributions of more than \$400,000 to elected officials here in Alabama.³⁸ Most of this money was directed to legislators in key positions capable of stalling or killing the movement of popular lending reform bills.³⁹ And consistent with the out-of-state locations of most payday lending companies, **more than 90 percent of the lobbying funds came from out-of-state lenders.**⁴⁰

The high-cost lending industry has been wildly successful at keeping reform bills from making it through the full Legislature, even though many legislators have championed reform bills and expressed support for reform. In recent years, only two modest reforms have been passed through the Legislature. One set the maximum payday loan amount that a borrower may take out at \$500.⁴¹ The other required that payday lenders keep records of the loans they make in a centralized database, which all lenders must consult before issuing anyone a new payday loan.⁴² No person who has outstanding payday loans that would exceed the \$500 maximum should be considered eligible for a new payday loan under the law.⁴³

Many approaches to payday reform have died in Alabama's Legislature over the past four years.

In 2015, a bill to reduce the maximum APR to 45 percent and allow a 6-month repayment period did not make it out of the Senate⁴⁴, and a bill to allow a three-month installment repayment option and prohibit loan rollovers failed in the House.⁴⁵ In 2016, the Senate passed a bill to allow a six-month repayment term and to cut loan fees from a \$17.50 maximum to a \$7 maximum per \$100 borrowed.⁴⁶ The bill was gutted in the House Financial Services Committee and was replaced with significantly weaker reforms that would have helped far fewer people. The House version then died at the end of the session.

There was some hope in 2016, when a bill to repeal the DPSA and prohibit payday lending was introduced in the House Financial Services Committee, only to languish until session ended.⁴⁷

Another House bill would have made small improvements to the fee structure, required installment payments for borrowers who were unable to repay, extended the minimum loan period by 20 days, and limited people to six payday loans every 12 months.⁴⁸ It, too, failed to pass.

In 2017, a bill to limit payday loans to four per 12-month period, prohibit rollovers within seven days of a prior loan, set the minimum repayment period at 30 days, and automatically provide borrowers who cannot repay the loan a three-month extension died in the Senate.⁴⁹ Another 2017 bill would have made several small changes, including a two-day cooling off period between rollovers, a 60-day repayment plan for borrowers unable to repay a loan, and an increase in the minimum loan period from ten to 14 days.⁵⁰ That bill died in the House after an amendment was proposed to increase the minimum repayment period to 30 days.

The 2018 session saw advocates concentrate on a single bill that would have brought the payday industry in line with the rest of the business world by mandating loan terms of 30 days for all payday loans.⁵¹ This change would have given payday borrowers more time to marshal their finances and repay the loans on time — enabling more borrowers, in other words, to use the loans as advertised. It would also cut the maximum APR to 213 percent for a two-week loan term, which is most common. The bill passed the Senate over a filibuster but was smothered in the House Financial Services Committee, where it was never even placed on the calendar for a vote.

Reform advocates have proposed a host of different, reasonable, modest approaches to reform over the years. In recognition of the fact that change sometimes happens incrementally, many bills have been limited in scope, designed only to reduce the amount of harm these loans cause to thousands of people every year. **But the industry and its allies in the statehouse have yet to pass the kinds of reforms that have helped consumers in many other states.** Borrowers, advocates, and a bipartisan cohort of supportive legislators have fought year after year, but relief has not yet come for those who are mired in unpayable debt. Fortunately, the list supporting reform continues to grow, along with the evidence of pain the current system creates.

One study found that payday lending concentration was “three times greater in African-American neighborhoods than in white neighborhoods,” noting that the “disparity increases as the proportion of African-Americans in a neighborhood increases.”

These disparities make black communities, as well as other communities of color that have been subjected to centuries of discrimination resulting in lower levels of income and wealth, favored targets of payday lenders. Such high-interest loans perpetuate Alabama’s racial wealth gap by disproportionately sapping the finances of people of color and preventing the accumulation of savings or wealth.

Numerous studies have found that payday lenders set up shop in black communities with high frequency. One study found that payday lending concentration was “three times greater in African-American neighborhoods than in white neighborhoods,” noting that the “disparity increases as the proportion of African-Americans in a neighborhood increases.”³⁵ These findings have proven true both nationally and in Alabama, where a 2014 Auburn University study found that there is “a significantly positive relationship” between the percentage of a community that is African American and the number of payday lenders that open in that community.³⁶ And because payday lenders are often open around the clock, parents with inflexible work schedules find them more accessible than traditional banks and credit unions. Greater financial insecurity mixed with a high concentration of predatory lenders drive higher rates of borrowing among people of color. African Americans are more than twice as likely as white people to use payday loans.³⁷

BY THE NUMBERS

THE LARGE-SCALE IMPACT OF PAYDAY LENDING IN ALABAMA

Payday Lending in Alabama

For more than a decade after Alabama legalized payday lending, the state had no insight into how payday lenders were operating or how they were impacting borrowers. No data were collected or reported to the state, and while the payday lending industry assured critics that their borrowers were in good hands, there was no way to systemically verify their claim.

When the Consumer Financial Protection Bureau (CFPB) began a rigorous study of the payday lending industry in 2012, the national investigation into the industry's impact on borrowers began with a field hearing in Birmingham.⁵² Two years later, the CFPB released a report finding that four of every five payday loans were rolled over within two weeks of the loan being made, which is to say that the vast majority of payday borrowers in America were getting a loan advertised as short-term even though most borrowers experienced long-term payday debt.⁵³

Because Alabama had no reporting requirements, the state could not be included in the research. In 2015, Alabama implemented loan reporting requirements. Payday lenders are now legally required to report on the loans they issue within a centralized database operated by Veritec Solutions, a private company that runs payday lending regulatory databases in more than a dozen states where payday lending is still legal.⁵⁴ Every time a payday lender issues a loan under this new reporting system, it must first check the names of borrow-

ers against this database.⁵⁵ The system is designed to ensure that no potential borrower exceeds the \$500 total payday loan maximum allowed under state law. Veritec allows Alabamians to track certain loan trends and analyze the financial cost of a loan cycle to borrowers.

The new data collected since 2015 has brought to light what borrowers and advocates had long understood: the lending industry's repeated claims about payday loans, their purpose, and the practices of the industry, are false. For years, lenders sold payday loans as emergency measures resulting from unforeseen circumstances, where borrowers needed a quick cash fix until the next payday. Lenders assured legislators and the public that borrowers repaid their loans and moved on with little negative impact from the high fees.



SOURCE: Veritec Solutions LLC, "Report on Alabama Deferred Presentment Loan Activity October 1, 2016 through September 30, 2017."

AVERAGE WEEK IN ALABAMA

BETWEEN OCTOBER 2016 AND SEPTEMBER 2017

34,615

HIGH-INTEREST PAYDAY LOANS

=

5,000

PER DAY

Veritec reports show this to be a fairytale. Through the years of reports, in Alabama and other states, the distribution of loans per customer is heavily skewed toward borrowers who take out more than a single loan per year.

About 85 percent of payday borrowers in Alabama will take out multiple loans in a given year; only 15.6 percent of Alabama borrowers in 2018 used a single payday loan.⁵⁶ In 2018, one in three payday borrowers in Alabama took out a payday loan once a month or more.⁵⁷ Perhaps most staggering, 5.7 percent of Alabamians who took out payday loans in 2018 — 11,428 borrowers — took out 24 loans or more.⁵⁸ That's a loan for every pay period in the year — or more.

PAYDAY LOAN FEES

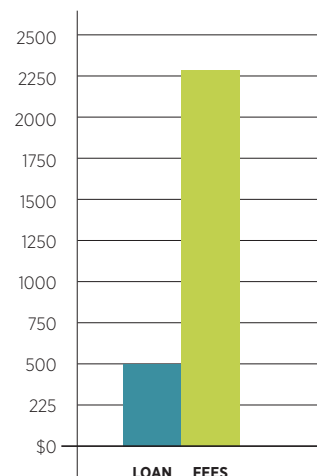
If a borrower working at the minimum wage gets caught in the debt trap and is unable to fully repay a \$500 loan issued on a two week loan term, the borrower would have to pay \$2,275 in rollover fees over the course of a year. That's more than 15 percent of their annual income.

More than half of all borrowers pay more fees in a year than the amount of the loan they took out.⁵⁹

Between October 2016 and September 2017, 214,429 Alabamians took out at least one payday loan.⁶⁰ To get a sense of scale, the size of the employed workforce in Alabama was 2,073,106 people in 2017.⁶¹ Payday loans were issued at a scale exceeding 10 percent of the employed workforce in 2017. Given that there were more than 1.8 million high-interest payday loans made during that year, it is clear that most of those workers took out far more than one loan. The median number of loans taken out by a payday borrower in Alabama in 2018 was not one, not two, but seven. The average week in Alabama includes 34,615 payday loans being taken out across the state. That's almost 5,000 high-interest loans per day. The total number of Alabamians directly impacted by these high-frequency cycles of high-interest borrowing is even more significant when accounting for the families represented by each of the 214,429 borrowers who took out payday loans in that year.

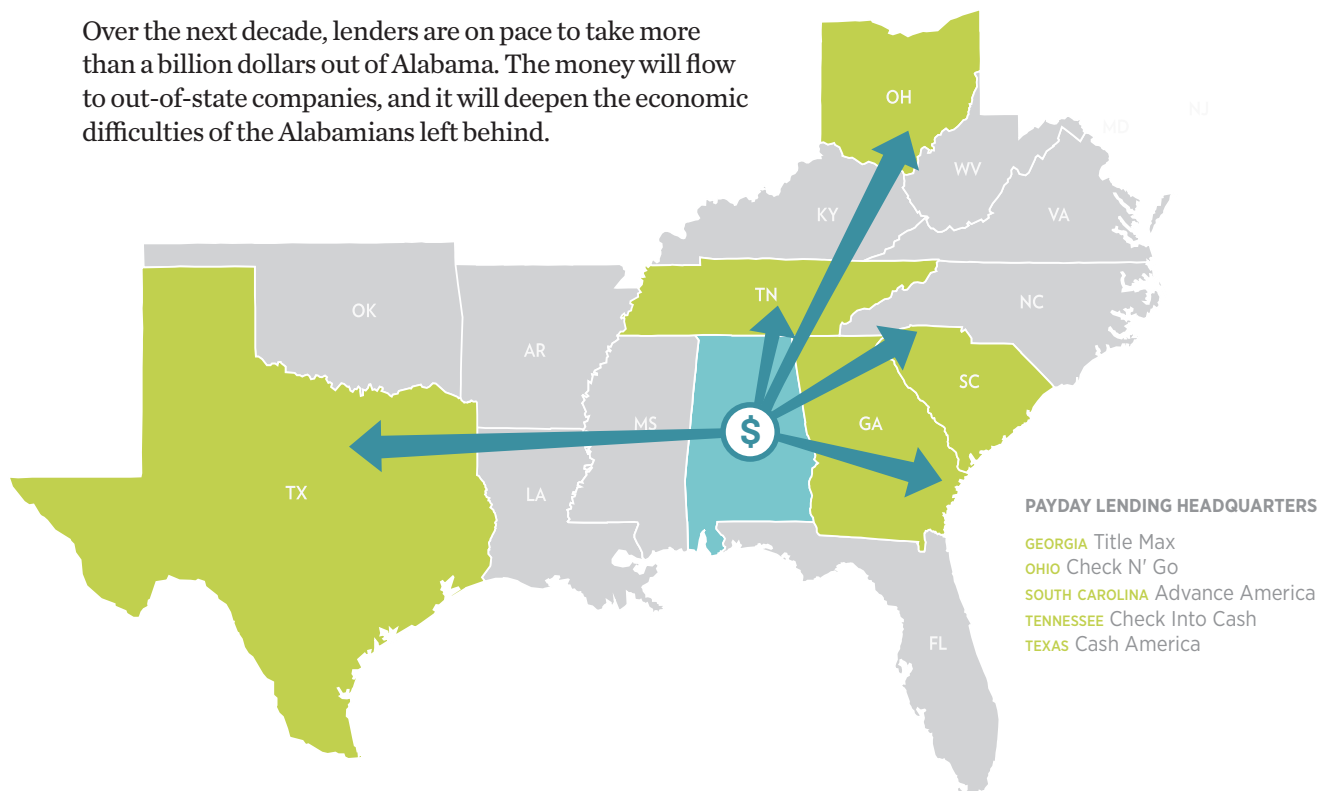
Minimum wage and payday lending

In Alabama, the minimum wage is \$7.25.⁶² A minimum wage worker in Alabama can expect to have an annual income in the neigh-



Siphoning Money Out of Alabama

Over the next decade, lenders are on pace to take more than a billion dollars out of Alabama. The money will flow to out-of-state companies, and it will deepen the economic difficulties of the Alabamians left behind.



borhood of \$15,000 per year.⁶³ Even one \$500 loan taken out in an emergency could be a disaster for such workers. If a borrower working at the minimum wage gets caught in the debt trap and is unable to fully repay a \$500 loan issued on a two-week loan term, the borrower would have to pay \$2,275 in rollover fees over the course of a year. That's more than 15 percent of their annual income. By pay period, minimum wage workers in Alabama could expect to receive about \$715 every pay period. The \$87.50 rollover fee from this common loan structure would eat away more than a tenth of that, keeping the borrower from using that money for rent, groceries, utilities, diapers, childcare, or other necessary expenses — let alone putting it away for savings. Such a borrower would have to work an extra 12 hours every pay period just to cover the rollover fees and break even with their other expenses. They wouldn't even be paying down the principal.

Though illuminating, the Alabama Veritec reports only scratch the surface. Alabama does not require Veritec to report information that other states receive from the database company as standard practice, which means that Alabama receives a less detailed picture of how payday lending impacts our residents compared to other states paying for the same service. The reports could provide a more comprehensive overview of payday lending in Alabama with a few additional reporting requirements:

- Number of transactions “rolled over” within two weeks of the initial loan
- Average APR of loans
- Total returned check fees assessed to borrowers
- Number of suits filed for recovery, with disposition of suits, amounts of judgments, and amounts recovered
- Loans issued by ZIP code and city
- Loans issued by age, race, and sex of borrower

DEBT TRAP

85%

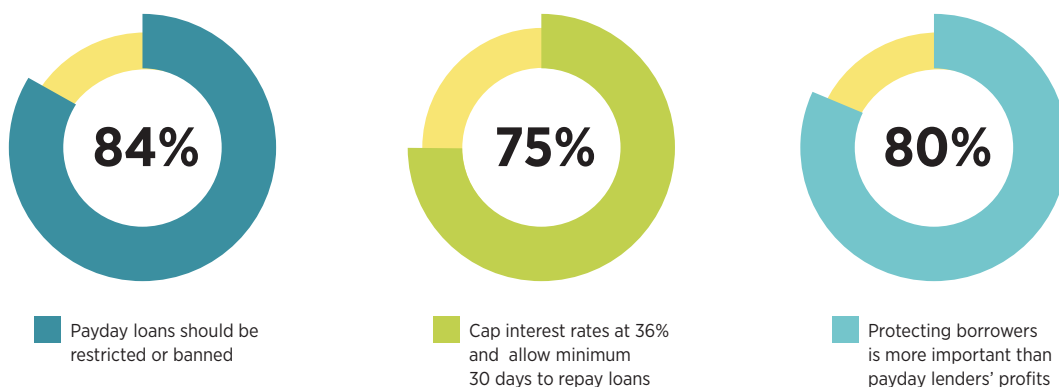
of payday borrowers will take out multiple loans in a year

11,428

individual Alabama borrowers took out **24 LOANS** or more in 2018

ALABAMA VOTERS SUPPORT REFORM

Voters in Alabama overwhelmingly support reform of payday lending to rein in abusive lending practices. In fact, support has increased in recent years according to polls commissioned by the Public Affairs Research Council of Alabama (PARCA).



The understanding gained from these reporting requirements, cross-referenced with the number of loans taken out, would provide a more complete picture of payday lending in Alabama. The inclusion of this data would allow regulators to see and address disparities in treatment, as well as to track populations with especially troubling rates of debt entrapment.

Public opinion favors change

Public opinion in Alabama strongly favors restriction of payday loans. In its 2018 annual public opinion survey, the Public Affairs Research Council of Alabama (PARCA) asked respondents about their views of payday lending. More than half of all people surveyed supported banning payday loans outright, and another 30 percent supported restricting payday lending.⁶⁴ In total, more than 84 percent of Alabamians surveyed supported taking steps to rein in predatory lending practices in the state.⁶⁵ Almost three-quarters of respondents supported a 36 percent APR cap.⁶⁶

While overwhelming public opinion favoring reform has been insufficient motivation for the Legislature to act, local governments have taken measures to limit payday loans.

The city of Northport became concerned when the number of payday loan stores skyrocketed in 2011 to 21 within city limits: one per 1,100 residents.⁶⁷ The city placed a six-month moratorium on new payday loan storefront licenses while it studied the problem.⁶⁸ After the expiration of that moratorium, the city passed an ordinance preventing unchecked expansion of predatory lending within city limits. The new density ordinance banned payday lenders from opening within 1,500 feet of another similar establishment, a category that includes check cashing and title loan stores.⁶⁹

Northport is far from alone. More than 20 municipalities throughout the state have passed ordinances to stem the flood of payday lenders within their city limits.⁷⁰ But municipalities in Alabama have few tools to protect themselves and their residents from high-cost lenders. Cities have no authority to

The mayors of four of Alabama's largest cities, Birmingham, Tuscaloosa, Montgomery, and Mobile, have all stated they support statewide legislation to stem the harms of payday lenders in their communities.

set permissible interest rates and are limited largely to the use of zoning ordinances and business licenses to prevent payday lenders from overrunning their neighborhoods. Auburn, for instance, sets the annual business license fee for money lenders and brokers at \$500, which is five times higher than the fee for some other business types.⁷¹

While these measures place some modest restrictions on predatory lending, they have been insufficient to protect Alabamians from interest rates in excess of 400 percent. The lack of legislative movement has local public officials speaking out against the toll payday lending has taken on the residents of their cities, and it has also led to many calling for broad, statewide solutions to the problem. Even after Northport restricted the locations of payday lenders, Mayor Bobby Herndon stated his support for a 36 percent APR cap.⁷²

The mayors of four of Alabama's largest cities, Birmingham, Tuscaloosa, Montgomery, and Mobile, have all stated they support statewide legislation to stem the harms of payday lenders in their communities.⁷³ For example, Mayor Walt Maddox of Tuscaloosa said that "reforming this industry is essential both economically and morally," noting that "by attaching outrageous interest rates to easy to obtain loans, predatory lending creates vicious cycles that can make desperate people even more desperate."⁷⁴ Mayor Todd Strange of Montgomery agreed, noting that payday lenders "cause disproportionate harm to borrowers" and arguing that "meaningful reform that abolishes astronomical interest rates and exorbitant fees would be a huge benefit for many Alabama families."⁷⁵



HUMAN IMPACT

THE DEBT TRAP AFFECTS ENTIRE COMMUNITIES

Lives Unraveled by Payday Debt

The best way to understand how payday loans impact Alabama is to speak with the Alabamians who have used them. The Alliance for Responsible Lending in Alabama interviewed 24 payday borrowers across the state. All but one of them reported negative experiences with payday loans. Their stories reveal how these loans — advertised as helpful, short-term boosts — often become long-term, crushing burdens. Here are a few of their stories:

“I WAS TRYING TO BURY MY DADDY”

Angela Hawley is a young mother of three daughters in Dothan, Alabama. Before she was bankrupted by payday loan debt, she was a regular borrower: at one point, she had six loans out at a time. She needed help paying for “rent, lights, diapers, clothes for my kids, gas.” Two of her children have medical conditions that require specialized attention and regular trips to Birmingham and Montgomery, making it extremely difficult for her to work.

Perhaps the most painful source of Hawley’s payday debt: funeral expenses. “My mother-in-law passed away, and then my dad died. And I’m like, I’ve got two different funerals — one here and one in Florida, ten hours away.” Already living on a constricted income, Hawley had to borrow a few hundred dollars to cremate her father. “I was trying to bury my daddy because my mom didn’t have no job, no income. My dad supported her, and my sister was 10 when he passed.”

“Everybody’s so quick to judge, but nobody wants to stop and think,” Hawley said. “My mom’s dead. My dad’s dead.”

“Jesus didn’t ask nothing in return,” Hawley said. Payday lenders “want more money than what people have.”

Angela Hawley is a borrower from Dothan, AL.



“Something minor to anybody else is like a major catastrophe for me.”

“A TERRIBLE WAY TO LIVE”

What do you do when you are a single mother of three children and your car breaks down? For Valerie Barron, this was no hypothetical question one morning, when she found herself unable to get to work, pick up groceries, or get her children where they needed to go. “Something minor to anybody else is like a major catastrophe for me,” she said, speaking about her precarious financial position. Without savings to cover the \$1,400 motor repair that she needed, Barron went where thousands of Alabamians go every year: to a payday lender.

“It started out as just one,” she said. But it rarely ends up being just one — that’s not how the industry works. Like most payday

loan borrowers in Alabama, debt from the first payday loan put her behind on other bills in a way that soon led her to take out more payday loans. She estimates that she has taken out 25 payday loans or more, and eventually a title loan on her vehicle as well. With payday loans being issued at rates up to 456 percent APR under Alabama state law, the debt mushroomed. Ultimately, Barron was forced to declare Chapter 13 bankruptcy. What began as one loan spread to become an inescapable cycle of debt that continues to haunt her years later.

Barron’s story tracks those of many other payday borrowers in Alabama. Though she is steadily employed as a bookkeeper at a high school in Tuscaloosa, and though she has worked various second jobs to supplement her income, after she pays her regular monthly bills she only has about \$200 a month to purchase gas, groceries, and other necessities. She is currently stretching her finances to the breaking point to earn a college degree at night, which she hopes will help her get a higher paying job to escape this endless cycle of debt. “I don’t know what else to do,” she worries. “I just hope I’m not getting a degree for nothing. I’ve got to get a degree to make more money so hopefully I won’t have to be in this shape again. Because it’s a terrible way to live.”

For borrowers like Barron, payday debt becomes a dark tunnel with no light at the end. She worries about her children’s futures—worries whether she will have anything to leave them. She wonders when lawmakers will finally help mothers like her, or if they ever will. “I just wish they would stop filibustering and make decisions that help everybody,” Barron said. “Nobody cares about the regular people...



Valerie Barron is a borrower from Tuscaloosa, AL.



Every time I talk about it, I get emotional. When something affects your life that much, you can't help but be emotional about it. But I do want to get to the point where I don't cry about it as much."

EIGHT PAYDAY LOANS IN FOUR MONTHS

Kevin Mullins is a U.S. Army veteran who lives in Marshall County. He served at Fort Jackson, South Carolina, between 2007 and 2011. When he left the Army, he returned home and found work building homes with an old friend for about \$1,800 per month.

But transitioning back into civilian life wasn't easy. "What they do in the Army," Mullins said, "is break down what you have made yourself into being... I got used to someone telling me what to do every day. So when you come out, you kind of look for someone to tell you what to do."

Struggling to manage outside the highly structured environment of the military,

Mullins began using drugs. "It was easier to handle everything that way," he said. "Real life situations, bills, groceries, transportation, and hospital bills because during that time I didn't have any insurance."

In late 2015, Mullins had a drug-induced stroke. He was rushed to the nearest hospital—45 minutes away—and ended up losing mobility in the left side of his body. His wife left him and kept custody of their son. "God let me live through that," he said, "to share with others and let 'em know the danger of doing drugs."

Having barely survived the stroke, Mullins was determined to recover and get his life back on track. That's when he first encountered payday lenders. In the immediate aftermath of the stroke, Mullins took out payday loans to cover basic living expenses like rent, groceries, and transportation costs to the distant hospital where he needed to receive follow-up treatment. He used his SSI check of \$800 per month — his sole source of income — as collateral for the loans. "Within

Kevin Mullins, a borrower from Marshall County, AL — "They just want your money. They don't care what you do with it, or what's going on in your life."

PHOTOGRAPHY BY
Dana Sweeney

“I don’t know what I’m gonna do. Because the interest is growing.”

about a four-month span, I done got about eight payday loans that quick. And got myself in a lot of debt,” he said. The loans totaled about \$1,800 in borrowed cash. Since taking out the loans, he has paid over \$2,200 back, but he still isn’t finished.

Mullins says he understands that lenders need to make a profit, but the interest rates charged in Alabama are unreasonable and hurtful. “They just want your money. They don’t care what you do with it, or what’s going on in your life. They just want what they think they’re entitled to.”

Today, Mullins continues to struggle with caring for himself and for others. His son recently started kindergarten. Mullins could not afford to help with school supplies because of his payday debt. “It’s not that I didn’t want to get him the stuff,” he says. “It makes me feel like a failure as a father because I ain’t got the money to because I’ve got to pay [payday lenders].” He is striving to recover, but he needs a leg brace that would help him to begin walking again. He has been told it would cost him about \$600. He can’t afford it.

“If I wasn’t paying so much in interest, I could put that money back each month and I could come up with the money to buy the equipment I need. But because I’m paying them, I’m not able to. I’m just having to set myself back on my therapy and recovery because the interest rates.”

“I LOST EVERYTHING THAT I WORKED FOR”

When Rodney Thomas was interviewed in July 2018, he was staying at a homeless shelter in Montgomery. Payday loan debt

had made him homeless.

Thomas, who was responsible for his young children three days a week, initially took out payday loans to cover everyday living expenses when he couldn’t make ends meet. “We was lacking on food,” he said, “because when you paying all these bills on light, gas, water, soap deodorant, toiletries, socks, underclothes, shirts, toothpaste, all this stuff costs. A lot of people don’t think about it.”

Thomas was doing his best to pay back his debts on time, but the debt ballooned. Payday lenders charged him rollover fees every two weeks, and any time he received income, they took the money straight out of his bank account. “I lost everything that I got, that I worked for, and I ain’t got nothing but this shelter to show for it.”

Thomas lost his apartment and could not get another because he had no money in his bank account and was still indebted to payday lenders. If he found employment, then payday lenders would take his paycheck as soon as it landed in his account. Once, while he was at work, a sheriff’s deputy came to inform him that he would have to appear in court regarding his outstanding payday debts. His girlfriend spent her income tax refund trying to pay down his debt. It wasn’t enough.

“Everybody’s situation is different. You know, my situation...” Thomas began. “I tried. The only thing I can say is I tried to do what’s right, and I ended up in a jam. I tried to pay them early, and I ended up in a jam.”

Thomas cannot imagine how he will ever recover from his payday loan debt, especially when the lenders have seized any

income he has been able to make. “It’s growing now. I don’t have no job. I’m in a homeless shelter. My legs are still bothering me, and I’m falling down, hurting myself, losing my teeth. If I get disability right now, they gonna want half of that. So I don’t know what I’m gonna do. Because the interest is growing.”

“WE SEEN THAT TORNADO COMING”

Odessa was so excited when she and her husband purchased a few acres of land in Madison County about a decade ago. After years of planning and saving, they finally had the space they had dreamed of. They built their forever home on three acres in anticipation of happy retirement years. When that was finished, they bought the surrounding 23 acres — a beautiful, quiet tract to call their own. But soon, things went wrong. Her husband passed unexpectedly in 2010. On the heels of that tragedy, as Odessa tried to recover from the loss, came another disaster. The date was April 27, 2011.

“That day, we heard it coming,” she said. “One of my sons was in the yard, and we seen that tornado coming. And he was out there in the yard while I was afraid. My son shielded my body with his and tried to get me back to my bedroom because there was a closet in there that we could go in. I had a daughter who was in the bathroom, and he was calling her to come. And we didn’t even get in there and in seconds it was over, and the whole front of the house had come in and I don’t know how we got out of there.”

Though Odessa and her adult children survived a direct hit from a tornado — one



of 62 to touch down on the same day in Alabama — her home was leveled.

“My insurance, I didn’t really know how to handle it,” Odessa admitted. Her husband had always managed those kinds of things, and he had barely been gone a year. Everything was in rubble and disarray; she had nothing but the clothes on her back and the few things salvaged from the rubble. When she figured out how to file an insurance claim to have her home rebuilt, she was told that she had applied too late, and it was denied. Odessa didn’t know what to do or where to go. She had no shelter, no insurance proceeds, no income. She’d lost everything. So she turned to payday loans.

As she tried to get back on her feet, her debts grew larger and more numerous.

Rodney Thomas is a borrower from Montgomery, AL, who lost his apartment because of payday loan debt.



Odessa is a borrower from Madison County, AL

Odessa estimates that she has taken out 15 to 20 payday loans since she lost her husband and her home. She did not expect the interest to balloon so rapidly. “I didn’t know. So as they say, what you don’t know will hurt you.” More than eight years later, she continues to struggle with the aftermath of the tornado and the payday debt she accrued in its wake.

“TRYING TO LIVE AND LEAD A BETTER LIFE”

Sharon Jones is a mother and a survivor. She speaks about how difficult it was for her growing up in the foster care system,

where she lacked stability, support, direction, and was sexually abused. Today, she is the mother of beautiful twin daughters. Her face breaks into a glowing smile when she’s asked about them. “They’re very smart,” she says with pride. “I want my kids to have a bright future, and they have a tremendous start. They go to a magnet school that they’ve been at since kindergarten.” She is determined to give her daughters a foundation of love and opportunity. While parenting is never easy, Jones’ road has been more difficult than most.

Without any foundation of wealth, and stuck paying court debt on a small income, Jones recently had to turn to payday lend-

ers to purchase back-to-school supplies for her daughters. “I want them to have way better than I have,” she says. “That’s why I go to church every Sunday. I want them to know about Jesus. I don’t want them to struggle, but I will struggle so that they can have it better.”

The \$200 back-to-school loan is Jones’ only experience with payday lenders, but it has been enough to bring her plenty of stress and grief. When she couldn’t make her full payment on time, she was shocked to learn that the lender took money directly out of her bank account without notifying her. Every time she tried to save money, they would take it out of her account and cause her to be charged overdraft fees. “I don’t understand how they can just take money out of my bank account like that without my permission. What if that money is for rent? So I closed my bank account so you can’t get my money out of there.” Jones remains unbanked.

She has found welcoming church homes at The Harbor and the Bread of Life Church, and she is doing everything in her power to build a solid life. Jones wants others to find purpose like she has, and she believes that her example can inspire others to believe that it is possible for themselves. “People are trying to live and lead a better life, but we need a grace period. I think they should give us 30 days instead of two weeks, because that impact is a struggle,” she says. “I’m that light that sit up on a hill. They see me doing good, and they say if she can do it, I can do it. But these damn fines is tearing me up.”

Sharon Jones, a borrower from Dothan, AL, was shocked to learn that the lender took money directly out of her bank account without notifying her.

“I don’t understand how they can just take money out of my bank account like that without my permission. What if that money is for rent?”



Direct Service Providers

When borrowers become mired in payday debt and are unable to cover other living expenses, many turn to charitable and non-profit organizations seeking aid. For many direct service providers across the state, payday debt is a major driver of the needs they work to meet. In other words, the enormous volume of payday debt in Alabama causes collateral damage that is outsourced to direct service organizations. Alabamians routinely must seek food assistance, utility assistance, rent assistance, and more because the money they might have saved to cover those expenses instead goes into the money pit of payday debt.

Holly Ray, a Legal Services of Alabama attorney in Huntsville says “They are using the court system to bully people.”



The perspectives of four direct service providers follow, illustrating the patterns of harm they witness the payday industry inflicting on borrowers and also highlighting how their own limited resources are depleted by the consequences of payday debt.

PAYDAY LENDERS “USE THE COURT SYSTEM TO BULLY PEOPLE”

On any given day in the small claims courts where Legal Services of Alabama (LSA) managing attorney Holly Ray represents indigent clients, about a quarter of the docket is claims made by payday lenders seeking to collect from borrowers. “They just clog up the court,” she says. “It’s not uncommon to see five, six, seven, eight of them on every single docket. And looking at Madison County, if you take that across six judges and you look at that across 67 counties, you very clearly start to get an idea of the mass of the problem.”

Ray reports that in virtually every case where payday lenders are suing borrowers, the lenders file *pro se* and do not hire legal representation. “When they file in small claims court, they’re sending their local branch manager to prosecute the case, and a lot of times, quite frankly, that’s a young person who has no idea what’s going on, has no formal education, let alone formal education in the legal system.”

This not only slows down proceedings, but also leads to lenders making egregious errors. “We see them attempting [to garnish Social Security income] all the time,” Ray says. “That is not legal. If you know

that someone's sole source of income is Social Security, you should not be trying to garnish their wages, you should not be trying to freeze their bank account. It's clear, red-letter law that they are a federally protected beneficiary and that they should not be affected in those ways."

But that isn't stopping payday lenders.

Ray estimates that 60 percent of the clients her office serves have payday debt. Often, it is the root cause of other troubles that clients bring through the door — many eviction cases, for example, are often the result of borrowers not having rent money after paying on their ever-growing payday debt. "The vast majority of our clients are people that one bad turn happened to. Their child got cancer, their husband died, they were a victim of domestic violence and their spouse left, they live in one of our towns where maybe a plant closed and everybody lost their employment at once... Most people take [payday loans] out as a means to survive when something bad happens, and it's like throwing them a life raft that's got a shark attached on the other side of it."

By the time clients walk through the doors of LSA in Huntsville, they have usually already tried every other form of help available to them. Ray sees the pattern daily: borrowers will often feel forced to pay on the loan before buying groceries, which leads them to the local food pantry. Soon, those same borrowers wind up paying on the loan rather than paying their utility bills, which leads them to churches seeking utility assistance. By the time they are unable to make rent because of payday debt, things have spiraled out of control.

"Even if this is an invisible issue to our legislators, the way that it impacts community services, the way that it impacts our safety net in terms of rental assistance, utility assistance, childcare assistance, food assistance, is very, very real."

Ray recently sat down with a client and looked at what sort of budget it would take to pay off the loan he was issued. She based

her calculations on the average rent, transportation, and utility expenses for the area. She found that someone would need an income of nearly \$80,000 to manage the debt. "These things are built to fail," Ray said.

Having worked at LSA for more than a decade, Ray can recall countless examples of how payday debt has ruined the lives of her clients. "They are using the court sys-

**"We see them
attempting to garnish
Social Security
income all the time.
That is not legal."**

tem to bully people. And look, I don't doubt that a lot of these people owe some money. But the amounts that they are suing for are seven or eight times the amount that the person originally took out the loan for. They're suing for fees that make no sense."

She remembers the 80-year-old client who took out payday loans after falling victim to an internet scam; in one year, his life transformed from a quiet retirement to a living nightmare until he died, penniless, of a heart attack. After his death, the lenders hounded his son demanding that he pay his deceased father's debts.

She remembers the client who was receiving more than a dozen phone calls from debt collectors each day. They called her home, her cell, her place of work, her mother's house, and even the high school that her child attended. She remembers the client who was unable to afford the copay when his wife gave birth at the hospital. While his wife bonded with their newborn, the father

was in a payday loan storefront signing the paperwork on a loan that would spell financial ruin for the new family.

As an attorney, Ray knows that stronger regulations and a longer payback period could make a big difference for her clients. “We know that they are going to be a part of our landscape,” she says. “If we can at least make them livable for our neighbors who need them, I think that only makes good sense business-wise and conscience-wise.”

TAKING MONEY OUT OF THE POCKETS OF ALABAMIANS

As the executive director of Habitat for Humanity of Tuscaloosa, Ellen Potts sifts through the personal finances of people who are struggling on a regular basis. It's part of the job.

Habitat for Humanity — an internationally renowned nonprofit founded by Alabamians Millard and Linda Fuller — does not give away the homes that it builds. It sells them to the people they serve at market value with a zero percent APR home mortgage. “We believe that there is an inherent dignity in purchasing your own home,” Potts says. But in order to be eligible

for a Habitat home, applicants must meet certain qualifications. One of those qualifications is that the person's debt-to-income ratio cannot exceed 43 percent.

Potts has served as the executive director since 2013, but she has served on the local Habitat selection committee since 1997. “In the earlier days, we didn't see payday lending debt. Debt-to-income ratio did not throw people out of qualification with the frequency that it does now after payday lending,” she says. These days, the economic landscape has shifted, and payday debt regularly disqualifies applicants by consuming more than 43 percent of their income.

“Prior to payday lending, people got credit,” she says. “They were able to get it through other means, and sometimes borrowing from family members. We survived prior to payday lending. There was credit prior to payday lending. In the states that have regulated this and lowered the interest rate and put a cap on the payday lenders, their economies have survived.”

She remembers two Habitat candidates who particularly haunt her. “There were two sisters who owned their mother's home — their mother was deceased — and literally the

Ellen Potts,
Executive
Director of
Habitat for
Humanity of
Tuscaloosa.



home was falling down around their ears,” she begins. Part of the house had been burned by an electrical fire caused by bad wiring. All the furniture in the home was covered by drop cloths to protect it from the water that would pour in through the ceiling every time it rained. The roof, walls, and foundation were all inspected and found to be unsound.

Potts and the Habitat staff wanted to help. They reached out to a donor describing the situation and received a funding commitment to bulldoze the collapsing house and build a new one. But when they sat down with the sisters to see if they qualified, Potts’ heart sank at the sight of their financial position. “About 70 or 80 percent of their income was consumed by payday loans, and there was no way that we could build a house for them,” she says. “We had the funders in place and ready to buy the building materials, pay the contractors, all of that. We were unable to do that because of the payday loans that these elderly ladies had fallen into. It was a trap.” To her knowledge, the sisters still live in the rotting home several years later. “It’s literally highway robbery.”

“These payday lenders are based out of state. They are taking all that money out of the pockets of Alabamians — not just the people who borrowed, but for the rest of us who don’t,” Potts points out. “We could really use it. We are a poor state. We need every dollar that we can get, and we certainly need this scourge to go away.”

She hopes that Alabama can join the many states that have capped interest rates at 36 percent APR, noting that the military has already done so for service members and their families. “That’s nearly double what your credit card rate is, so it’s not like people aren’t making money at that rate,” she says.

“You don’t have to have an MBA from

“These payday lenders are based out of state. They are taking all that money out of the pockets of Alabamians.”

Harvard to know that if you are getting a 228 percent return on your money, that that should make you a profitable company,” Potts says. “I understand that the payday lenders’ group of people that they lend to is a high-risk group. But 228 percent should still cover that increased risk, probably with 200 percent to spare.”

COLD WINTERS AND HOT SUMMERS

Cold winters and hot summers — these are two of the biggest drivers of payday borrowing in Walker County, according to longtime resident Deidre Tatum, who serves as the executive director of the Walker County Community Action Agency. “A lot of our clients do have a record of lending with predatory lenders,” she says. Almost always, they go to lenders because they do not have enough money to survive and are in crisis trying to keep up with rent, utilities, groceries, and transportation in this rural county in the heart of Alabama’s coal country. For many borrowers, the payday debt outpaces their ability to keep up. “It’s almost impossible to get out of,” Tatum says. Once people have exhausted all other options and are being hounded by payday debt collectors, they show up at Tatum’s office.

“I’ve known two families that had decent income over the past five or six years that



Deidre Tatum,
Executive
Director,
Walker County
Community
Action Agency in
Jasper, AL.

actually lost their house,” Tatum says. “And it’s all due to payday debt.” One of the families was a married couple with adult children. They were a dual-income household that was, for the most part, financially stable. When an emergency arose, they turned to a payday lender. They got caught in the debt trap and ended up losing their home.

“The other lady that I know, she has health issues and has a lot of medicine. Her insurance didn’t cover it all, so she went to payday loans. She was not able to keep paying because she was getting loan after loan, and her debt was so high that she was not able to keep her house. The last I heard, she was living in public housing. It’s not just the low-income people that are doing these things. It’s people with moderate incomes, too.”

Tatum cautions that predatory lending is no less a crisis in Alabama’s rural communities as it is in cities, where the industry is often more visible. “Come to the small rural areas, because it is happening,” she urg-

es legislators. “Go to those lenders and see what their books look like, see how many clients they have. Talk to agencies like ours that deal with these people every day. Do some investigating, because it is real, and it is an ongoing problem. Do the homework. Don’t just assume that it’s big cities.” For the sake of her clients, Tatum hopes that the Legislature will take action. “I just feel like, personally, there should be legislation to put a cap on how they charge interest rates, fees, how often. Almost like banks. What is their ability to pay back this loan? Do not loan 100 percent of a person’s weekly or monthly income. That’s an automatic setup. Put some caps and some limits on them, or get rid of them altogether, because it’s really hurting our people.”

“THE RICH GET RICHER, AND THE POOR GET POORER”

“I am here to serve. I am a servant,” says Maudine Holloway, the longtime director of Community Enabler Developer, a non-profit that provides food, clothing, shelter, and other direct assistance to people in Anniston. “By the grace of God, it’s why I’m here. And I want to try to make sure that everybody can go to bed with a full stomach, or at least something in it, but many of them don’t.” Holloway and Community Enabler Developer have filled many stomachs over the years, but she knows of one appetite in Anniston that is insatiable: payday lenders.

“A lot of these young women are struggling with keeping a job, and they have kids and nobody at home to help. That’s how they fall into these loans, and it takes their money. Primarily they do it because you’ve gotta have money to pay rent,” Holloway says. “I know sometimes they feel like they have nowhere else to turn. And it’s not living above their means. It’s mainly just to survive.”

Holloway recalls prior efforts to address the harms of predatory lending at the State House, and she wonders when change will come. Every day brings new folks through

her door who are struggling with payday debt, and she does not feel that the Legislature has done enough to respond. “I would really like for [legislators] to just get a feel for eating or not eating, and having to borrow to keep your lights on, to keep your gas on. This is for elderly and young alike, black and white alike. It’s a hurting thing. Some way, we’ve got to get even below the money loan to the real struggle of our people,” she says, speaking of poverty. “I hope we can make it better. Let’s just give people their last few years of peace. They’ve had to live at the bottom of the deck all their lives, and in their last days, it’s not getting any better. The rich get richer, and the poor get poorer.”

“Put some caps and some limits on them, or get rid of them altogether, because it’s really hurting our people.”

Maudine J. Holloway,
Executive Director,
Community
Enabler Developer
in Anniston, AL



Why Faith Communities are Fighting for Reform

Major faith traditions all over the world reject the practice of usury. From Christianity to Islam, from Judaism to Buddhism, there is a widespread, scripturally-supported recognition that it is inappropriate to charge high interest rates and to take advantage of other people's poverty. Here in Alabama, faith-based opposition to predatory payday lending is strong. Major denominations have taken official positions in opposition to payday lending. Dozens of individual churches across the state have helped to lead the charge for reform. And people of many faiths have worked as constituents to make this issue heard in the State House. Among Christian Alabamians, many Baptists, Methodists, Episcopalians, Presbyterians, Catholics, and others have taken action. To highlight just a few of the largest denominations that have been vocal in the fight in Alabama:

SOUTHERN BAPTISTS

The Southern Baptist Convention (SBC) has explicitly rejected payday lending as a sinful practice. The landmark resolution adopted by the SBC in 2014 reads, in part:

WHEREAS, God is not opposed to profit (Matthew 25:14–30) but is opposed to those who take advantage of the weak, the poor, and the vulnerable (Exodus 22:21–24; Deuteronomy 24:10–22; Zechariah 7:8–14); and

WHEREAS, Predatory payday lending is a

direct violation of the Love Commandment (Mark 12:20–31; Luke 10:25–37); be it

RESOLVED, That the messengers to the Southern Baptist Convention meeting in Baltimore, Maryland, June 10–11, 2014, denounce the practice of predatory payday lending as contrary to God's design for human relationships; and be it further

RESOLVED, That we urge churches, employers, and other concerned individuals to provide viable solutions for meeting short-term financial needs within their local communities; and be it further

RESOLVED, That we call on governing officials to investigate current payday lending abuses in their communities and institute just regulations and policies that terminate the practice of predatory payday lending; and be it finally

RESOLVED, That we strongly admonish those who are engaged in the practice of predatory payday lending to consider the great damage they are causing in the lives of vulnerable people and to adopt a just lending model.⁷⁶

The Alabama Baptist Convention passed a similar resolution that same year.⁷⁷

Indeed, Southern Baptists have been leading voices in exposing the harms of payday lenders. According to Russell Moore, the president of the Southern Baptist Eth-

ics & Religious Liberty Commission, “Payday lending is a form of economic predation and grinds the faces of the poor into the ground. As Christians, we are called by Jesus, by the prophets, and by the apostles to care for the poor, individually, and also about the way social and political and corporate structures contribute to the misery of the impoverished.”⁷⁸

Rev. Joe Godfrey, executive director of the Alabama Citizens Action Program (ALCAP), has also taken a strong stance against payday lending. In a January 2019 op-ed in *The Alabama Baptist*, Godfrey reminded readers that “predatory lending is an ethical issue that demands our legislator’s attention.”⁷⁹ He urged: “We need to do the right thing in our state and push for reform so that we are no longer exploiting the poor.”⁸⁰

METHODISTS

Both Methodist conferences that cover the state of Alabama — the North Alabama Conference⁸¹, and the Alabama-West Florida Conference⁸² — have passed resolutions specifically denouncing payday lending practices in Alabama.

“Predatory lending has a biblical name: usury,” writes Dr. Nathan Attwood of Marianna First United Methodist Church (UMC) on the Alabama-West Florida Conference web page about predatory lending.⁸³ “Usury is condemned throughout the Bible, particularly in the books of the Law such as Deuteronomy and Leviticus. They clearly teach that a society ordered around the love of God and neighbor has no place for business models that take advantage of the poor... Once upon a time, Alabama’s recognition of the biblical injunction against usury caused the state to cap interest rates through ‘usury laws.’ For more than fifty years, lenders could not charge more than 36 percent in Alabama.”⁸⁴

Today, payday lenders can charge 456 percent APR, and the conference is not keeping quiet about the ways this usurious practice conflicts with the Bible. “The Bible has

much to say about charging exorbitant interest rates on loans to the poor,” says Bishop David Graves.⁸⁵ “Yet, everyday payday lending exacerbates [poverty]... Many will pay 400 to 500 percent interest over time. This only pushes those who live on the margin further into despair. It brings harm. Alabama legislators, I plead with you as you have begun a new year of legislative business to end these practices.”⁸⁶

The North Alabama Conference is just as clear about the harms of payday lending and the need for the Alabama Legislature to act. The conference’s resolution recalls how “it is reported in all four canonical Gospels how Jesus overturned the tables of the moneychangers, accusing them of turning the Temple into a den of thieves through their commercial activities,” before resolving to demand an end to predatory lending.⁸⁷ “As a follower of Christ, I believe that we are taught not to take advantage of other people’s vulnerabilities,” said Rev. Dale Clem of Anniston First UMC.⁸⁸ “We do no harm. We help people out when they are in need. And it seems to me like the payday industry goes

EXODUS 22:25

If you lend money to any of my people with you who is poor, you shall not be like a moneylender to him, and you shall not exact interest from him.

LUKE 10:27

You shall love the Lord your God with all your heart and with all your soul and with all your strength and with all your mind, and your neighbor as yourself.

AL-BAQARAH 2:275

Those who charge usury are in the same position as those controlled by the devil’s influence. This is because they claim that usury is the same as commerce. However, God permits commerce, and prohibits usury. Thus, whoever heeds this commandment from his Lord, and refrains from usury, he may keep his past earnings, and his judgment rests with God. As for those who persist in usury, they incur Hell, wherein they abide forever.

“We need to do the right thing in our state and push for reform so that we are no longer exploiting the poor.”

against all of that. They're harming people and taking advantage of them. So as a faith leader, I think that it's really immoral. We call ourselves Christians, but where's the evidence of our Christianity when it comes to doing no harm to other people?"⁸⁹

Methodists across the state have organized community forums, contacted their legislators, attended lobby days, and picketed payday lenders. A notable example of Methodists taking action can be found in Tuscaloosa, where Beebe McKinley and Martha Rogers of Forest Lake UMC had the idea to build an inter-church network across the city, which they named Tuscaloosa Citizens Against Predatory Practices (T-CAPP). T-CAPP has engaged with the Tuscaloosa legislative delegation for years and maintains a productive relationship with the delegation, making the city one of the strongest bases of support for reforms in the state.⁹⁰

EPISCOPALIANS

The Episcopal Diocese of Alabama has passed an official resolution calling upon the Alabama Legislature "to address both payday lending and automotive lending during its next legislative session and to pass legislation that would lower interest rates to fair and reasonable levels."⁹¹ The Legislature has not yet taken the action the Church called for, which has led to many Episcopalians fighting on the front lines of reform efforts.

"My faith tradition tells me that we're never to take advantage of anyone, but especially those who are vulnerable," said Rev. Cindy Howard of St. Mary's Episcopal Church in Andalusia.⁹² "Whether they are vulnerable because they are poor, because they are sick, for whatever reason, those are the last people in the world we should take advantage of. Payday lending seems to me to take advantage of people who have needs and don't have a lot of options for meeting those needs, who may not have a strong social support networks."⁹³

Rev. Lee Shaffer of Grace Episcopal Church in Anniston agrees. "In my opinion, it's criminal," she said. "I don't know how you could do that to other human beings."⁹⁴ Rev. Shaffer, like many Episcopalians across Alabama, feels called by her faith to oppose the abuses of predatory lending. "Our faith is based on responsibility for those in the margins, on caring for the widows and the orphans and those who have no one else to care for them. I think that the kind of folks that are in desperate straits are exactly the people Jesus wants us to take care of, not take advantage of. For us to be making a profit off of someone else's difficult situation is unheard of. It's not how we treat each other. It's not following the commands of Jesus. As a Christian, there's nothing in my mind that justifies this sort of an interest rate on a loan."⁹⁵

Why Business Leaders are Fighting for Reform

Alabamians pay more than \$100 million in fees to payday lenders in the average year.⁹⁶ The trend lines suggest that over the course of this decade, our state will see more than \$1 billion flowing from the pockets of our residents and into the coffers of payday lenders. Most of that profit will be flowing out of Al-

abama, as none of the major payday lenders have headquarters in our state and the storefronts are low-wage, small-scale employers.⁹⁷

These figures merely reflect the actual dollar amount of payday debt serviced in Alabama; they do not account for the many collateral consequences. Payday lending

has been linked to many other economic, safety, and health-related hardship, from delays in seeking healthcare to evictions, from increased bankruptcies to food insecurity.⁹⁸ Indeed, research has shown that payday borrowers with low credit scores nearly double their risk of bankruptcy.⁹⁹

Confronted by the fact that \$100 million per year leaves our state via the payday industry, many small business owners across Alabama intuitively understand that less money in the pockets of consumers means less money flowing into their business. This common-sense hunch is supported by the data. In a landmark study conducted by the Insight Center for Community and Economic Development, researchers found that “the economic activity generated by payday lending firms receiving interest payments is less than the lost economic activity from reduced household spending.”¹⁰⁰

In fact, because payday debt strangles the budgets of borrowers and reduces their household spending, a dollar leaves the economy for roughly every four dollars vacuumed up by the payday industry.¹⁰¹ That adds up.

“Predatory payday lending practices cause economic hardship for working families and drain resources from communities.”

While there is no Alabama-specific data, surveys in other states have shown that small business owners agree that higher interest rates mean lower profits, which makes their jobs more difficult and the lives of their employees less prosperous. In Colorado, for example, 68 percent of small business owners surveyed in 2016 favored lowering the maximum APR for payday loans to 36 percent.¹⁰² That’s exactly what happened two years later, when those small business owners were



joined by 77 percent of Coloradans in voting for a 36 percent APR cap for payday loans.¹⁰³

Understanding these economic realities has led business leaders across Alabama to take a stand against payday lenders and the damage they inflict on local economies. The Birmingham Business Alliance has declared support for “legislation to reform Alabama’s laws regulating lending practices that include but are not limited to payday loans and title loans,” adding that member businesses “support legislation to curb predatory practices that cause economic hardship for working families in the Birmingham region and state of Alabama as a whole.”¹⁰⁴

The Huntsville Chamber of Commerce is on the same page. It has adopted public positions in support of reforming payday and title lending laws in Alabama, highlighting that these predatory lending practices “cause economic hardship for working families and drain resources from communities.”¹⁰⁵ The Huntsville Chamber’s statement adds that the high interest rates and fees currently allowed under Alabama law are responsible for “creating a cycle of debt that hurts Alabama families and drives more citizens into a downward spiral of poverty.”¹⁰⁶

The mayors of Alabama’s largest cities have stepped forward to ask the Legislature for help in addressing the harms caused by lenders in their city limits.

“Meaningful reform that abolishes astronomical interest rates and exorbitant fees would be a huge benefit for many Alabama families,” said Montgomery Mayor Todd Strange.¹⁰⁷ His views are echoed by Mobile Mayor Sandy Stimpson, who said that “the City of Mobile supports meaningful reform of Alabama’s laws regulating predatory lending practices.”¹⁰⁸ Mayor Stimpson went on to say that the city will “strongly support legislation to curb predatory practices that cause economic hardship for working families and drain resources from communities.”¹⁰⁹ Tuscaloosa Mayor Walt Maddox, too, has been clear that “reforming this industry is essential both economically and morally.”¹¹⁰

Alternative Lending Options

Contrary to the industry’s claims, payday lending is not the only source of assistance available to borrowers. Both current lending institutions with reasonable interest rates and proposed lending options that can be created to service underbanked people could address the financial needs of customers currently using payday loans. Alternative lending options exist in every city and town where payday lenders operate, and it is worth reiterating that payday loan borrowers must already have an open bank account and a source of income to take out a loan. Low-cost lending options, though, are less concentrated than their payday lending competitors in poor neighborhoods, and they operate using less eye-catching ad campaigns, which may make them less noticeable to people distracted by dire financial problems.¹¹¹

Traditional lenders are equipped to handle the volume of payday loan transactions easily. The top two Alabama credit unions in loan volume each hold over \$700 million in loans and \$1.6 and \$2.4 billion respectively in assets.¹¹² Credit unions are particularly interested in seeing their members protected from high interest rates. The National Credit Union Association and the League of Southeastern Credit Unions have endorsed previous legislative attempts to rein in payday loan rates, and their representatives have testified in committee hearings that their member institutions could and would lend to many of their customers who take out payday loans.¹¹³ And because they have seen the instability caused by long-term debt traps, some traditional banking institutions have even instituted procedures where any employee who becomes aware of a customer with a payday loan must invite the customer for a loan counseling session to seek ways out of the trap.

Beyond credit unions and banks, there are many other options that potential payday borrowers could consider, including arranging payment plans for other bills and inquiring about pay advance opportunities from employers.

One of the more cynical arguments that payday lenders have leveraged in recent years is that there is no point in addressing the harms they

bring to borrowers because internet lenders will treat them just as badly. This argument not only deflects responsibility for the real abuses payday lenders currently inflict on Alabamians — something independently worthy of legislative attention — but is doubly duplicitous for being unsupported by available data. A landmark Pew study found that “in states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all — just five borrow online or elsewhere.”¹¹⁴ Further clarifying the issue, the report explicitly highlights that **there is no statistically significant increase in rates of borrowing from online payday lenders in states that pass restrictions on storefront lenders when compared to states with permissive payday laws.**¹¹⁵

Another argument frequently brandished by payday industry lobbyists is that they are the sole source of credit for low-income borrowers, and that current payday borrowers would be devastated if they were unable to access triple-digit interest loans. This has no basis in fact. The state government of North Carolina commissioned a study in the years after they established a rate cap to follow up with borrowers and see how they fared without access to high-interest payday loans. The results — and the borrowers — speak for themselves: the study found that “**the absence of storefront payday lending has had no significant impact on the availability of credit for households in North Carolina.**”¹¹⁶

Former routine borrowers found new ways to manage their financial troubles and to access credit. People survived before the payday lending boom of the 1990s, and former borrowers continue to survive without them now in states that have pushed these lenders out. Indeed, former borrowers reported two to one that the wholesale elimination of the payday industry had an unambiguously positive impact on their lives.¹¹⁷ In focus groups, former borrowers unanimously agreed that payday debt had been excessively costly and agreed by majority that the disappearance of the industry in their state improved their lives.¹¹⁸

Beyond the use of traditional lenders, other possibilities exist. After the 2008 financial

There is no statistically significant increase in rates of borrowing from online payday lenders in states that pass restrictions on storefront lenders when compared to states with permissive payday laws.

Source: Pew Research Center, “Payday Lending in America,” 2013.

crash, many advocates and some members of Congress endorsed a return to the postal banking system that was in operation through the first part of the 20th century.¹¹⁹ In 2014, United States Postal Service Inspector General David Williams published a report discussing postal banking,¹²⁰ and in 2018, legislation was introduced to recreate the postal banking system.¹²¹ The post office would operate as a traditional bank, offering depository accounts up to \$20,000 and loan products. The underbanked populations in rural areas would benefit heavily from postal banking because of its ready availability in each ZIP code, including those with no cities or towns.

In short, numerous options exist to provide loans to people who need them without creating inescapable cycles of debt. Some of them — like a return to postal banking — would require federal action, but there are many alternatives already in place and many openings for the state Legislature to protect borrowers from exploitation.

➤ In focus groups, former borrowers unanimously agreed that payday debt had been excessively costly and agreed by majority that **THE DISAPPEARANCE OF THE INDUSTRY IN THEIR STATE IMPROVED THEIR LIVES.**

FIXING THE PROBLEM

THE ROADMAP FOR REFORM ALREADY EXISTS

Reform in Other States

Payday loan restrictions vary widely throughout the United States. Some states have implemented restrictions on the permissible APR for payday loans comparable to the rate caps on other loans, but some states continue to allow high-APR payday lending. States as different as Georgia, Massachusetts, and Montana have banned high-cost payday loans, while California and Kentucky both have average APR rates well over 400 percent.¹²²

Eighteen states and D.C. have eliminated high-cost payday lending or consistently kept it illegal.¹²³ Many of these states have capped rates after experiencing the disastrous consequences of interest rates 300 percent or higher. In 2016 and 2018, two states saw public votes on payday loan rates. In Colorado in 2018, voters approved by more than three to one a cap on payday loan rates at 36 percent.¹²⁴ In South Dakota in 2016, voters also approved a 36 percent cap by the same margin.¹²⁵

As the payday reform movement has gained momentum around the nation, the industry has fought to protect the profits they make by squeezing people in poverty. In many revealing cases, the industry has engaged in outright deception to lure in borrowers and evade sensible regulations. The successes and challenges of reform are highlighted particularly well in three case studies:

GEORGIA

Our neighboring state to the east has never legalized payday lending at the interest rates permitted in Alabama. Georgia's de-

ferred presentment loans are capped at 60 percent APR and are regulated under the Georgia Industrial Loan Act (GILA), as are other loans under \$3,000.¹²⁶

But the state's unambiguous statutory requirements have not stopped the industry from making attempts to skirt the GILA's regulatory framework. Industry violations of law and attempts at deception happened regularly and often included almost laughable tricks to avoid regulation.

Lenders tried to classify loan fees as storage fees, gift certificate and catalog purchases, memberships to discount clubs, and coupon purchases for title loans.¹²⁷ Some businesses even resorted to having borrowers claim they were selling toasters and microwaves they already owned to the lender, who would then claim to lease the appliances back to the borrower.¹²⁸

The Georgia attorney general classified all these regulation dodges as regulated payday loans in a 2002 opinion.¹²⁹ But lenders kept trying to avoid regulations through the transparently false classification of their loan products, and the attendant problems of these loans continued in spite of the attorney general opinion and cease and desist letters regularly sent by the industrial loan commissioner.

In 2004, the Georgia General Assembly passed a law clarifying the illegality of payday loans with rates higher than the statutory APR limit and, furthermore, banning the practice of payday lenders partnering with out-of-state banks to legally import higher interest

Despite multiple attempts by the payday industry to change Georgia law, **our neighboring state has never legalized payday lending** at rates close to what Alabamians face.



rates from other states to Georgia.¹³⁰ Attempts to legalize higher interest rates through carving out statutory exceptions for payday lenders have cropped up since passage of the 2004 law, but Georgia residents retain their protections from three-digit interest rates.

COLORADO

Colorado offers an important comparison because one of the more significant Alabama reform attempts in recent history was modeled on Colorado's 2010 reform of its payday lending practices.

In 2007, Colorado instituted reforms to allow borrowers stuck in the debt trap to enroll in a no-cost installment payment plan that would allow them to pay off their loans gradually once they had borrowed four times within five days of a previous loan.¹³¹ Lenders responded by instituting a cooling off period, sometimes after three loans, that made the installment plan option unavailable to borrowers.

After the 2007 reform, the average number of loans taken out in a year by the average Colorado borrower fell, but only from nine to eight.

The industry's manipulation weakened the reform to near-uselessness, and Colorado in 2010 passed another round of reforms. The 2010 reforms made substantial progress in lessening the burden on borrowers. The new law allowed borrowers to make payments that amortized the loan instead of having to pay loans off in a lump sum, letting people chip away at their debt. The cost of a two-week loan dropped substantially, and the cost of borrowing \$500 for six months dropped from \$975 to \$290.¹³² The average APR of a Colorado payday loan fell from 319 percent to 115 percent.¹³³

With this change, Colorado became a model for how modest payday reform can protect borrowers without pushing the industry out entirely. Careful studies moni-

toring the impact of this reform on the state found that borrowers' access to credit was not significantly reduced, even as the reform consolidated the industry and increased efficiency.¹³⁴ With substantially decreased APRs, Colorado borrowers paid 42 percent less on payday loans even though they received more days of credit.¹³⁵ Borrower defaults decreased by 23 percent, and the number of bounced check fees declined by 48 percent.¹³⁶ The number of borrowers who had to take out a payday loan immediately after paying another one off decreased by 40 percent, meaning that borrowers were more able to afford other living expenses while paying payday loan debt.¹³⁷

After the reform, 53 percent of payday storefronts closed — but the volume of usage at the remaining stores increased significantly, and focus groups of borrowers did not report increased difficulty in accessing the locations that remained open.¹³⁸ Individual stores served twice as many customers

as they did before the reform, and their revenue remained roughly the same.¹³⁹ In other words, the burden of the debt trap was lessened substantially for borrowers — even as the payday stores that remained in

operation saw more customers.

These improvements reduced the burden on Colorado borrowers significantly. But a 115 percent APR loan is still capable of ruining the finances and the lives of borrowers, and in 2018, Coloradans resoundingly passed a ballot measure to set the statutory loan rate for payday loans at 36 percent.¹⁴⁰

SOUTH DAKOTA

South Dakota voters solved the payday lending problem in a single ballot measure in 2016. Payday loans in the state averaged higher than 600 percent APR before advocates gathered the signatures needed to place a ballot initiative before voters to set a 36 percent rate cap.¹⁴¹ In response to the straightforward

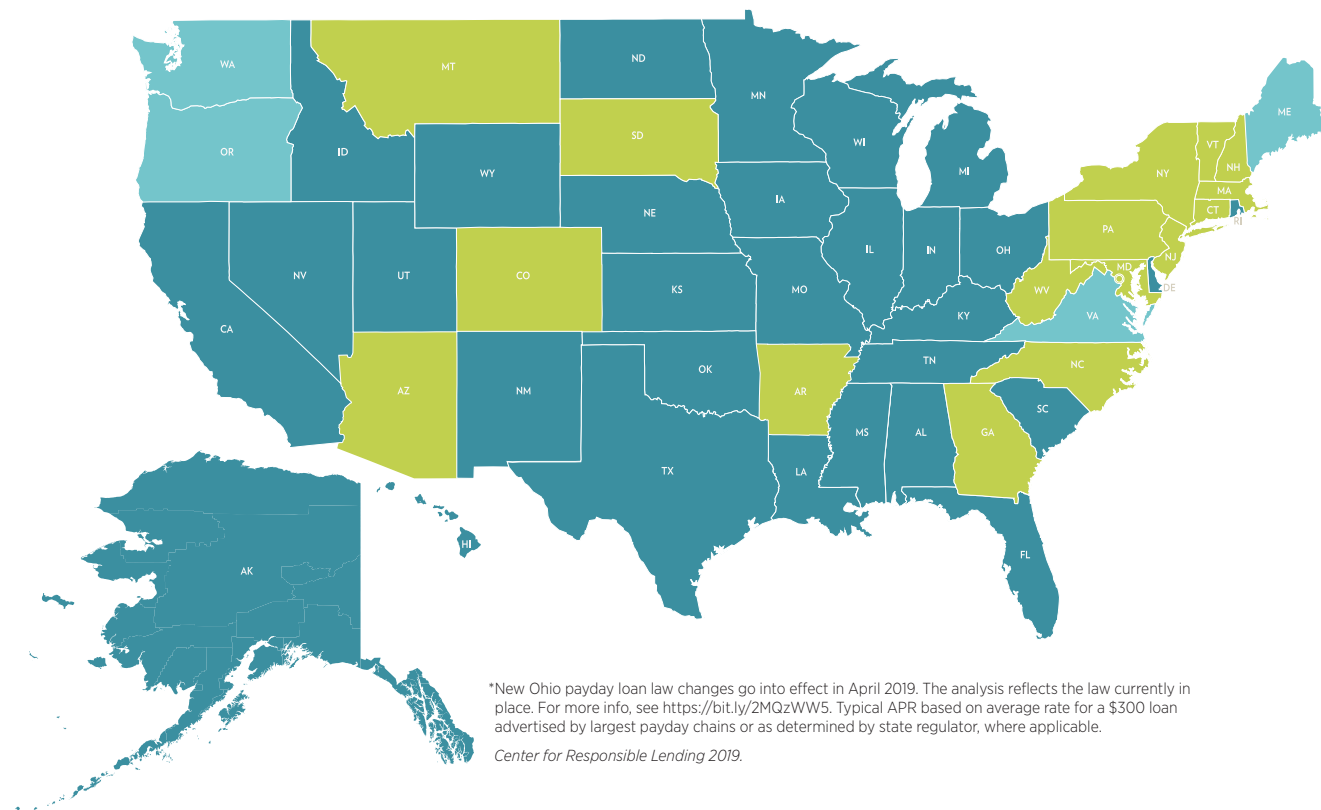
Colorado became a model for how modest payday reform can protect borrowers without pushing the industry out entirely. Careful studies monitoring the impact of this reform on the state found that borrowers' access to credit was not significantly reduced, even as the reform consolidated the industry and increased efficiency.

COLORADO

U.S. Payday Interest Rates

CALCULATED ON A TYPICAL LOAN

- States with the Payday Loan **Debt Trap**
- States with **Some Protections** Against the Payday Debt Trap
- States where **Rate Caps** Stop the Payday Debt Trap



rate cap proposal, the payday loan industry put forth a deceptively advertised, decoy ballot initiative intended to confuse voters. It would have eliminated the interest rate cap on payday loans, allowing lenders to soar even higher than 600 percent APR.¹⁴²

The industry proposal would have set an 18 percent rate cap on loans generally and allowed an unlimited interest rate on any loan where the consumer signed a waiver of the standard rate cap.¹⁴³ This gaping loophole would have allowed lenders to structure every single loan they issued with an unlimited APR just by having borrowers sign contractual provisions waiving their rights to state usury protections in the fine print. The industry-sponsored decoy was advertised as an 18 percent rate cap to trick and lure voters who wanted strong consumer protections. Advocates mounted

a public education campaign to expose the deceptive industry proposal, and the 36 percent cap passed while the cap removal provision failed.¹⁴⁴

The progress made in these states shows the trend toward public rejection of high-interest loans. It also reveals the depths to which the industry will sink when its business model of trapping consumers in debt is threatened. The industry has broken the law, fraudulently classified its activities to the government, manipulated its practices to avoid consumer protections, and attempted to subvert the democratic process to protect its ability to charge unaffordable interest rates to consumers who can least afford them. The industry has proven itself to be a bad faith negotiator and shown, time and time again, its commitment to misrepresenting how its businesses operate at the expense of borrowers.



South Dakota voters approved a 36% rate cap on all consumer loans on election day in 2016.

RECOMMENDATIONS

Policy Solutions to the Predatory Lending Problem

Policy solutions to the predatory lending problem are readily available. Remedies that would fully eliminate the hardship faced by borrowers entirely are easy to understand and implement. And even those measures that do not fully fix the problem would improve the situation significantly for thousands of less fortunate people who find themselves trapped in debt they cannot afford to escape.

Cap APRs at 36 percent

The most straightforward way to fix high-cost lending is to cap the rate that loans can cost borrowers. This is the reason many states that have implemented reforms have done so via strict APR caps. This policy has the benefit of being easy to understand, popular with the general public, and protective of everyone in the state. A 36 percent rate cap is the gold standard of predatory lending reform, and that rate is the goal to which Alabama should aspire. In fact, it is the rate cap which the military enshrined into law for active duty service members and their families. Under the Military Lending Act of 2006, payday lenders can no longer charge triple-digit interest rates to covered borrowers, and must instead abide by a 36 percent APR rate cap.¹⁴⁵ The military successfully lobbied Congress for this legislation because it recognized that payday loans are designed to crush borrowers' personal finances, and

correctly understood the scheme as a threat to national military preparedness.

A 36 percent APR cap has proved remarkably popular with voters around the nation, as evidenced by the numerous state referendums that have instituted 36 percent caps at the ballot box. It is also a reform that is popular with Alabamians: PARCA has found that a third of Alabamians strongly favor a 36 percent APR cap, with an additional two-fifths favoring the change. In total, 73.6 percent of Alabamians want a 36 percent rate cap. That is a level of consensus seen on few issues in the state.

Other, less comprehensive policy changes would still add significant protections for low-income borrowers in the state and would provide more knowledge about lenders' practices, enabling targeted reforms.

Lengthen Loan Terms

Lengthening the minimum loan term from the current ten-day limit would reduce the APR on any loans for any loans made for currently permissible terms. Mandating a 30-day minimum repayment term would cut the maximum APR to 213 percent, and a 60-day minimum term would reduce it to 106.5 percent. And setting these repayment terms would be intuitively sensible because other bills operate on a monthly cycle, as do the income disbursements for people receiving Social Security, pension, and disability pay-

ments. Cutting the permitted fees for creating a loan would also effectively slash APR rates.

Mandate Ability-to-Repay Standards

Setting the maximum borrowable amount at ten percent of a borrower's income after basic expenses would reduce the number of borrowers trapped. Conducting an ability-to-repay inquiry that considers a borrower's complete financial situation for all loans would have the same effect.

Mandate Loan Amortization and Installment Plans

Mandating loan amortization would prevent borrowers from becoming trapped in loans with no way out. The current practice of borrowers paying fees with no reduction in the amount owed leaves many borrowers with no path to freedom from their financial problems. Loan amortization would mean that every loan has an identifiable end date when the borrower would be free of the financial burden. Requiring lenders to provide a cost-free installment plan for people having trouble repaying their loans would likewise relieve the burden on people who can demonstrate circumstances causing an inability to repay the loan.

Strengthen Reporting Requirements

Strengthening reporting requirements would allow harm reduction efforts to be focused on the populations and the geographical areas disproportionately targeted by lenders. Understanding the extent of disparate treatment would help legislators and advocates to be more responsive to the borrowers who are most harmed.

Eliminate Court Costs and Fees, and Scale Fines to Each Person's Ability to Pay

In 2018, Alabama Appleseed found that almost half of all people with

court debt take out payday loans to pay the state and stay out of jail. Given this relationship and the large scale of both court and payday debt in Alabama, addressing court debt as a major driver of payday borrowing would bring relief to the thousands of Alabamians who regularly must decide whether to swap their public debt for a private one in order to remain free. For more detailed recommendations, see the full report: "Under Pressure: How fines and fees hurt people, undermine public safety, and drive Alabama's racial wealth divide."

Increase Access to Civil Legal Aid for Indigent Borrowers

There are legal protections against wage garnishments for qualifying individuals who are in debt, but without legal representation in court, many borrowers do not know their rights. Payday lenders frequently file successful motions for default judgment against borrowers who could have been protected by a knowledgeable attorney. Because Alabama is one of only three states that does not fund civil legal aid, many Alabamians who are too poor to afford an attorney wind up in court unrepresented. Indigent borrowers need — and deserve — legal counsel.



Conclusions

In Alabama, the story of payday lending is a tale of lenders fighting tooth-and-nail to maintain an uneven playing field that lets them trap people into a cycle of financial products that are defective and harmful by design.

No one takes out a payday loan in the belief that it is a healthy long-term financial decision. People in crisis turn to the quickest action they can take to address their immediate needs. These loans exploit their desperation. They are marketed extensively to the people most likely to be facing financial crises from which they lack the funds to rebound, and they are designed to ensnare borrowers in unpayable debt.

This year, more than 200,000 financially struggling Alabamians — and hundreds of thousands more in their families — will have their suffering exploited, deepened, and prolonged by payday lenders. Borrowers will pay millions of dollars they cannot afford to companies profiting from keeping them in debt. Left alone, this financial menace will continue to harm communities, taking more than a billion dollars out of the neighborhoods and towns where residents need those funds the most.

One of the realities that comes with considering payday lending reform is having to face the uncomfortable truth: many people in Alabama will still live in poverty and financial insecurity even if reform passes. People go to payday lenders not because they offer exceptional financial products, but rather because many Alabama families too often struggle to make ends meet. This is the result of broader, structural drivers of poverty that must also be addressed, and it cannot be left out of the conversation.

But Alabama's chronic poverty is no excuse for ignoring the ways payday lenders

are mistreating Alabamians today. Payday lending reform will not end poverty, but it will keep people in poverty from being exploited, from having their poverty deepened, and from being pursued into destitution by out-of-state companies. Passing payday lending reform is a worthy and necessary cause that will bring relief to the Alabamians who need it most, and the Legislature should see it as a stepping stone to exploring and addressing the many drivers of poverty that hold our communities back from their fullest potential.

Reform is achievable even though efforts face an uphill battle due to tightly targeted industry financial contributions that have historically ground efforts to a halt. The overwhelming public opinion in favor of tightened restrictions on payday lenders is an important factor, and if decision-makers can be convinced to follow the public's lead on this issue, change will happen. These consumer protections may take a number of forms, such as categorical rate caps, prolonged loan terms, stricter reporting requirements, or ability-to-repay determinations. Other states have instituted each of these policy improvements successfully, and Alabama can look to those examples for assurance that the financial health and lives of thousands of people will improve with payday lending reform. Payday lending reform is achievable, reasonable, and fair, and it will be a major step toward the level economic playing field the people of Alabama deserve.

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