Overview of Payday Lending for San Diego City Council Land Use and Housing Committee

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How Do Payday Loans Work in California?

- State Law allows lenders to charge a fee of up to 15% of the face value of a check, up to a maximum face value of $300.
  - "Almost every [California payday lender] charges the maximum fee, with very little fee competition," according to the Department of Corporations (DOC).
- A borrower who writes a check for the maximum amount of $300 receives a loan of $255 and pays a fee of $45.
- In 2006, the average repayment period in California was just 16 days.

Are Payday Loans Predatory?

- The Annual Percentage Rate on a two-week, $300 loan is **459% APR.**
- Payday Loans encourage chronic borrowing.
  - Nearly half (48%) of borrowers take out payday loans once a month.
  - More than one-third (36%) of borrowers have taken out loans from multiple payday loan companies at the same time.
- Most borrowers use these loans to meet basic expenses, rather than for short-term emergencies.
- Payday lenders cluster in low and moderate-income neighborhoods and communities of color.

A Common Scenario

Transaction Date	Loan History	
January 1	Take Out Loan#1	$255
	Fee	$45
	Total Cost	$45
January 15	Repay Loan #1	($255)
	Take Out Loan #2	$255
	Fee	$45
	Total Cost	$90
January 29	Repay Loan #2	($255)
	Take Out Loan #3	$255
	Fee	$45
	Total Cost	$135

What are the Impacts of Payday Lending?

- Because of high interest rates and lump sum repayment, borrowers get caught in a debt trap.
  - On average, borrowers take out 10 loans per year.
- Payday lending strips assets from individuals and communities.
- Over $450 million in payday loan fees are paid annually in California.
- African Americans and Latinos pay about $247 million a year in fees.

What are the Impacts of Payday Lending?

- Over-proliferation of payday lenders in low and moderate income communities and neighborhoods with large populations of African Americans and Latinos.
  - A factor contributing to neighborhood blight and disinvestment.
- Drains millions of dollars from local economies.

What about in San Diego?

- According to the Department of Corporations, there are 79 payday loan locations in San Diego.
- A recent study estimates that $15, 901,094 in fees is drained annually from San Diego.

Policy Recommendations

- Cities can use their land use authority to restrict the growth of the industry.
- Cities can establish conditional use permitting requirements, distancing requirements, good neighbor policies and other performance standards.
  - San Francisco, Oakland, Oceanside and Sacramento have all adopted permanent ordinances.
- Cities can support legislation at the state and federal level to protect consumers.