How State Rate Limits Affect Payday Loan Prices

Storefront payday loans are available in 36 states. Borrowers in some of them pay twice as much for the same loans that comparable customers get in other states. Pew's research indicates that a state's limit on interest rates is the key factor driving loan pricing. The four largest payday lenders in the United States charge similar prices within a given state, with rates set at or near the maximum allowed by law. But in states with higher or no interest rate limits, the same companies charge comparable borrowers far more for essentially the same small-loan product. (See Figure 1.)

Figure 1

Payday Loans Cost More Where Laws Allow Higher Rates

Fee limits and prices in 3 states

	Cost to borrow $300 per two-week pay period				
	Max. allowed by state law	Payday Lender A	Payday Lender B	Payday Lender C	Payday Lender D
Florida	$35	$35	$35	$33	$35
Alabama	$52.50	$52.50	$52.50	$52.50	$52.50
Texas	no limit	$61	$91	$61	$67

Sources: Websites of four largest lenders and state payday loan laws

Borrowers in states with no rate caps—Idaho, South Dakota, Texas, and Wisconsin—pay the highest prices in the country, more than double those paid by residents of several states with interest rate limits, such as Colorado, Maine, Minnesota, and Oregon.

Competition does not explain lower prices

States with high or no rate limits tend to have the most payday loan stores per capita.[1] (See Figure 2.) But in states with lower rate limits, payday credit is not significantly constrained; instead, fewer stores simply serve more customers each.[2] For example, in the three years after Colorado lowered permissible interest rates for payday loans, half of stores closed; but each remaining store served 80 percent more customers. Borrowers' access to credit in the state was virtually unchanged.[3] In the 15 states that prohibit payday lending or interest rates higher than 36 percent, there are no payday lending stores.[4]

Figure 2

Payday Loans Cost More When States Fail to Limit Interest Rates

Lender pricing for comparable loans, by state price limit

Average cost to borrow $300 for 5 months*	Median stores per 100,000 residents	State	Max. charge allowed on a $300 loan per 2-week pay period	Average cost to borrow $300 per 2-week pay period*	Average cost to borrow $300 for 5 months*	Average annual percentage rate charged	Notes
Lower than average rate cap							
$281	3.0	Colorado	$16	$16	$172	*129*	*There is little or no price variation within each state. All competitors in a given state charge at or near the maximum allowable price.* *However, individual companies charge significantly different prices across state lines. Many companies charge double in one state what they charge in another.*
		Oregon	$18	$18	$177	156	
		Maine	$25	$25	$250	217	
		Minnesota	$29	$29	$288	252	
		Rhode Island	$30	$30	$300	261	
		Wyoming	$30	$30	$300	261	
		Mississippi[†]	$33	$33	$330	287	
		Florida	$35	$35	$345	304	
		Virginia	$37	$37	$370	*305*	
Average rate cap							
$435	7.2	Iowa	$39	$39	$390	339	
		Michigan	$42	$42	$425	369	
		Indiana	$44	$44	$440	382	
		California[‡]	$45	$45	$450	*411*	
		Kansas	$45	$45	$450	391	
		Oklahoma	$45	$45	$450	391	
		South Carolina	$45	$45	$450	391	
		Washington[§]	$45	$45	$360	*192*	
		Illinois	$47	$47	$465	*330*	
		New Mexico	$47	$47	$470	*337*	
Higher than average rate cap							
$528	14.9	Alaska	$50	$50	$500	435	
		Tennessee**	$53	$49	$490	426	
		Alabama	$53	$53	$525	461	
		Hawaii	$53	$53	$529	461	
		Nebraska	$53	$53	$530	461	
		Kentucky	$54	$54	$536	469	
		Louisiana**	$55	$47	$467	435	
		North Dakota	$61	$61	$610	530	
		Missouri	$225	$56	$563	*455*	

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Average cost to borrow $300 for 5 months*	Median stores per 100,000 residents	State	Max. charge allowed on a $300 loan per 2-week pay period	Average cost to borrow $300 per 2-week pay period*	Average cost to borrow $300 for 5 months*	Average annual percentage rate charged	Notes
No rate cap							
$604	12.9	Nevada	no limit	$60	$596	521	*There is some price variation within each state. Lenders generally charge more than they do in states with rate limits.*
		Utah	no limit	$63	$627	*474*	
		Delaware§	no limit	$63	$315	*517*	
		South Dakota	no limit	$66	$660	574	
		Wisconsin	no limit	$66	$660	574	
		Idaho	no limit	$67	$668	582	
		Texas	no limit	$70	$701	*454*	
Disputed							
		Ohio**	legal dispute	$68	$680	591	

Notes on data: Italics indicate that regulatory data are used. If a state published no regulatory data in the past three years, the average advertised cost of a payday loan from the four largest payday lenders is used. Alaska had no regulatory data, and none of the four largest payday lenders operated storefronts. Therefore, data from other payday lenders were used. In Colorado and Washington, effective APRs are much lower than advertised APRs. In Colorado, loan costs are backloaded—that is, fees are placed more at the end of the loan term instead of the beginning—and most loans are repaid early. Washington offers a no-cost payment plan at any time, and therefore it has an average loan term of 26.7 days. To calculate stores per 100,000 residents, the most recent published state regulatory data are used. If that information is unavailable for a state, data published by Stephens Inc. are used.

* Average payday borrowers have a loan out for five months of the year (based on industry filings). Average cost to borrow is based on the four largest national payday lenders.

† In Mississippi, effective interest rates are often higher than those advertised for loans above $250, because of "loan splitting," a practice in which some lenders attempt to earn more revenue per two-week period by offering two small loans instead of one larger one.

‡ In California, only $255 can be borrowed, not $300.

§ Delaware assumes only five loans are used, and Washington assumes eight loans, because of caps on the number of loans in those states. Delaware also has payday installment loans, which cost about $350 to borrow $300 for five months.

** Louisiana and Tennessee have some slight price variation that may stem from legal interpretations of allowable fees. Ohio has large price variation based on a legal dispute about allowable prices and licensing.

Sources: U.S. Census Bureau's American Community Survey 2011 and 2012; websites of four largest lenders, 2014; state payday loan laws, available at http://www.pewstates.org/research/data-visualizations/state-payday-loan-regulation-and-usage-rates-85899405695

Policy recommendations

Policymakers in states with conventional payday lending can reduce the harm caused by unaffordable payments and noncompetitive prices by implementing Pew's policy recommendations:

- Limit payments to an affordable percentage of a borrower's periodic income. Pew's research indicates that monthly payments above 5 percent of gross monthly income are unaffordable.
- Spread costs evenly over the life of the loan.
- Guard against harmful repayment or collection practices.
- Require concise disclosures that reveal both periodic and total costs.
- States should continue to set maximum allowable charges on loans for those with poor credit. In states that have permitted higher interest rates than Colorado's, storefronts have proliferated, with no obvious additional benefit to consumers.

Endnotes

1 States with more firms operating, a standard measure of competition, do not see lower prices. For example, 42 firms operate in the lowest-interest state with payday loan stores, Colorado, but loans cost far more in states such as Kansas, Nebraska, and Florida, which have more firms operating.

2 This tendency is detailed in Robert B. Avery and Katherine A. Samolyk, *Payday Loans Versus Pawn Shops: The Effects of Loan Fee Limits on Household Use* (2011), http://www.frbsf.org/community-development/files/2-avery-paper.pdf; and Mark J. Flannery and Katherine A. Samolyk, "Scale Economies at Payday Loan Stores" (2007), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2360233.

3 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (2013), http://www.pewstates.org/research/reports/payday-lending-in-america-policy-solutions-85899513326.

4 These jurisdictions are Arizona, Arkansas, Connecticut, District of Columbia, Georgia, Maryland, Massachusetts, Montana, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Vermont, and West Virginia.

For further information, please visit:

pewtrusts.org/small-loans

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