

Personal Finance

Week 3: The dangers of payday loans

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Payday loans tempting, but not good deals

Need cash until payday? Get \$50 to \$500 in 15 minutes without a credit check. You've seen or heard the ads. Certainly, such easy money is tempting, especially in economic times like these when cash is tight for many people.

A \$200 loan for two weeks (commonly referred to as a payday loan) typically costs about \$40, according to Paul Egide, director of the Bureau of Consumer Affairs at the Wisconsin Department of Financial Institutions (DFI).

That equates to an annual interest rate of over 500 percent. However, when you need money now, \$40 may not sound too excessive.

Unfortunately, two weeks is often only the beginning.

A DFI study of 1,947 payday loans reports that more than half of payday borrowers did not

repay their loans within the two-week term and renewed or rolled the loan over for another two weeks. Of those borrowers who renewed, 38 percent rolled them over three or more consecutive times.

Multiple rollovers can cause the interest to quickly exceed the amount of the original loan.

The DFI Web site illustrates this with a \$200 two-week payday loan charging \$38.36 in interest. Within 10 weeks, the interest totals \$191.78.

Many states have imposed stricter regulations on payday lenders. Legislation to further regulate payday loans is currently under consideration in Wisconsin and at the federal level. However, Wisconsin remains the only state that does not limit the number of times a loan can be rolled over.

The following chart illustrates the growth in the payday loan industry in Wisconsin since 1996.

Payday loan stores on the rise since 1996

Year	Stores	Number of Loans	Amount of Loans
1996	64	80,000	\$11 Million
1997	126	351,000	\$74 Million
1998	162	360,000	\$147 Million
1999	174	839,000	\$200 Million
2000	202	956,000	\$242 Million
2001	241	1,087,000	\$316 Million
2002	274	1,223,000	\$367 Million
2003	337	1,324,000	\$430 Million
2004	393	1,502,000	\$507 Million
2005	442	1,724,000	\$625 Million
2006	474	1,699,000	\$661 Million
2007	524	1,742,000	\$733 Million
2008	542	1,687,000	\$723 Million

Source: Wisconsin Department of Financial Institutions, <http://www.wdfi.org/>