

Fighting the “Fringe Financial Economy” Protecting Working Families

By David Rothstein
Researcher

Policy Matters Ohio

drothstein@policymattersohio.org

216-361-9801

Our work...

- Tax Refund Anticipation Loans (RALs)
- Payday Loans
- Rent-to-Own Purchases
- Subprime mortgage lending
- Not yet researched:
 - Foreclosure “workout” scam
 - Auto title loans

Why this research matters:

- Borrowing in the short-term can be costly
 - Annual Percentage Rate (APR)
 - Time matters!
- Tied to work and wages
 - Paycheck
 - Tax return
 - Public benefit or assistance program
- Difficult to pay back or “recover”

Tax Refund Anticipation Loans (RALs)

- Based on your expected tax return/refund
- Include costs of paid preparation and other items you might buy at paid preparer
- At least \$200 on a \$2000 return
 - APR of 80 to 130%
- Target is the Earned Income Tax Credit (EITC) or other bulk refunds
- Advertisements begin in November

Tax Refund Loan Challenges

- Take a large chunk of the return and make the refund less effective
 - Tax preparation and RALs cost Ohio families at least \$100 million a year
 - 1/6 of their return lost to unnecessary fees and loans
- Definitive targeting
 - More than 62% of Ohio EITC claimants (506,000 families) pay for tax preparation (\$150)
 - More than 45% of all EITC claimants (268,000 families) purchase RALs or RACs (\$100)
About 75% of EITC claimants who get paid preparation buy a RAL or RAC
- Payback problems if the return is held up

Tax Refund Research

Senate District	Total Returns	EITC Returns	Percentage EITC Returns	Total EITC Claim Amounts	Average EITC Claim Amount	EITC Claimants Purchasing RALs	Estimated EITC RAL Costs*	EITC Claimants Purchasing RALs
District 1	170,878	20,444	12%	\$34,142,101	\$1,670	5,636	\$732,718	28%
District 2	173,711	17,626	10%	\$28,949,357	\$1,642	4,667	\$606,703	26%
District 3	191,404	25,249	13%	\$44,736,245	\$1,772	7,823	\$1,016,949	31%
District 4	158,335	19,282	12%	\$33,889,226	\$1,758	7,594	\$987,262	39%
District 5	147,230	30,598	21%	\$57,390,189	\$1,876	12,925	\$1,680,301	42%
District 6	170,881	16,806	10%	\$26,870,517	\$1,599	4,490	\$583,721	27%
District 7	173,114	13,982	8%	\$22,946,232	\$1,641	4,436	\$576,733	32%
District 8	167,586	19,922	12%	\$35,608,399	\$1,787	7,355	\$956,155	37%
District 9	138,118	33,599	24%	\$64,940,101	\$1,933	17,122	\$2,225,852	51%
District 10	152,272	20,985	14%	\$36,365,521	\$1,733	7,666	\$996,637	37%
Totals	5,346,450	781,465	15%	\$1,381,352,353	\$1,739	267,252	\$34,742,760	33%

Tax Refund Alternatives

- Visit a free tax preparation site
- Use IRS website for free filing online
 - www.irs.gov
 - Contact local IRS Office for questions/tax help
- Have a bank account for direct deposit
- Local libraries/AARP
- State benefit/public assistance programs
 - Benefit Bank
 - Nets 2 Ladders

Payday Loans

- Payday Loans (under the old system in Ohio)
 - On your expected paycheck, write a post-dated check for loan amount plus fees
 - Two week loan
 - \$15 for every \$100 borrowed for 391% APR
 - Additional fees like bounced checks
 - Some states up to \$20 per \$100
 - Online is more
 - No reduction for prepayment

Old law

Payday Loan Costs in Ohio, 14-Day Loan				
Amount Borrowed	Origination Fee	Interest Charge	Total Amount Due	APR
\$100	\$10	\$5	\$115	391%
\$500	\$50	\$25	\$575	391%
\$800	\$72.50	\$40	\$912.50	367%

New law

- An APR cap of 28 percent on fees and interest regardless of amount borrowed
- 31-day minimum term
- A cap of four loans per year.
- A maximum of \$500 borrowed at one time.

Payday Loan Issues

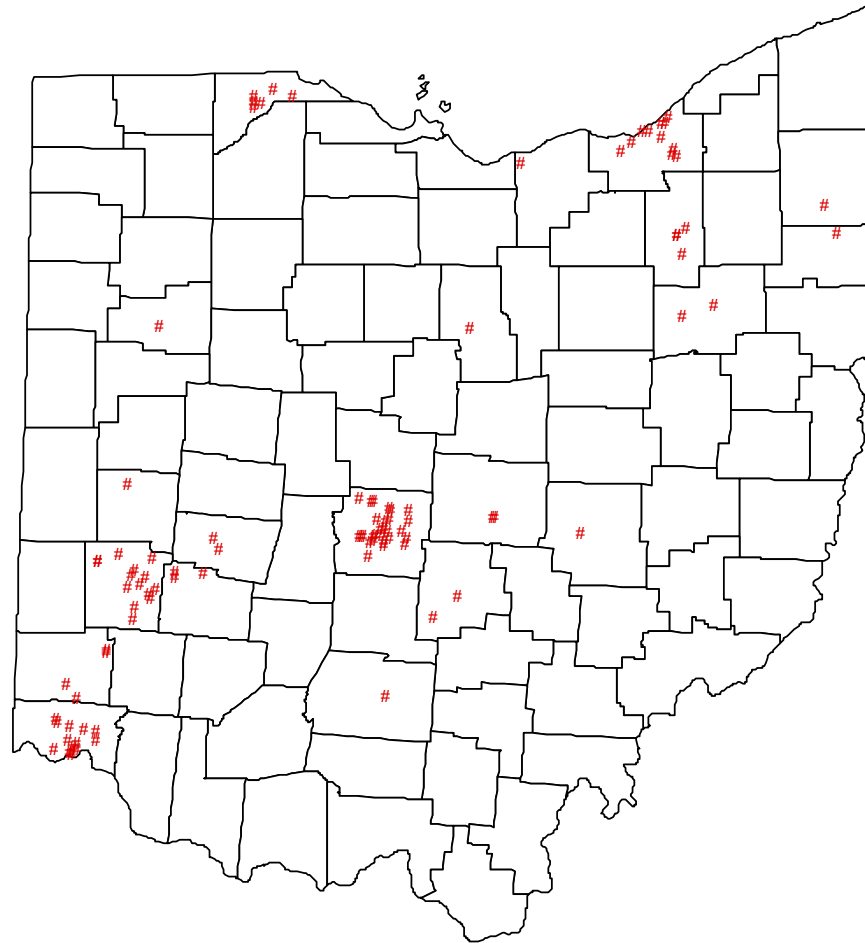
- Cyclical borrowing or loan-to-loan
 - See “Phantom Demand” report by CRL
- Other fees (insufficient check)
- Debt collection

- Now, lenders are using 2 other Ohio laws
- Many stores closed
- Issuing loans in check form, fee to cash it
- New bill pending to close this gap

Some Payday Lending Research

1996:

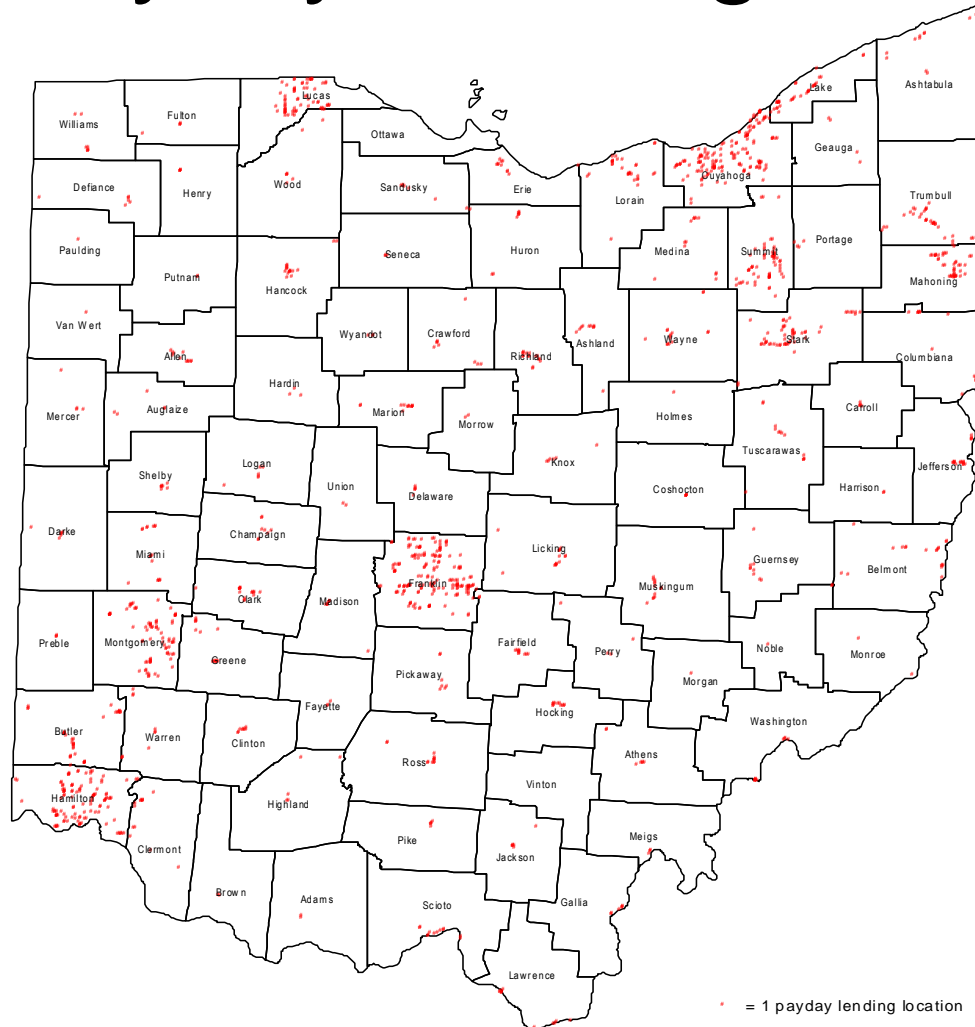
- 108 lenders
- 21 counties of 88 in Ohio



Some Payday Lending Research

2006:

- 1,648 lenders
- 86 counties of 88 in Ohio



Some Payday Lending Research

Income before tax	\$25,000	\$35,000	\$45,000
- Income per 2 week period	962	1346	1731
- Taxes (Federal, State, Local)	12	25	44
- Pension/Social Security	53	95	134
Income per 2 week period after taxes	897	1,227	1,553
Average Household Size	2.1	2.4	2.6
<i>Household Expenditures per 2 week period</i>			
- Food	152	175	201
- Housing (including utilities)	383	459	520
- Transportation	217	238	301
- Healthcare	87	91	107
Total Expenditures	839	962	1130
Net Paycheck Minus Essentials	58	265	424
Amount Due on \$300 Loan	345	345	345
Pay period net if payday loan paid on time	-\$287	-\$80	\$79

Source: Consumer Expenditure Survey, Bureau of Labor Statistics (2005).

Alternatives to Payday Loans

- Credit Union “Stretch Pay” programs
- Family members or friends
- Payment Plan with Creditors
- Advances from Employers
- Consumer Credit Counseling
- Emergency savings programs/plans
- Cash Advances on Credit Cards

Rent-to-Own Stores

- High rental rates based on inflated cash prices
 - 4.5 time more than retail
 - Goods are used
 - Most intend to purchase (70%), few do
 - Warranty or service plans also sold
- Rental period is long
 - Usually 1 year, can be as long as 2
 - Often interruptions
- Most state laws are weak
 - RTO not subject to usury or interest rate caps
 - Minnesota, NJ, and Wisconsin treat like credit transactions. West Virginia has a cap on cash prices

Rent-to-Own Store Research

2008:

- 78 of 88 Ohio Counties
- 400 stores
- 55% Rent-A-Center or Aarons



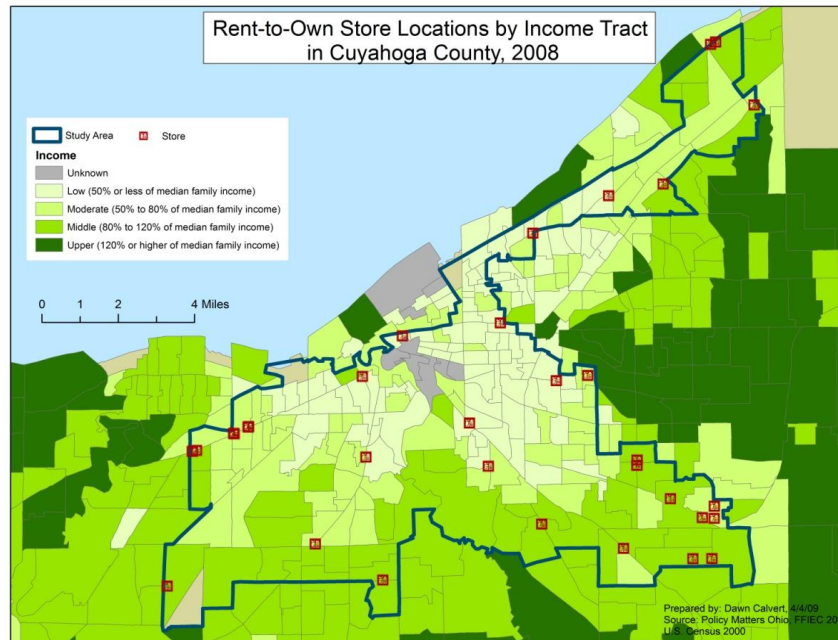
Table 1
Census Tracts of Top 5 Counties with Rent-To-Own Stores

County	Number of stores	Very low-income tracts (50% or less of median family income)	Low-income tracts (50% to 80% of median family income)	Middle-income tracts (80% to 120% of median family income)	Upper (120% or more of median family income)
Cuyahoga	36	9	15	12	0
Franklin	33	4	26	3	0
Lucas	23	5	6	12	0
Hamilton	22	2	15	5	0
Montgomery	20	0	9	9	2
Total of top 5 counties	134	20	71	41	2
Percentage of total stores		15%	53%	31%	1%

Rent-to-Own Store Research

Table 5
Total cost of item if leasing for full term until purchase compared to purchasing at a regular retail store

Item	Average rental-purchase price	Non-RTO store's average price	Total RTO cost/non-RTO prices
Refrigerator	\$1,332.01	\$461.75	288%
Washer-Dryer pair	\$1,932.68	\$703.64	275%
TV	\$3,790.58	\$1,299.99	292%
Stove	\$1,399.33	\$310.99	450%



Turning this Research into Policy Change:

- **COALITIONS!**
 - Labor, faith-based, housing, community groups
- Non-partisan approach from the beginning
- Don't go to the “weeds” on reform
- Win the media war
- Be the “neutral” source

- Be prepared for...
 - Accusations of paternalism
 - Free market arguments
 - Heavy lobbying to both parties
 - Drawing things out

State Data Resources:

- Department of Commerce and Development
 - Number of stores, loans, annual reports, etc...
- Trade Association Websites or Publications
 - Number of stores, locations, trends, profits
- Testing or “secret shopping”
- Focus groups or surveys through existing programs
- Interviews or forums with networks of social service providers, unions, and religious groups

National Data Resources

- **RALs**
 - Brookings Institution
 - National Consumer Law Center
- **Payday Lending**
 - Center for Responsible Lending
 - Consumer Federation of America
- **Rent-to-Own**
 - National Consumer Law Center
 - U.S. PIRG
 - Consumer Federation of America
- **General Financial Stability**
 - CFED Assets and Opportunities Scorecard
 - Demos

Broader Resources

- **Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Households** by Rebecca M. Blank and Michael S. Barr (eds.) 2009 (Russell Sage)
- **Nudge: Improving Decisions About Health, Wealth, and Happiness** by Richard H. Thaler and Cass Sunstein 2008 (Yale University Press)
- **Asset Building and Low-Income Families** by Signe-Mary McKernan and Michael Sherraden (eds.) 2008 (Urban Institute)
- **Shortchanged: Life and Debt in the Fringe Economy** by Howard Karger 2005 (Berrett-Koehler)