

Key Take Away

Across the state, Mississippians have access to nearly 600 sources of small loans that can be obtained at more affordable and manageable terms than payday loans. Furthermore, in states where legislative action or inaction resulted in the end of high cost payday lending, consumers stated that they were better off than they were when payday loans were abundantly available.

Payday Loan Alternatives and Small Dollar Loans

In Mississippi there are nearly 600 sources of small dollar loans and payday loan alternatives. Small dollar loan providers and payday loan alternatives are available in 75 counties where 98% of the state's population resides.

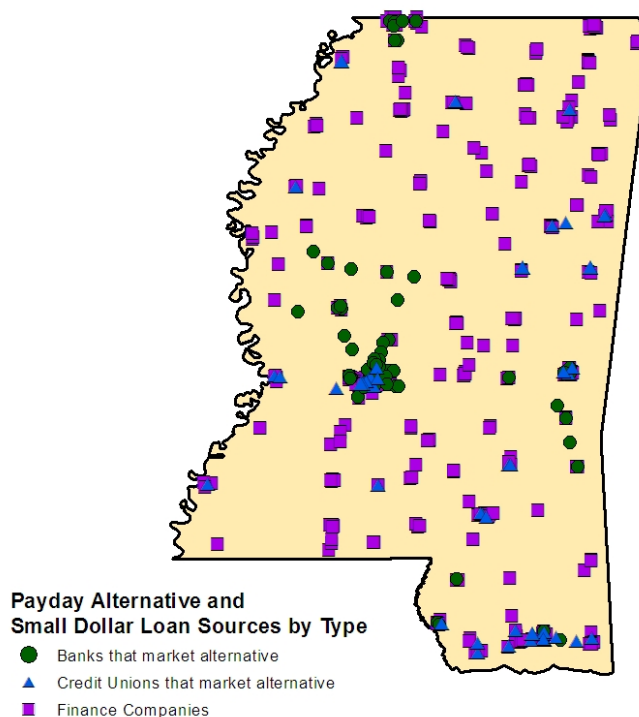
Mississippi's alternative and small dollar loan providers have products that both require a review of an individual's credit history and those that do not.

Small loans address two key shortfalls to payday loans: Extremely high interest rates and unsustainable loan terms. First, small loans of \$1,000 or less are subject to an Annual Percentage Rate cap of 36%.* In contrast, a payday lender can charge fees amounting to an Annual Percentage Rate of 572%. Second, small loans have longer terms for repayment.

The short terms contribute to a "debt trap" whereby a working family is unable to pay off the first payday loan and must take out multiple payday loans over the course of the year to cover basic expenses. In fact, most payday borrowers take out seven to nine loans per year.**

Small loans with lower rates and longer terms address these shortcomings of the payday loan product by allowing working families to spread more manageable payments out over several months.

Payday Loan Alternatives and Small Dollar Loan Finance Companies Mississippi



Source: Mississippi Automated Resource Information System; Mississippi Department of Banking and Consumer Finance; BankPlus; Mississippi Credit Union League; MEPC Analysis.

Note: List may not include all banks and credit unions that offer alternative. List of Finance Companies includes all finance companies registered with the Department of Banking and Consumer Finance.

Working Families in Other States without Payday Lending are Better Off

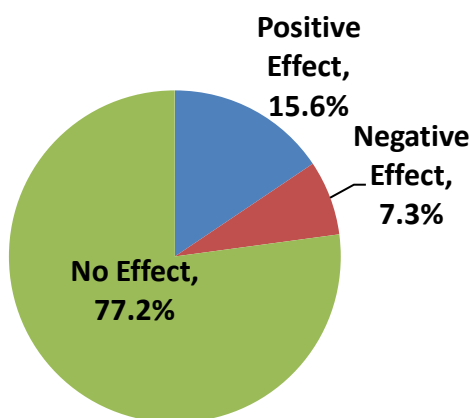
Following the end of payday lending in North Carolina, the North Carolina Office of the Commissioner of Banks requested a study of the effects of the policy change on low- and middle-income borrowers.^{i***} The Center for Community Capital at the University of North Carolina at Chapel Hill conducted the study and found the following:

- The vast majority of households surveyed were not affected by the end of payday lending;
- Households had alternative options and relied on a variety of means to handle financial hardship in the absence of payday lending;

The chart below illustrates one of the study's key findings.

Payday Lending Attitudes - North Carolina after end of Payday Lending

What effect has the prohibition of payday lending had on your household?



Overall, the study – which consisted of a survey and focus groups – found that households in the state of North Carolina were not worse off when payday lending ended and that households were savvy enough to find other ways to pay bills. The study stated, for example, that finance companies were likely filling in the gap that was formerly filled by high cost payday lenders.

In light of the high number of payday loan alternatives, small loan outlets and the experience of other states in managing the end of payday lending, Mississippi could move forward with reforming the current law which allows payday lenders to charge 572% APR on payday loans by significantly lowering rates and extending the terms for repayment.

* MS Code 75-17-21

** King, Uriah, Leslie Parrish and Ozlem Tanik. "Financial Quicksand." Center for Responsible Lending. Washington, DC. November 30, 2006. http://www.responsiblelending.org/payday-lending/research-analysis/rr012-Financial_Quicksand-1106.pdf

*** Manturuk, Kim and Roberto Quercia. "North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options." Center for Community Capital. University of North Carolina at Chapel Hill. November 2007. http://www.ccc.unc.edu/documents/NC_After_Payday.pdf