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**The Facts Show Payday Loan Rates Should Be Limited to 36%**

 **Fact: Payday lenders intentionally trap people in debt.**

These loans are unaffordable by design: the average annual interest rate is over 350% and low-income borrowers are expected to repay in two weeks. Because lenders have direct access to borrowers’ bank accounts, the lender gets paid first, causing another cash shortfall for the borrower, who then needs to reborrow. **The typical payday loan borrower is trapped in 10 loans in a year.**

**Fact: Payday loans leave borrowers worse off.**

Payday loans aggravate, rather than alleviate, financial troubles. Borrowers frequently owe more money for fees than the loan principal. **Taking out a payday loan makes a person *more likely* to have difficulty paying other bills,  delay medical care, incur overdraft fees, lose their bank account, and file for bankruptcy**.

**Fact: The payday loan debt trap deprives people of their freedom.**

Payday lenders target people in financial desperation by promising what looks to be a helpful solution. The reality is that borrowers routinely end up in a long-term cycle of debt that puts them into dire financial straits. **The vast majority of payday loans are taken out because of the debt trap caused by the previous payday loan.** Consumers will pay hundreds of dollars in fees on top of loan principal, cede access to their bank account to lenders, and lose control of their finances.   This debt prevents borrowers from purchasing a home, starting a business, and building wealth—their life choices are dramatically narrowed. No one knowingly chooses these consequences when they apply for a payday loan. Payday lenders sometimes even offer the first loan free, knowing that once the borrower walks in the door the first time, they will come back through the revolving door of the payday lender nine more times, on average.

**Fact: States benefit from stopping the debt trap of payday loans.**

People in states without these high-cost debt traps are better off. Consumers save billions of dollars annually—money that would have gone to payday loan fees can be spent at local small businesses or to help buy a home. **Former borrowers in states that have banned payday lending express regret for taking out payday loans and relief that the practice is banned.** They and others reportusing a variety of other strategies to address budget shortfalls at a fraction of the cost of payday loans.

**Fact: Payday lending exists in Michigan because lobbyists convinced state politicians to carve out these predatory lenders from traditional interest rate caps.**

Rate caps are the norm, not the exception. Usury laws have existed for thousands of years, and in America since colonial times. [Almost every U.S. state](https://www.nclc.org/resources/state-rate-caps-for-500-2000-loans/), including Michigan, limits how much lenders can charge on at least some categories of loans. **Over 100 million Americans live in the 20 states and the District of Columbia where payday lenders choose not to operate** because of interest rate caps on small-dollar loans.

**Fact: Without limiting rates, payday lenders will continue to engage in price gouging.**

Competition among payday lenders does not bring down their triple-digit interest cost, even at the same street intersection. As a leading payday loan company [disclosed](https://www.sec.gov/Archives/edgar/data/1299704/000104746912002758/a2208026z10-k.htm): **lenders compete on factors like “speed” and “confidentiality”—not on price.** Payday lenders generally charge the highest fees allowed by state law. These businesses have repeat customers not from loyalty, but because borrowers are caught in unaffordable loans.

**Fact: Strong rate caps work.**

Because of a 2006 law, known as the Military Lending Act, lenders cannot charge military servicemembers more than a 36% annual interest rate. This has protected servicemembers from the payday loan debt trap and considerably **reduced their financial distress**. Just before the law took effect, the [Navy-Marine Corps Relief Society](https://static1.squarespace.com/static/556718b2e4b02e470eb1b186/t/5c7d3ec0e79c70579f44162c/1551711937100/) provided $1.2 million in total assistance to 1,574 personnel with payday loan debt; by 2018, it distributed less than $4,000 to three personnel with this debt. Furthermore, residents of states with strong rate caps take out far fewer payday loans and [aren’t induced to borrow online](https://www.banking.senate.gov/imo/media/doc/Grothman%20Testimony%207-29-21.pdf). Online lenders are subject to state consumer protection laws.Regulators can, should, and do enforce those laws to protect their citizens. For example, the Michigan Attorney General and the Department of Insurance and Financial Services have both brought enforcement actions against illegal online lenders in recent years to protect consumers from unregulated lending.

**Conclusion: Limiting annual interest rates on payday loans to 36% is the simplest, most effective way to stop the payday loan debt trap.**