Trapped in Debt:
The Growth of Payday Lending in Ohio

A Report From:

Policy Matters Ohio

Housing Research
& Advocacy Center

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Policy Matters Ohio is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

The Housing Research & Advocacy Center is a nonprofit organization whose mission is to eliminate housing discrimination and assure choice in Northeast Ohio by providing those at risk with effective information, intervention, and advocacy. In addition to addressing traditional issues of housing discrimination and segregation, the Housing Center also provides research, education, and analysis of subprime and predatory lending practices and trends in the region.

Executive Summary

The number of payday lending or check cash lending locations in Ohio and nationwide has exploded in the past decade. These shops offer short-term, high-interest loans against a future paycheck. Fees in Ohio are usually $15 for every $100 borrowed for a two-week period, which amounts to an annual percentage rate of 391 percent. This study from the Housing Research & Advocacy Center and Policy Matters Ohio analyzed data on Ohio payday lending locations from the Ohio Department of Commerce. Among the findings:

- The number of payday lending stores licensed in Ohio catapulted from just 107 locations in 1996 to 1,562 locations in 2006, growing by a multiple of more than fourteen.
- Ohio has more payday lending locations than McDonalds, Burger King, and Wendy's restaurants combined.
- In 1996, payday lenders were concentrated in urban communities. Twenty-one Ohio counties had payday lenders and most of these had just a handful of locations. Only Cuyahoga, Franklin, Hamilton and Montgomery counties had more than ten locations, centered in Cleveland, Columbus, Cincinnati and Dayton.
- Payday lending has since become a much more ubiquitous part of the overall Ohio landscape. By 2006 every Ohio county except for Ottawa and Vinton had at least one payday lender. Thirty-five counties had more than ten locations, and nine counties had forty or more locations.
- Franklin (183), Hamilton (123), and Cuyahoga (160) counties each had well over one hundred payday lenders in 2006.
- Large urban counties have the most payday lenders in absolute terms, but less populated counties have a greater number of lenders per capita. Of the ten counties with the highest concentrations per capita, not one is a large urban county. Washington County had the highest concentration, with 3.32 lenders for every 10,000 people. Belmont and Gallia counties ranked second and third with 3.13 and 2.90 per 10,000 people.
- Most payday lending locations in Ohio are chains or franchises. The two most common locations are Advance America and Cashland Financial Services, with more than 100 locations each.
- The Center for Responsible Lending (CRL) has shown that just one percent of payday loans go to borrowers who repay within two weeks and borrow less than once a year, while 99 percent go to repeat borrowers. The average borrower takes out nine loans per year.
- Nationwide, the CRL estimated in 2005 that 7.6 million workers receive 83 million payday loans per year. Of this 7.6 million, two-thirds, or five million, become trapped in this cycle of debt, at an annual cost of $3.4 billion.

The report ends by recommending that Ohio borrowers be provided the same protections that were recently enacted on the federal level for military families. These would ensure reasonable and transparent costs for loans, preserve legal protections, and protect assets of Ohio borrowers.

"You load 16 tons and what do you get? Another year older and deeper in debt."
- Merle Travis

Introduction

Payday lending has exploded in Ohio and the nation over the past decade, mushrooming from an occasional presence in the most troubled urban neighborhoods to a ubiquitous challenge in nearly every Ohio county. Nationwide, the payday lending industry has doubled since 2000 to 25,000 payday loan stores selling more than $40 billion in loans.[1] Payday lending costs American families more than $4.2 billion in 2005, with Ohioans paying more than $209 million in fees.[2] These numbers do not include the massive growth in the Internet payday loan market, which is difficult to quantify across state boundaries.[3]

Payday loans are short-term, high-interest loans against a subsequent paycheck. The loans are made available to anyone with a checking account and a source of income who is willing to write a post-dated check for the amount of the loan plus the lender's fees. Fees are exorbitant; in Ohio, they are typically at the state maximum of $15 on each $100 borrowed. Since the borrower usually has only two weeks to repay, this fee amounts to an annual percentage rate of 391 percent or more, a fact which is frequently concealed from or not well explained to borrowers.[4] These loans can be difficult to repay, and the lenders make it all too easy to borrow again. Many borrowers quickly find themselves deeper in debt, and still unable to deal with basic or extra expenses.[5]

The short repayment period leaves many borrowers unable to pay off the loan when it comes due. In Ohio such borrowers have two options: "back-to-back" transactions, or default. Ohio, along with other states, attempts to protect borrowers by prohibiting rollovers of loans. Lenders have managed to get around these restrictions by offering "back-to-back" loan transactions. Borrowers who choose this option pay off the first loan and immediately take out a new loan to cover basic expenses until the next paycheck. This requires the borrower to pay the lending fee every two weeks without receiving any new money in return until he or she can repay the full amount of the original loan.[6]

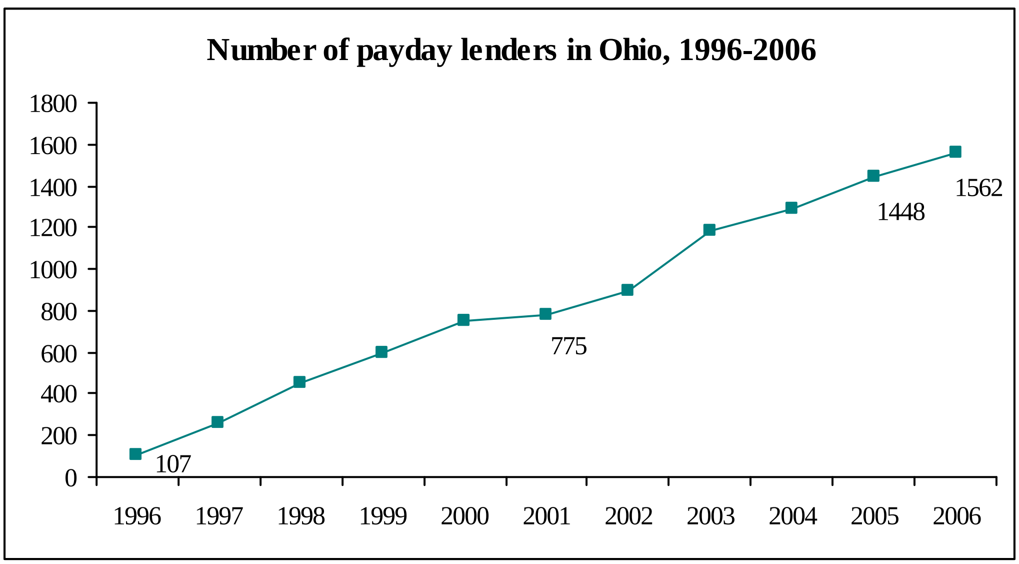
[1] See Sheila Bair, "Low-Cost Payday Loans: Opportunities and Obstacles" Annie E. Case Foundation (June 2005), Christopher Conkey, "Payday lenders strike a defensive pose: Voluntary limits on advertising, new repayment options aim to war off fresh regulations," Wall Street Journal (February 21, 2007).
[2] Uriah King, Leslie Parrish and Ozlem Tanik, "Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year," Center for Responsible Lending (November 30, 2006).
[3] Jean Ann Fox and Anna Petrini, "Internet Payday Lending: How High-priced Lenders Use the Internet to Mire Borrowers in Debt and Evade State Consumer Protections," Consumer Federation of America (November 30, 2004).
[4] Center for Responsible Lending, "Payday Lending Basics" (January 1, 2001).
[5] Center for Responsible Lending, "Predatory Payday Lending Traps Borrowers" (2005).
[6] Keith Ernst, John Farris, and Uriah King, "Quantifying the Economic Cost of Predatory Payday Lending" (February 24, 2004).

Lending in Ohio

Payday lending has become much more widespread nationwide and in Ohio. To measure its expansion in Ohio, we gathered data on payday loan stores (referred to as "check cash lenders" in Ohio) from the Division of Financial Institutions, Department of Commerce for the State of Ohio. The data provides names, addresses, and license information for payday loan locations for each of the 88 counties in Ohio from 1996 until 2006. We then overlaid their locations geographically with census tract data. Ohio does not keep records on the number of loans made or the number of dollars lent, so the number of establishments is the best way to measure growth in this practice.

The number of payday lending shops licensed in Ohio has grown exponentially from 107 locations in 1996 to 1,562 locations in 2006.[7] There are more than fourteen times as many payday lending locations than there were a decade ago, spread across a much wider landscape. There are now more check cash lending shops than McDonalds, Burger King, and Wendy's restaurants combined in Ohio.[8]

Figure 1



Source: Authors' analysis of payday lending location data from Ohio Division of Financial Institutions, Department of Commerce.

In 1996, payday lenders in Ohio were concentrated in urban communities. At that time, only 21 Ohio counties had any payday lenders and most of these had just a handful of locations. Only Cuyahoga, Franklin, Hamilton and Montgomery counties had more than ten locations, centered in Cleveland, Columbus, Cincinnati and Dayton. By 2006 every Ohio county except for Ottawa and Vinton had at least one payday lender. Thirty-five counties had more than ten locations, and nine counties had forty or more locations. Franklin, Hamilton and Cuyahoga counties each had well over one hundred payday

[7] Eight of these locations hold Ohio licenses but are physically located outside the state.
[8] There were 1458 total McDonalds, Burger King, and Wendy's restaurants in Ohio as of February 28, 2007. Reference USA database: http://reference.infousa.com.

lenders. In appendix one, we show the number of payday lenders in all 88 Ohio counties in 1996 and 2006. Table 1 below, shows the top ten counties in terms of number of lenders.

Table 1

Ohio counties with the largest number of payday lenders, 2006					
Name	**Total Population 2000**	**Number of Payday Lenders**	**Number of Lenders per 10,000 Residents**	**Percent of Lenders in African American Census Tracts**	**Percent in Low and Moderate Income Census Tracts**
Franklin	1,068,978	183	1.71	9.8	47.54
Cuyahoga	1,393,978	160	1.15	31.9	47.50
Hamilton	845,303	123	1.46	22.0	34.15
Montgomery	559,062	83	1.48	4.8	30.12
Lucas	455,054	67	1.47	10.4	31.34
Stark	378,098	66	1.75	1.5	25.76
Summit	542,899	65	1.20	7.7	53.85
Mahoning	257,555	42	1.63	9.5	26.19
Lake	227,511	40	1.76	N/A	22.50
Butler	332,807	39	1.17	2.6	43.58

Source: Authors' analysis of payday lending location data from Ohio Division of Financial Institutions, Department of Commerce.

Note: African American census tracts are defined as those with more than 50 percent black residents. Lake County has no census tracts that meet this definition.

As the table above also shows, some counties, such as Cuyahoga and Hamilton, have high proportions of lenders in African American census tracts, and most counties have concentrations in low-income census tracts. However, the concentration is not as high as one might expect. Between about one-quarter and one-half of the lenders in the top ten counties for lender penetration have located in low and moderate-income census tracts. Instead of showing an extremely heavy concentration in poor or black neighborhoods, the data show a wide distribution with lenders making inroads in census tracts with various racial and socio-economic characteristics.

Although the counties with the largest numbers of payday lenders correspond fairly closely to the largest urban counties, there are actually a greater number of payday lenders per capita in some less populated counties. In fact, of the ten counties with the highest per capita concentration of payday lenders, not one is a large urban county. Washington County had the highest concentration of payday lenders per capita, with 3.32 lenders for every 10,000 people in the county. Belmont and Gallia counties ranked second and third among the highest per capita concentration of these lenders, as Table 2 shows.

Table 2

Ohio counties with greatest number of payday lenders per 10,000 people, 2006				
Name	**Total Population 2000**	**Number of Payday Lenders in County**	**Lenders per 10,000 Residents**	**Percent in Low and Moderate Income Census Tracts**
Washington	63,251	21	3.32	19.05%
Belmont	70,226	22	3.13	22.73%
Gallia	31,069	9	2.90	55.56%
Fayette	28,433	7	2.46	14.29%
Guernsey	40,792	10	2.45	80.00%
Crawford	46,966	11	2.34	0.00%
Lawrence	62,319	14	2.25	28.57%
Hocking	28,241	6	2.12	N/A
Carroll	28,836	6	2.08	0.00%
Champaign	38,890	8	2.06	0.00%

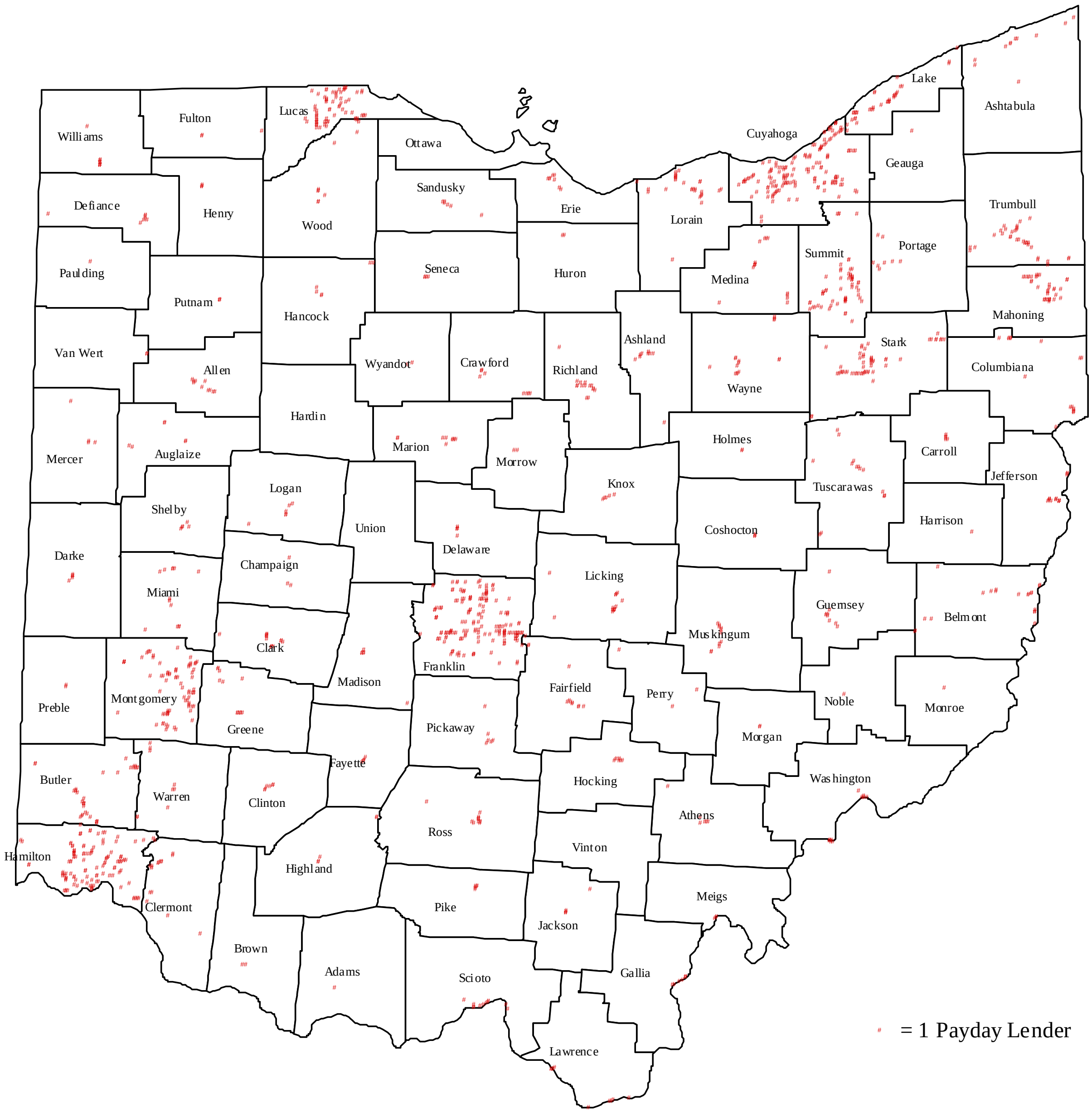
Source: Authors' analysis of payday lending location data from Ohio Division of Financial Institutions, Department of Commerce.

Note: Hocking County has no census tracts defined as low and moderate income.

The maps below show the number of locations in 1996 and 2006. The maps show that lending locations in Ohio were once restricted to urban centers in a minority of Ohio counties. They have since spread to nearly every county in the state. Even within counties, lending locations are more widely disbursed and no longer concentrated in urban centers.

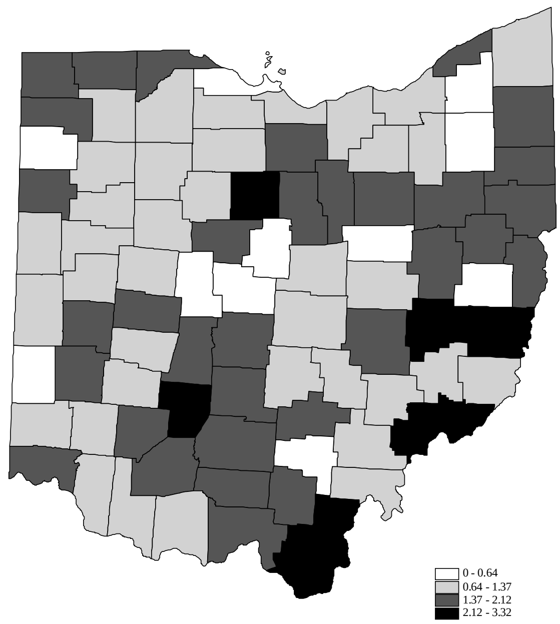
Location of Payday Lenders in Ohio - 1996

Location of Payday Lenders in Ohio - 2006



The map below shows the number of payday lenders by county per 10,000 residents. The counties with the highest rates per capita are not urban centers.

Locations of Payday Lenders per 10,000
People by County - 2006



Most payday lending locations in Ohio are chains or franchises. As Table 3 below shows, the most common locations are Advance America, Cashland Financial Services, Check into Cash, Valued Services of Ohio, and Buckeye Check Cashing. In 2006, the top ten payday lending locations represented more than 55 percent of all payday lenders in Ohio.

Table 3

Top Ohio Lenders, 2006	
Top 10 Payday Lending Companies in Ohio	**Number of Locations**
Advance America, Cash Advance Centers of Ohio, Inc.	179
Cashland Financial Services, Inc.	138
Check into Cash of Ohio, LLC	96
Valued Services of Ohio, LLC	96
Buckeye Check Cashing, Inc.	94
Great Lakes Specialty Finance, Inc.	76
McKenzie Check Advance of Ohio, LLC	65
Ace Check Express	51
QC Financial Services, Inc.	44
The Kentucky Check Exchange, Inc.	39
Total	**878**

These annual statistics do not reveal the volatility of the payday lending industry in that many stores open and close within a given year. For instance, in 2005, the most recent year that we have complete year closing data, a total of 113 payday lending locations closed but 357 new locations opened. Also in 2005, 12 locations opened and then closed in that same year. This pattern exists for each year of the analysis.

Ohio Law

Under Ohio law, payday lenders are classified as "check cash lenders" and are regulated by the Ohio Department of Commerce's Division of Financial Institutions. The check cash lending act first became effective on December 5, 1995, and has been amended several times since that date.

Payday lenders in Ohio are allowed to loan a maximum of $800 at a time.[9] While Ohio law sets maximum rates for both the interest charged and origination fees, few if any lenders set their rates below these "caps." For all loans, the maximum interest rate is 5 percent for each month or fraction thereof.[10]

However, Ohio law also allows origination charges that bring the cost of these loans much higher. Origination fees vary depending on the amount of money borrowed. For loans of $500 or less, lenders may charge an origination fee of $5 for each $50 borrowed. For loans of between $500 and $800, the origination fee remains $5 per $50 for the first $500 borrowed and $3.75 per $50 for amounts between $500 and $800. The total cost and annual percentage rate for different loan amounts is displayed in Table 4.

Table 4

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%

Source: Authors calculations, based on Ohio law

While payday lenders are allowed to charge less than these statutory maximums, researchers have not found any lenders who do so. In addition, while the statute allows the maximum duration of a payday loan to be six months, these loans are virtually always made only until the borrower's next paycheck, typically no more than two weeks.[11] When the origination charge is added to the interest rate, the true cost of payday lending is revealed. For Ohio loans, the actual annual percentage rate is between 367 and 391 percent, once fees and interest are calculated.

[9] ORC 1315.39(A)(1).
[10] ORC 1315.39(B).
[11] ORC 1315.39(A)(2).

Ohio law prohibits a check-cashing business from issuing a loan to a borrower if that person currently has an outstanding loan with that business.[12] However, Ohio law does not prohibit borrowers from obtaining several different loans at the same time from different payday lenders, from obtaining a loan from one lender in order to pay off a loan issued by another lender, or even from paying off a loan with a lender and immediately taking out another loan with the very same lender, causing a cycle of indebtedness. In a 2001 study, Professor Creola Johnson and several research assistants obtained loans from payday lenders in Franklin County. Each of the individuals was able to obtain two payday loans in less than two hours by visiting different payday lenders, and one research assistant was able to obtain nine loans in a three-day period before being told that he was "red flagged" for excessive loan activity.[13]

In 2000, the Ohio Legislature amended the payday lending law to make it unlawful for check-cashing lenders to pursue treble damages in civil action cases for the collection of a loan that was returned for insufficient funds.[14] However, a lender may collect a $20 fee if the borrower's check defaults.[15]

A National Cycle of Borrowing

The Center for Responsible Lending (CRL) has shown that only one percent of all payday loans go to one-time emergency borrowers who repay their loans within two weeks and do not borrow again within the year. The other 99 percent of borrowers become trapped in a cycle of debt, with the average borrower taking out nine loans per year.[16]

These repeat borrowers account for the vast majority of payday lenders' revenues. Payday lenders receive 90 percent of their revenue from borrowers with five or more payday loans a year and 56 percent of their revenue from those with thirteen or more loans a year. A recent study found that "lenders who cultivate more repeat business from existing customers will fare better financially than those who do not" (Stegman and Faris, 2003, p. 24). The second largest predictor of higher gross revenues for payday lenders is the percentage of customers who borrow at least monthly.[17]

Nationwide, the CRL estimated in 2005 that 7.6 million workers receive 83 million payday loans per year. Of this 7.6 million, two-thirds, or five million, become trapped in

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[12] ORC 1315.41(E).
[13] Creola Johnson, "Payday Loans: Shrewd Business or Predatory Lending?" 87 *Minnesota Law Review* 1, 60-63 (November 2002).
[14] ORC 1315.41(D).
[15] ORC 1315.40(B).
[16] Uriah King, Leslie Parrish and Ozlem Tanik, "Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year," Center for Responsible Lending (November 30, 2006).
[17] Michael A. Stegman and Robert Faris, "Payday Lending: A Business Model that Encourages Chronic Borrowing" Economic Development Quarterly (February 2003). The other predictors in the study were: number of outlets, customers per outlet, subscribes to a screening service, uses a computer data management system, total value of NSF checks as a percentage of the total value of all checks, percentage of NSF checks recovered, minimum average APR, offer check cashing services, and new company.

this cycle of debt, at an annual cost of $3.4 billion.[18] This debt cycle is not just for the cost of the loan. A growing number of payday lenders use incentives such as calling cards, which have additional monthly fees, as sign-up "bonuses" to customers. Payment on these incentives does not count toward the principal balance of the loan. In addition to calling card programs, lenders use target marketing to sell other services and products, which are aggressively sold to lower-income families and minority groups. These include money orders, lottery tickets, public transportation passes, high rate insurance, and office services.[19] The combination of renewing loans from month to month and purchasing these aggressively-marketed services increase the financial instability of low-income families. A 2001 report found that repeat payday lending customers are four times more likely to have filed for bankruptcy than the average adult.[20]

The negative impact of the payday loan industry stretches well beyond these five million workers, affecting the community as a whole. As borrowers try to pay off loans with interest and fees, they often find themselves without sufficient income to cover other basic expenses. In addition to the hardships this involves for the borrower, this can harm other merchants who do not receive payment for their services. Thus, as payday loans consume more and more of borrowers' incomes, the payday loan industry thrives at the expense of other businesses. Payday loan debts are often turned over quickly to credit agencies. These debts can also end in lawsuits, which cost the customer additional funds for attorney fees. A recent study in Chicago found that the average attorney fee ($303) was almost as much as the average payday loan amount ($331) in 2003.[21] Borrowers facing financial crisis frequently turn to social service agencies and faith-based charities for assistance, straining their already overburdened resources.

Although the Ohio lending locations do not reveal excessive concentration in neighborhoods defined as predominantly African-American, national studies show that the black community disproportionately uses payday loans. Ohio data do not allow us to determine what portion of loan sales go to African-American borrowers, but one national study found that African American households were twice as likely to borrow from a payday lender as white households.[22]

Families in the military are also frequent users of payday loans. A 2006 report by the Pentagon found that as many as one in five members of the armed forces, or at least 175,000 people, use payday loans in a year. The report calculates that with annual interest rates between 390 and 780 percent, the average borrower pays back $834 for a $339 loan. Consumer and veterans groups worked with Congress to pass a payday loan rate cap of 36 percent or less on loans to military personnel and their families.[23]

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[18] CRL (2005).
[19] Progressive Policy Institute, "Taking the Poor Into Account" (July 2001).
[20] Gregory Elliehausen and Edward Lawrence, "Payday Advance Credit in America: An Analysis of Customer Demand," Georgetown University, Credit Research Center (April, 2001).
[21] Monsignor John Egan Campaign for Payday Loan Reform, "Greed: An In-depth Study of Debt Collection Practices, Interest Rates, and Customer Base of a Major Illinois Payday Lender" (March 2004).
[22] Stegman and Faris (2003), p. 15.
[23] William Welch, "Law Caps Interest on 'Payday Advances' to Servicemembers," USA Today (November 17, 2006).

National Growth in Payday Lending

Despite the problems attributed to payday lending, Ohio is hardly alone in seeing a growth in this industry. Between 2000 and 2003, the number of payday loan offices in the U.S. increased from between 7,000 and 10,000 to approximately 22,000. Moreover, total sales volume quadrupled in just three years from $10 billion in 2000 to $40 billion in 2003, in non-adjusted terms.[24]

The business model in which borrowers become trapped in a cycle of debt contributes greatly to these high profits. Furthermore, evaluated against prevailing APRs for credit cards and other sources of borrowing, which are exposed to a comparable risk of default, the APRs – usually 390 percent or more – charged by payday lenders are extraordinarily high.

The growth of the payday lending industry cannot solely be measured in storefronts. A newer and explosive sector of the payday loan industry has migrated to the Internet. In an effort to expand lending and avoid regulation, payday lenders now sell loans online where borrowers provide personal information and bank access for quick dollars. Fees are often larger for Internet payday loans based on larger annual interest rates, higher start-up loan fees, bank processing charges, and larger loan amounts.[25] A 2003 study found more than 50 websites offering payday loans (not counting store-based lenders). It is often unclear who the parent companies are for these lenders.[26] Borrowers who use Internet payday lenders may have difficulty finding a real contact person about the loan, often have no consumer protection clauses, may not know exactly who their lender is, and may experience problems because they've provided personal and financial information over the Internet.

Weak Regulation

The payday lending industry also profits from a weak regulatory climate. State laws are responsible for regulating payday lending because, as non-bank lending institutions, they are not subject to federal banking regulations.[27] While 34 states including Ohio and the District of Columbia have passed payday loan legislation, these bills are often weak efforts, drafted and supported by the lending industry itself. For example, in Ohio, in 2004, the state legislature *increased* the maximum loan limit from $500 to $800. Ohio has capitulated to payday lenders in other ways, as well, exempting them from the state's 25 percent cap on interest rates and offering to one lending institution, Buckeye Check

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[24] CRL (2005).
[25] Jean Ann Fox and Anna Petrini, "Internet Payday Lending: How High-priced Lenders Use the Internet to Mire Borrowers in Debt and Evade State Consumer Protections," Consumer Federation of America (November 30, 2004).
[26] Jerry L. Robinson, "Update on the Payday Loan Industry: Observations on Recent Industry Developments," Stephens Inc., Sept. 26, 2003.
[27] Charles M. Horn, "Will the Practice Survive? Payday Lending and Consumer Access to Credit," Consumers' Research Magazine (January 2004).

Cashing, more than $7 million in state and local grants and loans.[28] Twelve states, Puerto Rico, and the Virgin Islands maintain usury limits and small loan laws banning all payday lending.[29] Sometimes, lenders are able to get around lending laws. Lenders may offer revolving lines of credit with high interest rates and annual fees even if no money is borrowed. Pennsylvania, which has a ban on payday lending, has seen a large amount of such borrowing.[30]

Some states, including Illinois, Virginia, Pennsylvania, Michigan, and Texas, and cities, such as Portland, Oregon, have recently put in place new limits or acted to enforce existing regulations against payday lenders. These actions include limits on the number of loans a borrower can receive or roll over, caps on interest rates and principals, waiting periods between loans, and inclusion of opt out and payment plan options for borrowers. However, due to the lobbying strength of the lending industry and the ambiguity between financial businesses and regulations, those seeking tougher regulations face an uphill battle.[31]

Alternatives to Payday Lending

Many advocates and legislators argue that consumer education can combat abusive lending practices.[32] Certainly, more can be done to educate low-income workers about alternatives to payday loans, including small savings accounts or rainy-day funds, salary advances from employers, extended repayment plans with creditors, and lower-cost loans from commercial banks.[33] The absence of mainstream financial institutions from some neighborhoods, and the reluctance to use banks, creates an opening for payday lenders that should be closed by ensuring that bank branches are sited in lower-income neighborhoods.[34]

Cleveland-based KeyBank has taken a lead in this effort. In 2004, Key began offering small loans, free financial literacy classes, assistance in opening checking accounts, and check-cashing services at 1.9 percent interest at five inner-city branches. The experiment proved successful both for KeyBank and its customers, and, as of 2005, Key planned to expand the program to 15 more branches. Cleveland Saves, a nonprofit coalition in Greater Cleveland, has also spearheaded efforts to increase financial literacy among low-

[28] Teresa Dixon Murray, "Payday Loans Don't Have Caps," The Plain Dealer (February 6, 2006); "Payday Lender Gets Ohio's Free Bucks," The Plain Dealer (January 15, 2006).
[29] Consumer Federation of America, www.paydayloaninfo.org (accessed January 1, 2007).
[30] *Ibid.*
[31] Chris Flores, "Trying to Set Spending Limits: Virginia Legislators Will Attempt Again in 2007 to Regulate the Payday Loan Industry," Daily Press (August 13, 2006).
[32] Teresa Dixon Murray, "Education is Key to Getting People to Use Banks More," The Plain Dealer (February 13, 2005).
[33] Center for Responsible Lending, "Alternatives to Payday Lending: Lenders and Products" (August 23, 2005).
[34] Kelly Barron, "Damned If You Do," Forbes (July 9, 2001); "Clevelanders' Payday Squeeze," The Plain Dealer (February 21, 2005); Charles M. Horn, "Will the Practice Survive? Payday Lending and Consumer Access to Credit," Consumers' Research Magazine (January 2004).

income workers, offering free financial classes and free savings accounts through major banks.[35]

Another alternative to traditional payday lending are loans offered by credit unions. These loans are offered to members with low interest rates and service fees.[36] Some of the fees that are collected are put into a saving account for the member. A recent report by the Annie E. Casey Foundation indicates that credit unions and FDIC banks are well suited to offer small loans because they have the staff, infrastructure and other financial services that enable low rates and fees.[37] Credit unions that have instituted pilot programs offering alternative loans have found positive results with their members.[38]

Conclusion and Policy Recommendations

The number of payday lending locations in Ohio has catapulted from just over 100 to more than 1,500 in the past decade. This form of lending results in extremely high costs for borrowers, can trap borrowers in a cycle of debt, and can drain resources out of local communities.

The federal government has taken action to protect military personnel and their families from this exploitative form of lending, passing the Talent-Nelson amendment in 2006. While national groups advocate for extension of these protections to all borrowers, Ohio legislators should move ahead in providing these protections to Ohio borrowers. This would guard the hard-earned assets and earnings of Ohio workers. Enacting a bill in Ohio with the provisions of the Talent-Nelson amendment, applied to all families, would protect Ohio borrowers by ensuring:

- **Reasonable and Transparent Costs**: Cap the annual percentage rate of interest at 36%. Interest is defined to include all extra charges or fees of any kind. Disclose to borrowers what the APR and loan payment clauses are, as per the Truth in Lending regulations at the federal level. Allow borrowers to repay the loan early with no prepayment penalties.
- **Legal Protections:** Forbid waivers of state or federal rights and prohibit lenders from requiring borrowers to agree to mandatory arbitration[39] or other onerous obstacles to legal action.

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[35] Murray (2005).
[36] See Kenneth Temkin and Noah Sawyer, "Analysis of Alternative Financial Service Providers," Fannie Mae Foundation by the Urban Institute (February 2004).
[37] Sheila Bair, "Low-Cost Payday Loans: Opportunities and Obstacles," Annie E. Casey Foundation (June 2005).
[38] Sue Kirchloff, "Breaking the Cycle of Payday Loan 'trap,'" USA Today (September 19, 2006); Gloria Irwin, "Payday Loans Not Only Option," Akron Beacon Journal (January 12, 2006).
[39] Mandatory arbitration requires that disputes be resolved through a private arbitrator, rather than in court. It is often more costly to consumers and tends to favor businesses over consumers or employees. Clauses enforcing mandatory arbitration typically prohibit consumers from participating in class action lawsuits and do not allow appeals of arbitrator decisions, even if the decisions are clearly against the law. We recommend that the Ohio General Assembly ban the use of mandatory arbitration as a dispute resolution mechanism for complaints arising out of payday loans.

Enacting these protections to all Ohio borrowers would prevent the exploitative and destructive forms of lending that have proliferated in Ohio.

In addition to extending the provisions of Talent-Nelson to all Ohio borrowers, several more modest changes should be put in place immediately, whether separate from or in addition to the more fundamental protections above. These include:
Make development policy accountable: Regardless of our regulatory climate, the Ohio Department of Development should not subsidize payday lenders as the state did when it provided $7 million in state grants and loans to Buckeye Check Cashing;
Require thorough reporting: Require lenders to report on loan amounts, repeat borrowing, and customer demographics. This tracking of lending activity will enable better assessment of how this industry affects our communities;
Encourage traditional financial services: Encourage Ohio financial institutions to offer fair, low-interest loans to their customers, and to locate in under-banked neighborhoods, to ensure that lower-income borrowers have access to traditional lending sources.

By ensuring reasonable and transparent costs, preserving legal rights and protecting assets, all Ohio consumers can count on the protections that federal lawmakers provided to our military personnel. Borrowers in Ohio deserve nothing less.

Appendix 1: Payday Lending Locations by County in Ohio

NAME	Number of Payday Lenders in 1996	Number of Payday Lenders in 2006	Payday Lenders per 10,000 people in 2006	Rank by Number of Locations in 2006	Rank by Rate per 10,000 in 2006
Adams	0	2	0.73	76	75
Allen	2	12	1.11	29	54
Ashland	0	9	1.71	39	19
Ashtabula	0	11	1.07	31	56
Athens	0	6	0.96	53	66
Auglaize	0	6	1.29	53	46
Belmont	0	22	3.13	13	2
Brown	0	3	0.71	71	76
Butler	4	39	1.17	10	51
Carroll	1	6	2.08	53	9
Champaign	0	8	2.06	43	10
Clark	4	15	1.04	21	58
Clermont	0	18	1.01	18	61
Clinton	0	6	1.48	53	35
Columbiana	0	19	1.70	16	23
Coshocton	0	4	1.09	67	55
Crawford	0	11	2.34	31	6
Cuyahoga	13	160	1.15	2	53
Darke	0	5	0.94	62	69
Defiance	0	7	1.77	47	14
Delaware	0	7	0.64	47	78
Erie	0	8	1.01	43	61
Fairfield	2	11	0.90	31	71
Fayette	0	7	2.46	47	4
Franklin	28	183	1.71	1	19
Fulton	0	6	1.43	53	39
Gallia	0	9	2.90	39	3
Geauga	0	3	0.33	71	85
Greene	2	14	0.95	26	67
Guernsey	0	10	2.45	36	5
Hamilton	14	123	1.46	3	38
Hancock	0	9	1.26	39	48
Hardin	0	4	1.25	67	49
Harrison	0	1	0.63	83	79
Henry	0	4	1.37	67	41
Highland	0	7	1.71	47	19

NAME	Number of Payday Lenders in 1996	Number of Payday Lenders in 2006	Payday Lenders per 10,000 people in 2006	Rank by Number of Locations in 2006	Rank by Rate per 10,000 in 2006
Hocking	0	6	2.12	53	8
Holmes	0	2	0.51	76	82
Huron	0	10	1.68	36	27
Jackson	0	5	1.53	62	31
Jefferson	0	15	2.03	21	12
Knox	0	7	1.28	47	47
Lake	0	40	1.76	9	15
Lawrence	0	14	2.25	26	7
Licking	2	17	1.17	19	51
Logan	0	6	1.30	53	44
Lorain	1	30	1.05	12	57
Lucas	6	67	1.47	5	37
Madison	0	7	1.74	47	18
Mahoning	2	42	1.63	8	30
Marion	0	10	1.51	36	34
Medina	0	15	0.99	21	63
Meigs	0	3	1.30	71	44
Mercer	0	4	0.98	67	64
Miami	2	15	1.52	21	32
Monroe	0	2	1.32	76	43
Montgomery	14	83	1.48	4	35
Morgan	0	2	1.34	76	42
Morrow	0	2	0.63	76	79
Muskingum	2	14	1.66	26	28
Noble	0	1	0.71	83	76
Ottawa	0	0	0.00	87	87
Paulding	0	1	0.49	83	83
Perry	0	3	0.88	71	72
Pickaway	0	8	1.52	43	32
Pike	0	5	1.81	62	13
Portage	0	9	0.59	39	81
Preble	0	2	0.47	76	84
Putnam	0	3	0.86	71	74
Richland	1	22	1.71	13	19
Ross	1	12	1.64	29	29
Sandusky	0	6	0.97	53	65
Scioto	0	11	1.39	31	40
Seneca	0	6	1.02	53	60

NAME	Number of Payday Lenders in 1996	Number of Payday Lenders in 2006	Payday Lenders per 10,000 people in 2006	Rank by Number of Locations in 2006	Rank by Rate per 10,000 in 2006
Shelby	0	5	1.04	62	58
Stark	2	66	1.75	6	17
Summit	3	65	1.20	7	50
Trumbull	1	38	1.69	11	25
Tuscarawas	0	16	1.76	20	15
Union	0	1	0.24	83	86
Van Wert	0	5	1.69	62	25
Vinton	0	0	0.00	87	87
Warren	0	15	0.95	21	67
Washington	0	21	3.32	15	1
Wayne	0	19	1.70	16	23
Williams	0	8	2.04	43	11
Wood	0	11	0.91	31	70
Wyandot	0	2	0.87	76	73

Note: An additional eight locations held Ohio licenses in 2006 but were physically located outside the state.

The Housing Research & Advocacy Center is a nonprofit organization whose mission is to eliminate housing discrimination and assure choice in Northeast Ohio by providing those at risk with effective information, intervention, and advocacy. In addition to addressing traditional issues of housing discrimination and segregation, the Housing Center also provides research, education, and analysis of subprime and predatory lending practices and trends in the region.

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Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Joyce, Gund, Cleveland and St. Ann Foundations and the Economic Policy Institute. To those who want a more fair and prosperous economy... Policy Matters.

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