After the Fact | States of Innovation: Small Loans, Large Cost

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TRANSCRIPT

[Opening music.]

Carl Ruby, pastor of Central Christian Church in Springfield, Ohio: I learned a couple of things about the payday loan industry that really hooked me. I was kind of expecting the rates to be high. In my mind, I was thinking 40 … 50 percent. And when I dug into it and started doing research, I was seeing different estimates of interest rates of over 600 percent, some loans over 1,000 percent. And I just couldn't believe it.

Dan LeDuc, host: That was Carl Ruby, a pastor in Springfield, Ohio. And when he learned about those high interest rates for payday loans, he decided it was time for a change. We'll hear more from him later after we learn more about what payday loans are, how they work, and how when they don't work, they can cause real trouble for those who use them.

Welcome to "After the Fact." For the Pew Charitable Trusts, I'm Dan LeDuc. This season, we're going to be telling you about "States of Innovation"—literally, stories about states that are taking new and creative approaches to problems and finding solutions that make lives better. In this episode, we look at Ohio. Many people live paycheck to paycheck and sometimes accumulated bills outstrip that paycheck. For 12 million Americans—this episode's data point—the answer is to turn to payday loans. But sometimes a small loan turns into a big problem.

Nick Bourke, director of the consumer finance program at Pew: The notion of giving somebody a super-high-cost loan, but then forcing them to repay it really quickly, is actually the biggest part of the problem. A $300 loan with $50 in fees that comes due in two weeks—that takes more than one-third of a typical borrower's paycheck, even before you account for taxes.

Dan LeDuc: Nick Bourke directs Pew's work to inform effective consumer finance protections. Those fees he mentioned add up quickly—altogether, an average annual percentage rate of 391 percent. That's a far cry from the national average for a personal loan today at 9.3 percent. But that's not the only issue.

Nick Bourke: Something that people don't always understand is that people who use payday loans are actually banked. You have to have a checking account to get a payday loan, because that's how the lender secures the repayment.

The payday lender has access to your checking account, so they get paid first. Then you can't pay your mortgage, then you can't pay your rent, then you can't pay your car payment. And so what do you do? You go back to the payday lender and get another one.

Dan LeDuc: That's how the cycle starts. Nick explains how these loans came into existence.

Nick Bourke: Payday loans have been around for about a generation. And about 30 years ago, lawmakers said, well, we want to find a way to get credit to people who are living paycheck to paycheck. And we've got usury rates baked into our legal code. Almost every state has usury laws on the books. We're going to give an exception to payday loans to allow them to go higher than that, but in exchange, we're going to force these loans to be really short, so people don't get into trouble.

If you're in the situation of having to get a payday loan in the first place, and then two weeks later you lose a third of your paycheck, well, it creates what a lot of people refer to as the cycle of debt.

And this is how something that is supposedly a two-week, short-term loan, for the typical borrower, ends up being a three- to four-month, experience—often five or six months. And by the time they get out of that debt, they've effectively borrowed, say, $300 or $400, which is typical. But they've paid $500 or more in fees—more fees than the amount of the original loan.

Dan LeDuc: A number of states are starting to look at ways to make these loans safer for consumers. Can you talk a little bit about what's been happening, and what makes some of these new approaches a little innovative in this area?

Nick Bourke: Ever since payday loans came onto the market, it's been sort of like an experiment in, how do we make short-term loans, liquidity loans, available to people who have damaged credit scores, or are living paycheck to paycheck? It hasn't worked very well. And until recently, the states that allowed payday loans hadn't really figured out how to make it work better. By trying to protect people from getting into too much trouble and make them short-term loans, we're actually harming them.

So, let's change the law, and let's give people more time to repay. Let's change the pricing structure a little bit. So, yeah, it's going to cost more than a credit card. But it's not going to be 400%. And add a few more protections. And now three states have done it, and it's worked out really well.

Dan LeDuc: Well, let's talk a little bit about the hallmarks of what makes good change in this world. What are some of the hallmarks of a successful, innovative way of fixing this, that we've seen work in Colorado, or Ohio, or now Virginia?

Nick Bourke: I could talk about this all day. And the details really matter. But fundamentally, it's simple. The state's law has to be changed so that a payday loan must be an installment loan that people pay off over several months. And every payment that you make pays down part of the principal. It's called an amortizing installment loan. It's the way that installment loans usually work.

And on top of that, you have to change the pricing structure. What we've seen in the states work really well is you limit the interest on the loan to 36% or less. But you also allow a reasonable monthly fee to help the lender cover their costs, and continue making credit, even to people with very damaged credit histories. The typical payday loan borrower has a 517 credit score. But if you have interest up to 36% and a reasonable monthly fee, Colorado, Ohio, Virginia, they've all shown that you can still make credit available.

And then, third, you just need a couple simple safeguards. Prevent lenders from enticing borrowers to refinance their loans and that sort of thing. So, in 2018, when Ohio passed their reform law, they did the things I just mentioned. They required the payday loans to be amortizing installment loans. And they implemented a 28% interest rate cap, plus a reasonable monthly fee.

Dan LeDuc: So, we've seen the effects on borrowers and what are the lessons, then, for the policymakers who are going to look at this and go, OK, we tried something. It didn't work the way we thought it would. How do we fix it? How do they start trying to be innovative that way?

Nick Bourke: First of all, I have to say, I think we owe a big debt of gratitude to the folks who wrote the Colorado law, when they changed their law back in 2010, because they baked into that something really important, which was a regulatory reporting scheme.

We saw that the number of borrowers, before the law change and after, stayed almost identical. That indicates that the latent need for credit that was there was still being met. And what we found was is that comparing from before the law changed to after, people were spending about 40% less. People were getting more days of credit for less money.

We looked at where the stores were throughout the state. And it's true that when you properly reform a payday loan law, you're going to see a lot of stores close. You're going to see a place like Springfield, Ohio, where there used to be seven stores in a couple blocks, or in Denver, seven stores in a couple blocks—after the law change, there might only be three or four. But people still have plenty of choice. Each store does a lot more business per store. There's a lot more efficiency that's built into the market, and then that's how you get the consumer savings.

There has to be a willingness to find a solution that keeps credit flowing, that keeps stores in business in some way, because at the end of the day, lawmakers really care about having credit be available. And borrowers themselves want to continue to borrow when they need it. And the public generally supports the kind of solution that's reasonable.

[Music transition.]

Dan LeDuc: Innovation usually takes research and data to help illustrate the problem and find solutions. But getting those solutions into a policy that actually helps people? That almost always takes the human touch. Now, our conversation with Pastor Carl Ruby.

Dan LeDuc: So, Pastor Carl Ruby, thank you so much for joining us.

Carl Ruby: Thank you. Appreciate the opportunity.

Dan LeDuc: You are at a church in Springfield, Ohio. Tell us about your church and your congregation.

Carl Ruby: Central Christian is an old church here in Springfield. We are a nondenominational church with a congregation of about 150 to 180. Springfield is kind of a Rust Belt town. We have about 56,000 people. Our population has been going down. Relatively high unemployment rate. And one of my interests as pastor is our immigrant community.

And the first thing that got me interested in payday lending was I was afraid that immigrants were being taken advantage of. And that's what kind of got me curious about it.

What I found out is immigrants weren't really being targeted because they don't have the banking credentials to take out payday loans. But I learned a couple of things about the payday loan industry that really hooked me. I was kind of expecting the rates to be high. In my mind, I was thinking 40, 50 percent. And when I dug into it and started doing research, I was seeing different estimates of interest rates of over 600 percent, some loans over 1,000 percent. And I just couldn't believe it. I was completely shocked that that was taking place.

Dan LeDuc: So, what did you do first?

Carl Ruby: Well, the first thing we did is we just hosted a community forum. And I invited some people in who had some expertise in this area. And I had no idea what to expect. Sometimes you do these things and you get 15 people who show up. We had well over a hundred people

Dan LeDuc: So, you had this large number of people turn out at the forum at your church when you first got started. Who were these folks?

Carl Ruby: We had people from all kinds of churches. We had people from some African American churches. We had some people from a mosque in town. Our church has worked to build some connections with our Muslim neighbors, and they were very involved, and they helped out at different points. The one thing that they probably had in common is that they're primarily middle-class Midwestern people. But all races, variety of churches, even some different faiths.

Dan LeDuc: What does it tell you about what was going on, that one meeting at a church brought all of these sorts of people sort of up to the surface pretty quickly? You didn't have to search out these folks very hard. You weren't putting up billboards asking people to come forward.

Carl Ruby: No, absolutely not. And again, when we did the initial community forum, I thought that was going to be it. I guess people were just desperate. I mean, it was destroying people. One of the common threads that went through what we were hearing from people was just severe depression, to the point of wanting to end their lives. But people who are working hard and trying to provide for their families. And they saw the payday loan store as a life ring that they could grab on to. It turned out to be an anchor.

Dan LeDuc: And you heard stories from some of these folks about their own experiences going through the difficulties trying to pay back their payday loan. What were some of those stories?

Carl Ruby: The first thing I'll say is there is an incredible amount of shame attached to this issue. But there were a few people who were willing to tell their stories. At one point after the forum, I got a call from a woman named Dolly. Actually, I think her daughter may have called first. Dolly was 97 years old. And at this point, we were collecting some signatures for a petition. And she said, would you be willing to talk to my mom? My mom wants to come in and sign the petition.

And I thought, what would persuade a 97-year-old woman to want to get out and come? And mobility was a challenge for her. I talked to her on the phone, and she said, I've gotten into trouble with a payday loan, and it devastated me. And I am determined to sign that petition. And she was someone who, you know, it was hard for her to get out of the car, she needed help getting into the church. And to see someone that passionate about how this had harmed them and how committed they were to seeing it changed was just incredibly moving.

And our church actually got in and raised some money and paid off her payday loan for her. But that was one of those stories and one of those images that will always stick with me, is just watching her trying to get out of her car and to get in so that she would be able to sign that petition.

Dan LeDuc: At first, Pastor Ruby thought the work was over. They had done their part to educate the community—and had helped out Dolly. But …

Carl Ruby: A couple of weeks went by, and I kept thinking about it. And I thought, well, I ought to call my state representative and get a group of pastors together and ask him if he would help us get something done in this area. So about 10 pastors and I got together. We met at an Ohio landmark, which is a place called Young's Jersey Dairy, a typical Midwestern country place where people come to get ice cream.

I had also invited the president of the chamber of commerce. He came. And my representative, Kyle Koehler, and our state senator, Bob Hackett, both came to that event. And I told them the story that I heard from this person who came up to me at the end of our community forum. And she was a person who was falling behind on money to pay for her car insurance. And she had a payment coming up, she took out a loan, and then very quickly found herself sinking further and further into debt.

Her loan took a good portion of her monthly income, and she just couldn't make any headway on paying it off. And she got to the point where she actually became extremely depressed, became suicidal, wrote a suicide note to her daughter. And at the very last minute, called her brother. Her brother said, hey, come live with us. You can live with us rent-free, and we'll help you until you get this paid off. So that's how she ended up getting out—a family member took her in. And I realize a lot of people don't have that.

And initially as we were going into this, I was so offended by what they were doing, I wanted to see them all put out of business. And Representative Koehler said, you know, I'm not willing to ban them. I am willing to regulate them. And the more that I got involved and the more that I learned about the issue, the more I came around to seeing that that was probably the better solution.

Dan LeDuc: Because it is clear that there are people who need this access to this sort of credit, the question is: Is it done fairly and in a way that's reasonable for them?

Carl Ruby: Right.

Dan LeDuc: And that's when the real work started. Meeting legislators and traveling to the state Capitol in Columbus.

Carl Ruby: There were probably 50 people from my church who were just there to observe what was going on. There were people who work with credit unions who were there. The president of the NAACP in Ohio got involved. There was a person in Columbus who works for a nonprofit organization that deals with housing issues, and he became involved. There was another person from northern Ohio who worked with a Jewish nonprofit organization that did low-interest loans that would compete with the predatory loan industry to help people.

There were some attorneys who specialized in representing people who had gotten into trouble. So, it was a wide range of people who all saw what this industry was doing to our community.

Dan LeDuc: This feels like what you were able to do there in this group of people and gathering together, first of all in the ice cream place, and then moving on to the halls of power, it almost sounds like this quintessential American story of Americans being listened to.

Carl Ruby: Yes. I'm going to view it from a pastor's perspective. I viewed it not just as a quintessential American story, but as a David versus Goliath story. And, actually, that imagery was with me, because we had no money. And we saw this industry that had millions and millions, maybe billions of dollars. So that image of David against Goliath stuck with me all the way through this. And I would say that that's what gave me hope, is that story ended well.

Dan LeDuc: *[Laughs.]* I like that.

Carl Ruby: Except for Goliath.

Dan LeDuc: Pastor, you've come to clearly care about this issue. Talk a little bit about what the experience has meant for you.

Carl Ruby: It meant so much to me. I look back on it, and I think it will be one of the most meaningful experiences of my life. I've not been involved in issues like this before. I don't know that I will be involved in another issue like this in the future.

Statistics aren't always all that exciting, but sometimes they're pretty meaningful. And one that I think about a lot is that this effort saved poor people and working-class people in Ohio 75 million dollars a year, and that's huge. And if we had tried to get together a bunch of churches and raise 75 million dollars a year to give to working-class people who were hurting, it never would have happened.

Dan LeDuc: Well, Pastor Ruby, thank you so much. You made a difference. Not all of us get to say that.

Carl Ruby: Thank you.

[Music transition.]

Dan LeDuc: Join us next time when we look at how states like Texas and South Carolina found innovative ways to cope with flooding. Here’s a hint: Spending some money now means saving a lot down the road.

Thanks for listening. We’d love to hear more about what’s on your minds. Visit pew.org/atfsurvey and take our survey to share your thoughts on the stories we should tell on this podcast.

Until next time, I’m Dan LeDuc and this is “After the Fact” from The Pew Charitable Trusts.