INSIGHT
CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT

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**National Nonprofit Investigates Cost to the Economy of Payday Lending**

**Oakland, California**: In a new report, the Insight Center for Community Economic Development (Insight Center) finds that payday loans issued by payday lending establishments in 33 states cost the American economy $774 million in 2011, resulting in the estimated net loss of more than 14,000 jobs. These costs, plus an increase in Chapter 13 bankruptcies linked to payday lending usage, brought the total loss due to nearly $1 billion.

Payday lending generates economic activity, but the gains are less than the resulting losses, since the cost of payday loans – averaging over 400 percent annually – reduces household spending. In 2011, payday lenders received interest payments totaling $3.3 billion. But each dollar of that interest subtracted $1.94 from the economy through reduced household spending while only adding $1.70 in spending by payday lending establishments. The net impact is that for each dollar of payday lending interest paid, an estimated 24 cents is lost to the U.S. economy.

Tim Lohrentz, Program Manager at the Insight Center and author of the report said, “We wanted to give a true picture of the economic impact of payday lending – examining all potential economic benefits and costs and see how they balanced out. Our findings clearly show that payday lending is a drain on the U.S. economy.”

Results from the report are available at both the national and state levels. The five states with the highest totals of interest charged are California, Texas, Florida, Mississippi, and Illinois. In 2011 the economic loss to these five states ranged from $135 million in California to $55 million in Illinois.

The study also found that payday lending caused an estimated 56,250 Chapter 13 bankruptcies in 2011. With an average cost of $3,000 per bankruptcy, these bankruptcies cost the economy an additional $169 million.

Payday loans are marketed as a bridge loan to borrowers facing financial emergencies. The principal, which averages about $375 per loan, plus the fee—which is typically in excess of 400% APR—is due on the next payday, usually about two weeks later. Borrowers secure the loans with a post-dated check or electronic access to their bank accounts. Payday loans are authorized in 33 states.

Increasingly, states and local governments are moving to limit payday loans based on concerns that the high fees and short-term lump-sum payment often lead to a series of repeat loans. In opposition to reforms, payday lenders argue that they provide significant benefits to the larger economy. This study examines these claims to better inform policy-makers addressing the issue of payday lending.

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The Insight Center for Community Economic Development is a national research, consulting and legal organization dedicated to building economic health and opportunity in vulnerable communities.

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