Legislation Text

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Res. No. 650
Resolution calling upon the appropriate committee of the Council of the City of New York to examine the operations of payday loan programs.

By Council Members Comrie, Nelson, Addabbo, Barron, Brewer, Felder, Fidler, Gennaro, Gerson, Gioia, Jackson, Perkins, Sanders, Sears, Vann; also Council Member Seabrook

Whereas, Payday loans are short-term consumer loans that carry extremely high interest rates and are offered at payday loan stores, gas stations, pawn shops, convenience stores, ATM machines, dedicated kiosks, and the Internet; and

Whereas, In a payday loan transaction, the consumer takes out a loan against his or her next pay check, providing the lender with a personal check for the loan amount plus a fee for interest and other charges; the lender holds the personal check until the consumer's next payday, at which point the consumer can redeem the check for cash, allow it to be deposited, or "roll over" the loan by paying additional interest and extension fees; and

Whereas, The American Association of Retired Persons (AARP) calls payday loans "debt treadmills" because once a customer obtains his payday loan, he or she is usually unable to pay it off within the designated period; industry analysts have found that the average payday customer renews his or her loan approximately 10 times; and

Whereas, The AARP also cautions that payday loans cost "at least ten times as much as a small loan from a traditional bank," and advises consumers that "you may get trapped in an endless cycle of debt: you are never able to pay off the loan, but you are repaying the loan fee over and over;" and

Whereas, According to industry commentators, the Annual Percentage Rate (APR) on payday loans range from 390% to 7300%, with an average of 500%; and

Whereas, Payday loans are generally made to lower middle class families who need cash quickly; and

Whereas, payday lenders do not run credit checks on their borrowers, making their loans extremely attractive to those concerned about bad credit; and

Whereas, The Consumer Federation of American and U.S. Public Interest Research Group have reported that an estimated 10 million American households paid $2.4 billion in fees for two-week loans during 2001 and project that the industry will continue to grow; and

Whereas, More than 60 lawsuits have been filed around the country to challenge the legitimacy of payday loans; and

Whereas, Payday lenders are often able to evade state usury caps by partnering with banks, which are only subject to the usury laws in the state in which the bank is headquartered; and

Whereas, In New York, non-bank companies that offer payday loans must be licensed under Article 9 of the State Banking Law and may not charge an annual interest rate in excess of 25%; however, the State Banking Department reports that out-of-state companies, which have been making payday loans in New York, are not subject to any direct state regulation; and

Whereas, In October 2002, the federal Office of the Comptroller of the Currency fined a major payday lender $250,000 for failing to safeguard customer files and thus compromising the consumers' right to privacy; the Wall Street Journal reports that more than 600 of these files were found discarded in a dumpster; and

Whereas, Payday lending has been described as a "toxic form of consumer lending...a recipe for disaster for the borrower," now, therefore, be it

Resolved, That the appropriate committee of the Council of the City of New York should examine the operations of payday loan programs.

DB
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