

## More in middle class using payday lenders



Rick Loomis / Los Angeles Times

Lunetta Blanks, right, pays back a loan she took out for car repairs to Sadia Garcia, manager of the Advance America branch in Blanks' Silver Lake neighborhood.

**The short-term loan stores are proliferating in suburban areas as the economy worsens. Critics say they trap the working poor with steep interest rates; lenders say they provide a needed service.**

By Kim Christensen  
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*One in a series of occasional stories*

With its quaint downtown and tree-lined streets, the unpretentious city of Cleveland, Tenn., in the foothills of the Great Smoky Mountains seems an unlikely epicenter for a \$50-billion-a-year financial industry.

But this is where W. Allan Jones founded Check Into Cash, the granddaddy of modern payday lenders, which cater to millions of financially strapped working people with short-term loans -- at annualized interest rates of 459%.

"It's the craziest business," said Jones, 55, a genial homegrown tycoon who founded his privately held company in 1993. "Consumers love us, but consumer groups hate us."

In years past, a worker might have asked his employer for an advance on his paycheck. Now, with a driver's license, a pay stub and a checking account, he can walk into a typical payday loan store, postdate a check for \$300 and stroll out with \$255 in cash after a \$45 fee.

No muss, no fuss, no credit check.

Americans now pay as much as \$8 billion a year to borrow at least \$50 billion from payday lenders, by various estimates.

That's more than 10 times the level of a decade ago, according to a report by the California Department of Corporations. In California alone, customers now borrow about \$2.5 billion a year from payday lenders, the report said.

Nationwide, the number of payday outlets has exploded from zero in 1990 to some 25,000 today, running the gamut from mom-and-pop outfits to national chains

Advocacy groups have long bashed payday loans as debt traps for the working poor, accusing lenders of baiting their customers with easy cash -- and then hooking them into an endless cycle of repeat

borrowing.

As the economy has worsened, however, payday loans have increasingly become crutches for those higher up the economic scale, said Elizabeth Warren, a Harvard law professor who chairs a congressional watchdog panel on the \$700-billion bailout for the financial system.

More and more middle-class families use the loans "to put off the day of reckoning," she said: "Too many families live with no cushion, so when something goes wrong they turn to payday lenders."

Payday loans aren't available only on payday. The term derives from the fact that they are designed to help borrowers get from one paycheck to the next, usually about two weeks.

Sheryl Loebig is a single mother of four who works as a paralegal for the nonprofit Legal Aid Society of Orange County.

After her aging Chevy Blazer died in early 2006, she cobbled together six payday loans for a \$1,500 down payment on a new Toyota Corolla. She had no other credit options, she said, because medical bills had driven her into bankruptcy.

Two years later, the Anaheim resident had racked up \$7,000 in fees to renew her loans every two weeks -- but still owed more than \$1,000.

"I am desperately trying to pay them down, but I just can't," said Loebig, 47, who earns \$33,000 a year. "I don't drink. I don't party. I don't go out. I don't have a cellphone. We don't have cable or any of the other amenities. I don't spend much on anything, but I still have nothing left over to pay the loans down."

Loebig said she was determined to repay the loans, "no matter what." But with take-home pay of \$1,800 to \$2,000 a month and rent, child care, a car payment and other expenses, she said, she was lucky to cover the fees on her loans, much less pay them off.

She had come to dread her own payday, since that meant spending the evening driving around Orange County, writing checks to her lenders.

"It's so bad, I can't sleep the night before, just thinking about it," she said.

Since 2006, as incomes have stagnated while costs of gasoline, mortgages and groceries have risen, more Southern California payday lenders have opened in suburban areas, according to a Times analysis of state records.

In the last year, outlets have sprung up in Woodland Hills, Simi Valley, Lake Forest and La Quinta, near Palm Springs.

With tidy lobbies that resemble bank branches, many outlets are in shopping centers anchored by Wal-

Marts, grocery stores or other big retailers. Lenders say their typical customers include homemakers, firefighters and teachers, whose steady jobs qualify them for loans.

Short of cash to fix her ailing BMW this year, Lunetta Blanks could have paid the bill with plastic. Instead, the federal investigator opted for a payday loan, shelling out \$300 to pay off a \$255 loan from the Advance America branch in her Silver Lake neighborhood.

"I'm trying to pay off my credit card, so I'd rather just pay them than put it on the card," Blanks said. "It's pretty high, but when you need the money, you need the money."

As an alternative to payday lending, some credit unions and other lenders have begun offering short-term, small-dollar loans at annual rates as low as 12%. But many borrowers are unaware of such options.

Although industry statistics show that most borrowers repay on time, many do not. Instead, they borrow from a second lender to pay off the first, or repeatedly roll over or "flip" their loans into new ones, sinking ever deeper in debt.

The Center for Responsible Lending, a nonprofit, nonpartisan advocacy group, contends that the average payday loan is flipped eight times, pushing the cost of a \$325 cash advance to \$793.

"That's common, that's hoped for, that's expected," said Ginna Green, the North Carolina-based group's California communications manager. "These loans are designed to be flipped and refinanced, over and over and over."

Lenders say that Green's organization and others exaggerate borrowers' difficulties.

"Consumer groups are very effective at using that 3- or 4% of horror stories about people who misused the product and got more loans than they can afford," said Steven Schlein, a spokesman for Community Financial Services Assn. of America, a trade group.

Most payday borrowers earn \$25,000 to \$50,000 a year, and most loan stores that don't offer check-cashing or pawn services are in middle-class neighborhoods, he said.

"Why would you have a business model to make loans to people who can't pay you back?" he said.

In California the maximum loan amount is \$300, which yields borrowers \$255 after a fee of \$15 per \$100. That's 17.6% of the amount borrowed, so if a customer takes a year to pay it off, it works out to an annual rate of 459% -- 17.6% multiplied by 26 two-week periods.

Lenders say it's unfair to express their fees as percentage rates because their loans are designed to be short-term. Some liken the cash advances to taxi rides, saying that both are bad choices for the long haul -- and that borrowers know it.

"We are dealing with people who are a whole lot smarter than what the consumer groups say they are," said Jones of Check Into Cash.

Modern payday lending's roots reach to illegal "salary buying" of a century ago, when loan sharks charged workers up to 300% for cash advances on their paychecks. That led to government regulation of small loans, which eventually were made by finance companies and other traditional lenders.

But as mainstream lenders abandoned the market for larger, more profitable loans, fledgling payday lenders stepped in -- and quickly multiplied.

Jones, widely considered an industry pioneer, got his start in his hometown of Cleveland, Tenn., population 38,000.

He had dropped out of college two decades earlier to work in his father's credit bureau and collections business, he said, when he hit upon the cash advance idea in 1993 while wooing a job candidate from Johnson City, Tenn.

"I found him in this old service station and he had a banner up that said 'Check Cashing,' " Jones said. "When I went in to try to hire him, I had to keep moving out of the way because customers kept coming in and thanking him for being open."

As Jones tells it, grateful borrowers were happy to trade 20% of their next paycheck for a two-week advance rather than miss bill payments or face bank fees for bounced checks.

"Our first customer was an Army recruiter," he recalled. "He came in on a Friday and said his check hadn't arrived. His son had a birthday that Saturday and wanted a \$100 bicycle and he didn't want to disappoint him."

Jones, whose fortune has been pegged at \$500 million, owns a gated 600-acre estate in Cleveland, complete with a lighted football field and spectator stands, a car collection that includes "everything my daddy wouldn't buy me," two corporate jets, a shopping center, office buildings, apartments and restaurants.

A major philanthropist and preservationist, he has doled out millions for civic projects, including a new wrestling facility at Cleveland High School and an aquatics center at the University of Tennessee in Knoxville.

But not even good works can quiet those who decry payday lenders.

"We look at those big pots of money and we know where it came from: low- to moderate-income workers who are writing checks each week without money in the bank," said Jean Ann Fox, the Consumer Federation of America's director of consumer protection.

Still, payday lenders' profits are only slightly higher than those of banks and other financial institutions, according to a December 2007 study by researchers from Vanderbilt University Law School and the University of Oxford. The study noted that while payday lenders' interest rates can be astronomical, they also have higher costs because of defaults.

Jones said his company -- which now has 1,270 outlets in more than 30 states -- makes \$1.12 on the \$15 fee it charges on a \$100 loan, after labor, overhead and other costs.

"Look out your window and tell me if you see any big bank buildings," he said to a reporter in Los Angeles, its skyline punctuated by towers owned by U.S. Bank, Wells Fargo and Bank of America. "You see any big payday loan buildings sticking up? You tell me who's making all the money."

His major competitors include privately held Ace Cash Express, based in Irving, Texas, and at least five large publicly traded lenders, led by Advance America Cash Advance of Spartanburg, S.C., with some 2,850 branches.

Advance America was founded by George D. Johnson Jr., a developer and former Blockbuster Entertainment executive, and William "Billy" Webster IV, a Fulbright scholar who hit big with Bojangles fried chicken franchises and later was President Clinton's advance man.

After leaving government service in 1995, Webster turned for ideas to Johnson, now 66, whom he'd met through the restaurant business.

"George said, 'Something just came across my desk. Why don't we go look at it?' " recalled Webster, 51, who once worked for a payday lender to examine it from the inside out.

"It was an incredible business," he said. "I had never seen a business that was as quick to fulfill such a compelling consumer demand."

He and Johnson started Advance America in 1997 and took it public in 2004. Last year the company made 11.5 million loans to 1.5 million customers, posting \$54 million in net income on record revenue of \$709 million.

Through the first nine months of this year, Advance America's revenue decreased 4.7% to \$501.5 million, and net income fell 24% to \$32.5 million.

The decline is largely due to legislative efforts to cap interest rates.

Payday lenders have flourished in part by persuading state lawmakers to exempt them from usury limits and small-loan rate caps of 24% to 48% for banks and other financial institutions.

In a 2007 study, the nonpartisan National Institute on Money in State Politics found that California was among the top recipients of contributions from payday lenders. State-level candidates and party

committees garnered \$837,673 from 1999 to 2006, trailing only Illinois and Florida. Last year, the industry gave at least \$109,000 more, state records show.

In April, a bill to cap California payday interest rates at 36% died after the Assembly Banking and Finance Committee gutted it, with some members saying that people living paycheck to paycheck needed the loans.

Similar laws have passed elsewhere, though, with dire results for payday lenders.

Congress last year put a 36% rate limit on loans to members of the armed services, effectively ending cash advances to military families. When Oregon set the same cap last year, it all but shut down payday lending there.

In November, voters in Ohio and Arizona rejected ballot measures to lift legislative restrictions on payday lenders, adding those states to a list of about a dozen others that either do not permit payday lending or heavily restrict it.

Payday lenders have begun to offer lower-interest loans in some of those states.

"The pendulum has swung a little more toward the side of the consumer action groups," said Daniel O'Sullivan, an analyst with Utendahl Capital Partners in New York.

But he's not ready to count out the industry just yet.

"At the end of the day, there is a need for the product," said O'Sullivan, whose firm has no financial stake in it. "So it comes down to finding something that makes sense for everybody -- something the companies can make money at without putting people into a debt spiral."

[kim.christensen@latimes.com](mailto:kim.christensen@latimes.com)

Times staff writer Doug Smith contributed to this report.