

FINANCIAL DRAIN:

Payday Lenders Extract Millions From Hoosier Communities

SUMMER 2023 UPDATE



INDIANA
COMMUNITY ACTION
POVERTY INSTITUTE
Research and Public Policy



Introduction

In 2019, the Indiana Institute for Working Families (now Indiana Community Action Poverty Institute) and the Indiana Assets and Opportunities Network published a first-of-its-kind look at the scope of payday lending in Indiana. The report, titled *Financial Drain*, grew out of concerns about the payday lending industry and its consequences for Hoosier families. This report provides an update on the 2019 publication.¹

Unfortunately, since the first report was published, the alternative financial services marketplace and the laws and regulations that govern it in Indiana – specifically, payday loans – have remained relatively unchanged. However, advocates and industry lobbyists have not been sitting idly by. Advocates, through the Hoosiers for Responsible Lending coalition, focused their efforts and energy behind a bill to place a 36% Annual Percentage Rate (APR) cap on payday loans. At the same time, after a two-year hiatus on legislative action, the payday industry had legislation introduced in the 2022 session of the Indiana General Assembly that would have drastically expanded the predatory lending market in Indiana.² Luckily, this legislation was defeated, but further efforts to expand predatory lending will likely continue.

Payday Lending in Indiana

Payday loans are high-cost, small-dollar loans with payments and fees due in full when a borrower receives their source of income, including a paycheck, Social Security payment, or pension. Lenders do not assess a borrower's ability to repay the loan by considering other debt payments or expenses.

In Indiana, payday loans (referred to as "small loans" under Indiana code) are governed and regulated under a separate chapter of the Uniform Consumer Credit Code (UCCC) from other lenders such as banks or credit unions.³ All lenders offering small loans must be registered with the Indiana Department of Financial Institutions (DFI), including storefronts and online lenders. Additionally, payday loans are exempt from the state's 72% APR criminal loansharking statute.

Figure 1: Allowable Structure and Terms of Payday Lending in Indiana

Loan Amounts / Principal:

\$50 - \$715

but not more than 20% of borrower's gross monthly income. The maximum loan size is indexed for inflation every two years and published in the Indiana Administrative Code.⁴ The current maximum is up 18% from the maximum from 2019 (\$605).

Minimum Term:

14 days



Number of Loans:

Borrower can have no more than two loans outstanding totaling no more than the maximum loan amount (\$715 effective January 1, 2023).

Consecutive Small Loans:

After a borrower's sixth loan, lenders must wait seven days before offering a new loan



Finance Charges:

15%
of first \$250

13%
of loan amount
between \$251-\$400

10%
of loan amount
over \$400

Payday lenders are not required to report any payment or credit data to a credit bureau, meaning the borrower does not build credit if they can successfully repay the loan. However, when a borrower cannot repay a loan or they default, the lender can sell this loan to a debt collector, and the outstanding balance then appears as a collection on the borrower's credit report. When a loan is sold to a collector, the balance is no longer subject to the maximum number of loans or total principal, meaning a borrower can take out a new loan. While borrowers are entitled to a no-cost extended payment plan after their fourth loan, this feature does not appear to provide a meaningful protection against a debt trap. In fact, one of Indiana's largest payday lenders is being sued by the Consumer Financial Protection Bureau for allegedly concealing no-cost repayment plans and improperly withdrawing funds.⁵

Hoosier borrowers cannot pay a fee to extend an existing loan or take out a new loan to pay off an existing loan. However, the 2019 report's findings that 60% of payday loan borrowers reborrow the same day they repay a previous loan shows a clear loophole for lenders to exploit, as the typical lender sees profit after four or five payday loans.⁶

Table 1: Indiana Payday Loan Examples

| Loan Amount: | Finance Charge: | Max APR (14-day term): | Minimum Monthly Income: |
|--------------|-----------------|------------------------|-------------------------|
| \$50 | \$7.50 | 391% | \$250 |
| \$100 | \$15.00 | 391% | \$500 |
| \$250 | \$37.50 | 391% | \$1,250 |
| \$400 | \$57.00 | 372% | \$2,000 |
| \$500 | \$67.00 | 349% | \$2,500 |
| \$715 | \$88.50 | 323% | \$3,575 |

Source: Author's calculations using Indiana Code 24-4.5-7.

Indiana Payday Lenders

DFI publishes an annual report detailing the number of registered payday lenders as of the end of year, including the number of branches. Table 2 shows a steady decline in payday lending storefronts over the past five years.

Table 2: Registered Payday Lenders and Number of Physical Branches by Year

| Year (as of 12/31) | Number Registered / Licensed | Number of Physical Branches |
|--------------------|------------------------------|-----------------------------|
| 2016 | 32 | 284 |
| 2017 | 30 | 311 |
| 2018 | 30 | 296 |
| 2019 | 29 | 249 |
| 2020 | 21 | 221 |
| 2021 | 17 | 161 |

Source: Indiana Department of Financial Institutions Annual Reports 2016-2021.⁷

Given the roughly two-year lag in data, DFI's current license search provides a better snapshot of current licensees and branch locations (See Appendix 1). Of the 115 branches located in the state, 84% are owned and operated by lenders located outside of Indiana.⁸ Notably, Check 'n Go recently closed all of their roughly 20 storefront locations in 2022. The lender still provides loans online to Indiana borrowers.

Rethinking Small Dollar & Payday Lending in Indiana

Current Indiana law allows payday lenders to issue loans as high as 391% APR. Research shows that the typical borrower takes out eight to 10 loans per year, and additional research shows this number could be as high as 11 to 19 loans per year.⁹ In 2023, a Hoosier borrower could theoretically take 24 payday loans throughout the year.¹⁰

In 2021, payday lenders collected \$29.2 million in finance charges on loans that averaged \$386.¹¹

Figure 2: Payday Loan Volume in Indiana



While specific loan volume, fees, and loan levels for 2019 and 2020 are not available, DFI provided this data via a time series graph. Figure 2 above shows a precipitous drop in loan volume during early 2020.¹² This is likely due to robust federal support through stimulus checks and enhanced unemployment insurance payments, which reduced reliance on these high-cost loans to meet basic needs. As those benefits expired, payday loan volume began to rise, falling again at the end of 2020 through mid-2021. This drop coincided with the second federal stimulus legislation and the American Rescue Plan Act, which provided additional unemployment benefits, a larger Child Tax Credit (paid monthly), and additional rental assistance. Since then, volumes are trending upward, but have not yet touched pre-pandemic levels. Other states have seen similar trends in payday loan volume.¹³ During this time, consumer advocates have worked hard against the proliferation of harmful alternatives, such as high-cost installment loans and early or earned wage advance products.¹⁴ Additionally, several banks and credit unions have created small dollar loan products as direct alternatives to payday loans.¹⁵ These products are typically available to customers with an established relationship with the financial institution.

At 36% APR, borrowers would have saved over \$26 million in 2021.

For comparison, at 36% APR versus current Indiana law, borrowers could have saved over \$26 million in 2021, putting more money into local economies and communities that typically lack resources but allow payday lenders to thrive.¹⁶ Appendix 2 provides county-level finance charges and potential savings.

Policy & Program Implications

Hoosiers who are financially vulnerable, live in areas of our state with limited credit options, or simply do not have a credit history to prove creditworthiness are sometimes lured into a debt trap by payday lenders. Because of a lack of strong consumer protections, financially vulnerable Hoosiers are threatened by a system that pulls them in and keeps them there – a cycle that they will likely struggle to leave. Consumer-friendly policies that prevent a debt trap and provide more affordable credit through strong rate caps would have a demonstrable impact on our state and in the lives of Hoosiers.

Appendix 1: Licensees & Branches¹⁷

| Licensee | Doing Business as: | Headquarters | Number of Indiana Branches | Payday Loans Available Online |
|--|---|------------------|----------------------------|-------------------------------|
| Advance America, Cash Advance Centers of Indiana, Inc. | Advance America | Spartanburg, SC | 34 | Yes |
| Allstar Rentals, Inc. | Payday Cash Advance | Oakland City, IN | 1 | No |
| Cash in a Flash, Inc. | Cash in a Flash | Merrillville, IN | 2 | Yes |
| Cash King Inc. | Cash King | Columbus, IN | 2 | Yes |
| Cash Loan & Security, Inc. | Cash Loan & Security | Lafayette, IN | 3 | No |
| CNU Of Indiana, LLC | CashNetUSA | Chicago, IL | 0 | Yes |
| DVB, Inc. | Quik Payday Loans | Greencastle, IN | 1 | No |
| G & R Advance, Inc. | A-1 Cash Advance | Indianapolis, IN | 5 | Yes |
| Great Lakes Specialty Finance, Inc. | Check 'n Go | Fairfield, OH | 0 | Yes |
| Hoosier Check Cashing of Ohio, Ltd, LLC | Check\$mart, Cash Central, Check Into Cash, LoanByPhone | Dublin, OH | 32 | Yes |
| J & G Advance, Inc. | A-1 Cash Advance | Carmel, IN | 3 | Yes |
| Lending Hand Inc. | Lending Hand | Monticello, IN | 2 | No |
| Populus Financial Group, Inc. | ACE Cash Express | Irving, TX | 23 | Yes |
| Speedy Check Cashers Inc | Speedy Check Cashers | Northbrook, IL | 7 | No |

Appendix 2: Storefronts, Charges, & Savings by County¹⁸

| County | Number of Storefronts | 2021 Finance Charges | 2021 Estimated at 36% APR | 2021 Savings at 36% APR vs. Current Law |
|--------------|-----------------------|----------------------|---------------------------|---|
| Allen | 7 | \$1,777,391 | \$180,455 | \$1,596,936 |
| Bartholomew | 1 | \$253,913 | \$25,779 | \$228,134 |
| Cass | 1 | \$253,913 | \$25,779 | \$228,134 |
| Clark | 1 | \$253,913 | \$25,779 | \$228,134 |
| Clinton | 1 | \$253,913 | \$25,779 | \$228,134 |
| Daviess | 1 | \$253,913 | \$25,779 | \$228,134 |
| DeKalb | 1 | \$253,913 | \$25,779 | \$228,134 |
| Delaware | 4 | \$1,015,652 | \$103,117 | \$912,535 |
| Dubois | 1 | \$253,913 | \$25,779 | \$228,134 |
| Elkhart | 3 | \$761,739 | \$77,338 | \$684,401 |
| Hamilton | 1 | \$253,913 | \$25,779 | \$228,134 |
| Hancock | 1 | \$253,913 | \$25,779 | \$228,134 |
| Hendricks | 4 | \$1,015,652 | \$103,117 | \$912,535 |
| Howard | 3 | \$761,739 | \$77,338 | \$684,401 |
| Jasper | 2 | \$507,826 | \$51,559 | \$456,267 |
| Jennings | 1 | \$253,913 | \$25,779 | \$228,134 |
| Johnson | 2 | \$507,826 | \$51,559 | \$456,267 |
| Knox | 2 | \$507,826 | \$51,559 | \$456,267 |
| Kosciusko | 1 | \$253,913 | \$25,779 | \$228,134 |
| Lake | 14 | \$3,554,783 | \$360,911 | \$3,193,872 |
| LaPorte | 2 | \$507,826 | \$51,559 | \$456,267 |
| Lawrence | 1 | \$253,913 | \$25,779 | \$228,134 |
| Madison | 1 | \$253,913 | \$25,779 | \$228,134 |
| Marion | 34 | \$8,633,043 | \$876,498 | \$7,756,546 |
| Marshall | 1 | \$253,913 | \$25,779 | \$228,134 |
| Monroe | 1 | \$253,913 | \$25,779 | \$228,134 |
| Montgomery | 1 | \$253,913 | \$25,779 | \$228,134 |
| Noble | 1 | \$253,913 | \$25,779 | \$228,134 |
| Porter | 1 | \$253,913 | \$25,779 | \$228,134 |
| Putnam | 2 | \$507,826 | \$51,559 | \$456,267 |
| Scott | 1 | \$253,913 | \$25,779 | \$228,134 |
| Shelby | 2 | \$507,826 | \$51,559 | \$456,267 |
| St. Joseph | 4 | \$1,015,652 | \$103,117 | \$912,535 |
| Steuben | 1 | \$253,913 | \$25,779 | \$228,134 |
| Tippecanoe | 2 | \$507,826 | \$51,559 | \$456,267 |
| Vanderburgh | 3 | \$761,739 | \$77,338 | \$684,401 |
| Vigo | 2 | \$507,826 | \$51,559 | \$456,267 |
| Wabash | 1 | \$253,913 | \$25,779 | \$228,134 |
| Wayne | 1 | \$253,913 | \$25,779 | \$228,134 |
| White | 1 | \$253,913 | \$25,779 | \$228,134 |
| Total | 115 | \$29,200,000 | \$2,964,625 | \$26,235,375 |

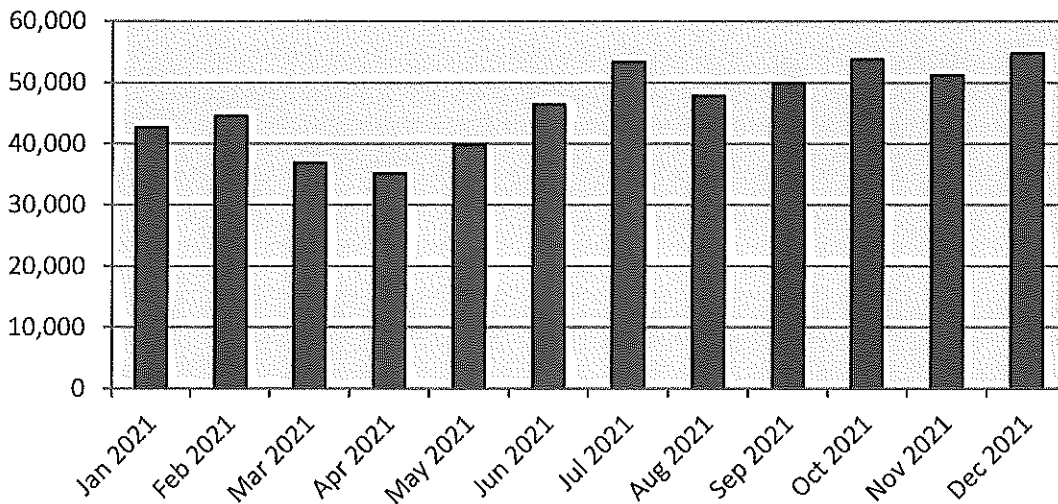
Appendix 3: Payday Loan Data from Indiana Department of Financial Institutions



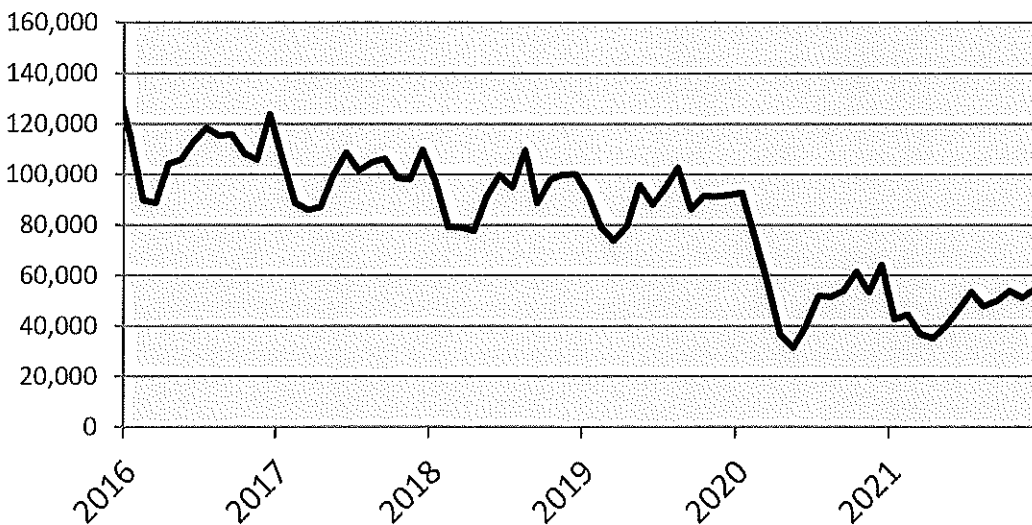
Small Loan Volume

The total number of small loans opened from January 2021 through December 2021 was 555,940.¹

Volume of Loans per Month



Loan Volume Trend



¹ Loan volume is based on agreement dates and includes historically uploaded loans. Loans that were administratively closed are excluded. Due to the dynamic nature of the database, the numbers reported are subject to change.

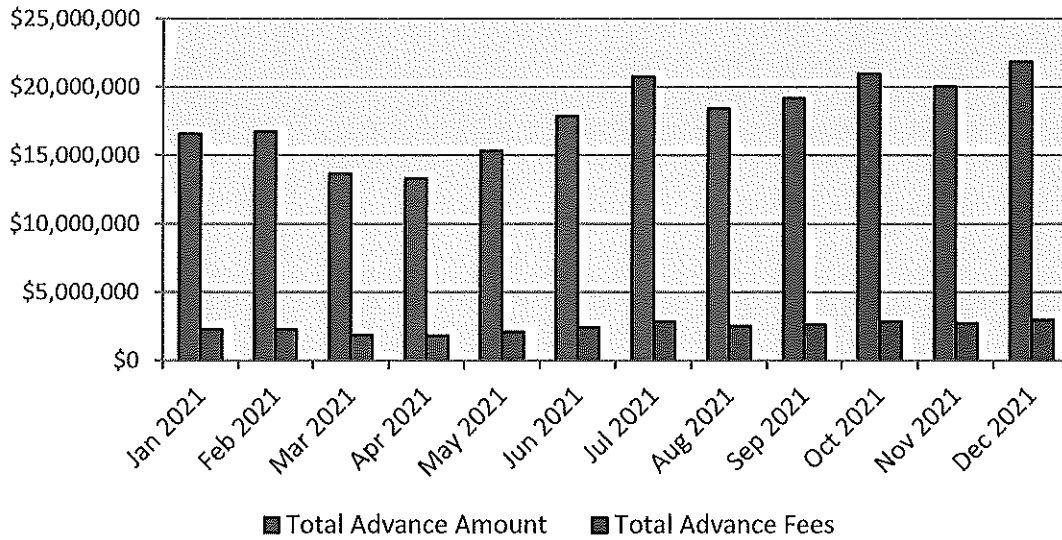
Appendix 3: Payday Loan Data from Indiana Department of Financial Institutions Continued



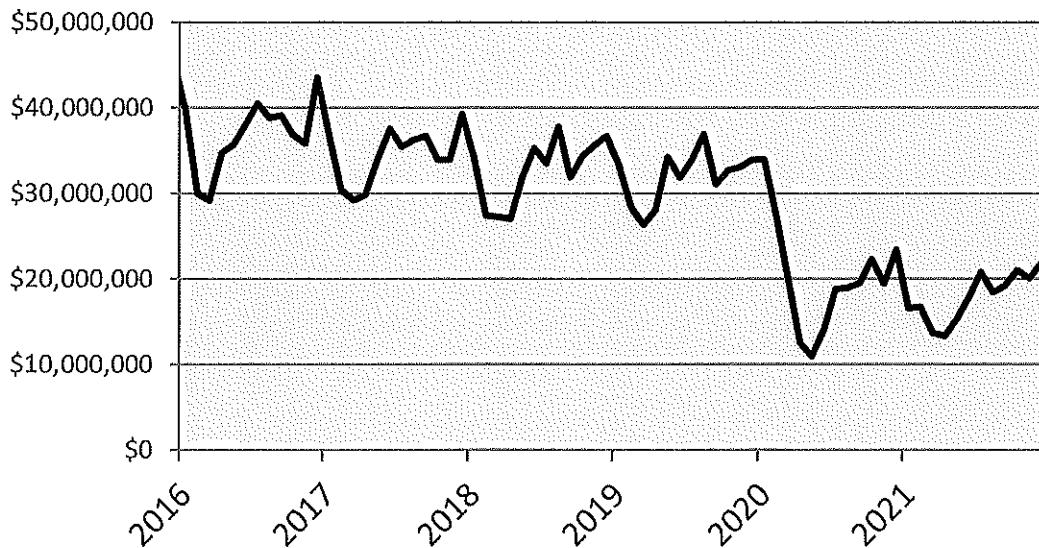
Small Loan Amounts and Fees

The 555,940 small loans opened during the period from January 2021 through December 2021 represent a total advance amount of approximately \$214.7 million with total advance fees of approximately \$29.2 million.

Loan Amounts and Fees



Loan Amounts Trend



Endnotes

- 1 Erin Macey and Logan Charlesworth, *Financial Drain: Payday Lenders Extract Millions from Hoosier Communities* (Indianapolis, IN: Indiana Assets and Opportunity Network, 2019), <https://institute.incap.org/assets/docs/Public-Policy/Payday-Lending/2019-FinancialDrain-Report.pdf>.
- 2 Indiana Community Action Poverty Institute, *Bill Fact Sheet* (Indianapolis IN: 2022), https://institute.incap.org/assets/docs/Public-Policy/Payday-Lending/0122_BillFactSheet_final.pdf; Senate Bill 352, Second Regular Session of 122nd General (2022).
- 3 Indiana Code § 24-4.5-7.
- 4 Indiana Administrative Code § 750-1-1-1(a) effective January 1, 2023 (November 2022).
- 5 Consumer Financial Protection Bureau, “CFPB Sues ACE Cash Express for Concealing No-Cost Repayment Plans and Improperly Withdrawing Consumers’ Funds,” July 12, 2022, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-ace-cash-express-for-concealing-no-cost-repayment-plans-and-improperly-withdrawing-consumers-funds/>.
- 6 The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* (Washington, DC: 2012), https://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2012/pewpaydaylendingreportpdf.pdf; Consumer Financial Protection Bureau, *Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products* (Washington, DC: 2016), https://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf.
- 7 Reports are available on the Indiana Department of Financial Institutions website: <https://www.in.gov/dfi/about-us/annual-reports/>.
- 8 Author’s calculations using data from the Indiana Department of Financial Institutions’ listing of licensed small dollar lender accessed March 16, 2023 from <https://extranet.dfi.in.gov/ConsumerCredit/CompanyListing/9?handler=CompaniesInLicenseType>.
- 9 Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products* (Washington, DC: 2013), https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf#page=22; Pew Charitable Trusts, *Payday Lending in America*.
- 10 Author’s calculations assuming a borrower takes first loan on January 3, 2022 and every two weeks, subject to seven day cooling periods per six-loan borrowing cycles.
- 11 Data from Indiana Department of Financial Institutions through Veritec database. See copy of report in Appendix 3.
- 12 Data from Indiana Department of Financial Institutions through Veritec database. See copy of report in Appendix 3.
- 13 California Department of Financial Protection and Innovation, *Annual Report of Payday Lending Activity Under the California Deferred Deposit Transaction Law* (Sacramento, CA: 2021), https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/07/DFPI_AnnualReport_CDDTL-2020.pdf.
- 14 Sunny Glottmann, Charla Rios, and Pete Smith, *Unsafe Harbor: The Persistent Harms of High-Cost Installment Loans* (Durham, NC: Center for Responsible Lending, 2022), <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-safe-harbor-low-sep2022.pdf>; Center for Responsible Lending, *Earned Wage Advance: States Should Regulate as Credit, Protect Consumers* (Durham, NC: 2023), <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-earned-wage-access-mar2023.pdf>.
- 15 Ella Abbott, “Grant County Organizations Create Loan Program To Replace Emergency Payday Loans,” *WFYI*, March 16, 2021, <https://www.wfyi.org/news/articles/grant-county-orgs-create-loan-program-to-replace-emergency-payday-loans>; Cara Smith, “Another Big Bank Gets Into Small-Dollar Loans,” *NerdWallet*, December 9, 2022, <https://www.nerdwallet.com/article/loans/another-big-bank-gets-into-small-dollar-loans#:~:text=How%20small%2Ddollar%20bank%20loans,a%20statement%20from%20Wells%20Fargo>.
- 16 Author’s calculations using data from Indiana Department of Financial Institutions through Veritec database. See copy of report in Appendix 3.
- 17 Author’s calculations using data from the Indiana Department of Financial Institutions’ listing of licensed small dollar lender accessed March 16, 2023 from <https://extranet.dfi.in.gov/ConsumerCredit/CompanyListing/9?handler=CompaniesInLicenseType>.
- 18 Author’s calculations using data from Indiana Department of Financial Institutions through Veritec database. See copy of report in Appendix 3. Assumes each storefront makes an equal number of loans.

Acknowledgements



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