

Payday Loans in Arkansas: A Survey of AARP Members

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Report Prepared by Joanne Binette

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Background

Consumers, particularly those who are considered high-risk borrowers or who have low incomes, often experience difficulty finding credit on reasonable terms. These consumers are commonly referred to high-cost lenders and may be subject to deceptive and unfair lending practices, such as hidden fees, exceedingly high interest rates, prepayment penalties, extreme default penalties, “packing” expensive credit insurance onto loans and multiple rollovers.¹

Payday lenders are a major source of instant cash for low-income and working-poor consumers, and consumers with heavy debt burdens and/or poor credit histories. Ninety-nine percent of payday loans go to repeat borrowers. Instead of benefiting borrowers, payday loans trap them in high-cost debt. To qualify for a loan borrowers only need a bank account and a steady income. They write a post-dated personal check in exchange for cash from the lender who then holds the check for the loan term, typically one to four weeks or until the borrowers’ next payday. Most borrowers are unable to pay back the loan within the term and in order to avoid default they will renew the loan and pay the interest fee again. Payday loan borrowers become trapped in this cycle of debt, forced to pay interest every two weeks often for months or years.²

AARP Arkansas is concerned about protecting consumers against high-cost payday loans and the deceptive lending practices often associated with these loans. *Payday Loans in Arkansas: A Survey of Arkansas AARP Members* examines members’ support for various consumer protections for individuals obtaining payday loans, legislation that would ultimately cap high interest rates on payday loans, and the creation of a small loan fund to allow consumers to get loans at reasonable interest rates.

This report is part of a larger mail survey of 1,000 Arkansas AARP members conducted between July and August 2005. The full questionnaire is contained in the appendix to this report. Throughout the report, statistics representing member responses are reported in percentages.³ In some instances, percentages are small and may not seem to represent a significant proportion of members, yet when projected to the total Arkansas membership the actual number of people may be substantial. As of November 2005, the number of AARP members in Arkansas was 341,226.

¹ Policy Book: AARP Public Policies 2004. Washington, DC: AARP.

² The Center for Responsible Lending, 2005 Payday Lending Fact Sheet: <http://www.responsiblelending.org/payday/index.cfm>

³ Percentages may not add up to 100 due to rounding.

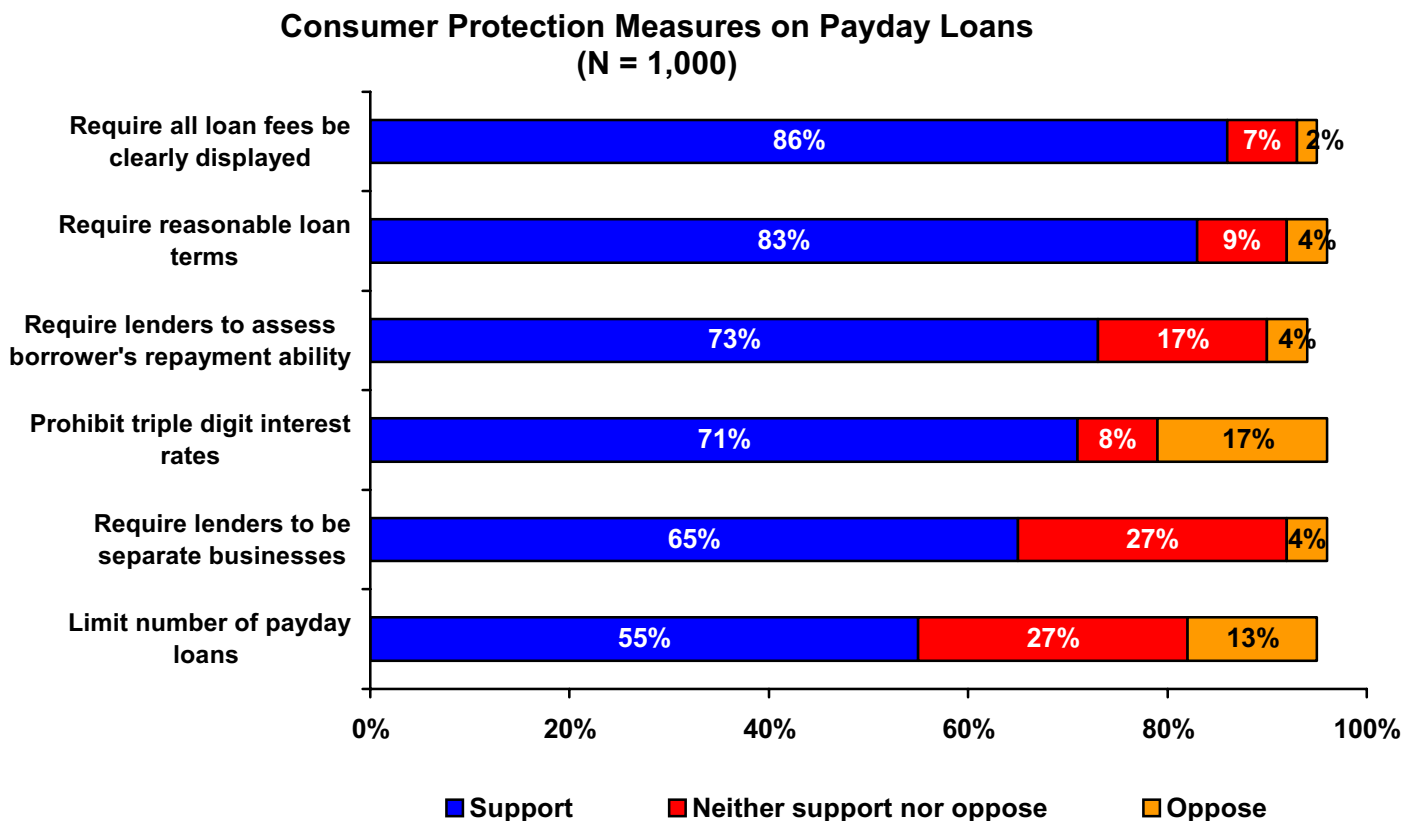
Findings

Arkansas members support consumer protection measures for state residents who may receive a payday loan.

Members were presented with the following information about payday loans in Arkansas:

Payday loans are short-term loans typically made at extremely high rates of interest. Customers write post-dated checks for deposit at a later date. The payday loan outlet will then advance the customer cash in the amount of the check for a fee and hold the check for the loan term—usually one to four weeks or until the customer's next payday. Payday lenders in Arkansas sometimes charge fees as much as a 1400% annual percentage rate.

Members were then asked how strongly they support various consumer protection measures for Arkansas residents receiving payday loans from a financial outlet. Over four in five strongly or somewhat support requiring that all fees be prominently and clearly displayed for all consumers (86%) and requiring reasonable loan terms to make it easier for customers to pay back these payday loans (83%). Over seven in ten support requiring lenders to assess the borrower's ability to repay the loan (73%) and prohibiting triple digit annual interest rates for payday loans (71%). Almost two-thirds support requiring payday lenders to be separate businesses that are not located inside other stores (65%), and more than half support limiting the number of payday loans consumers can get in one year (55%).



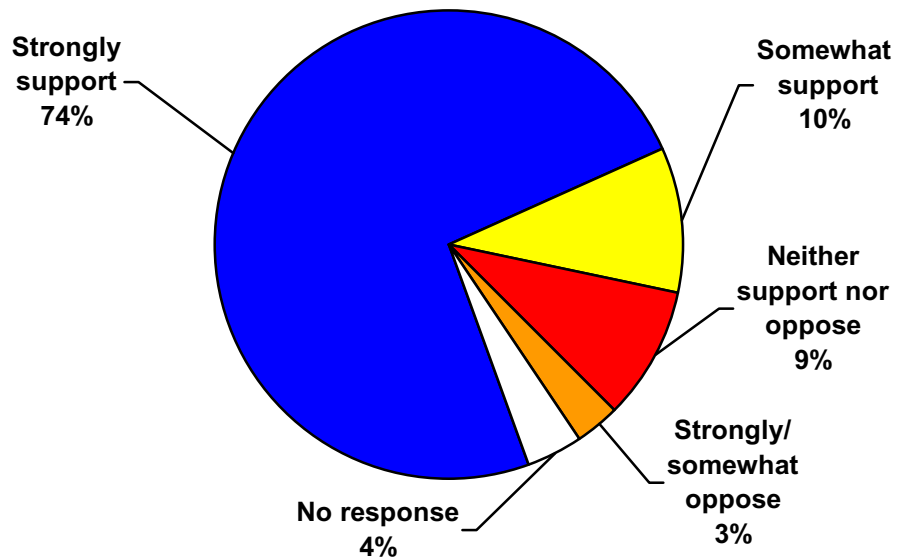
Over four in five Arkansas members support a law that would require payday lending fees to be considered interest.

Members were presented with the following information about payday lending fees in Arkansas:

The Arkansas Constitution was amended in 1982 to stop lenders and merchants from charging consumers more than 17 percent interest on consumer loans and credit sales. In 1999, the Arkansas legislature passed the Check Cashers Act which says that a fee paid for holding a check written in advance of the date it is to be cashed will not be considered interest. Using the Check Cashers Act, payday lenders can avoid the 17 percent interest rate cap set by the Constitution, and are currently charging fees as much as a 1400 percent annual percentage rate.

Members were then asked whether or not they support legislation that would require payday lending fees to be considered interest so that these fees could not go any higher than the 17 percent interest rate cap set by the Constitution. Approximately three-quarters (74%) strongly support this law, and another one in ten (10%) somewhat support it. Only three percent oppose this law.

**Support for a Law That Would Require Payday Lending Fees to be Considered Interest
(N = 1,000)**



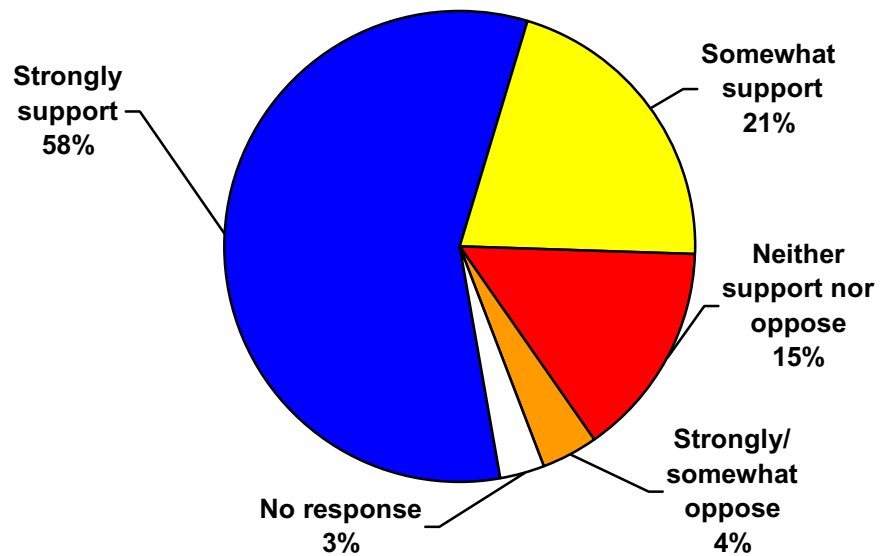
Nearly eight in ten Arkansas members support the creation of a small loan fund that would provide consumers with small short-term loans at reasonable interest rates.

Members were presented with the following information about the creation of a small loan fund in Arkansas:

As an alternative to expensive short-term payday loans, a proposal has been made by a coalition, made up of local non-profit organizations, community organizations, educational institutions, and credit unions, to create a small loan fund to be run by a non-profit organization. The fund would come from Arkansas banks and other organizations that would make a small profit on loans made to consumers.

Members were then asked whether or not they support the creation a small loan fund that would provide consumers with small short-term loans at reasonable interest rates. About eight in ten strongly (58%) or somewhat support (21%) the creation of such a loan fund, while only four percent oppose this proposal.

Support for Creating a Small Loan Fund to Provide Consumers with Small Short-term Loans at Reasonable Rates* (N = 1,000)

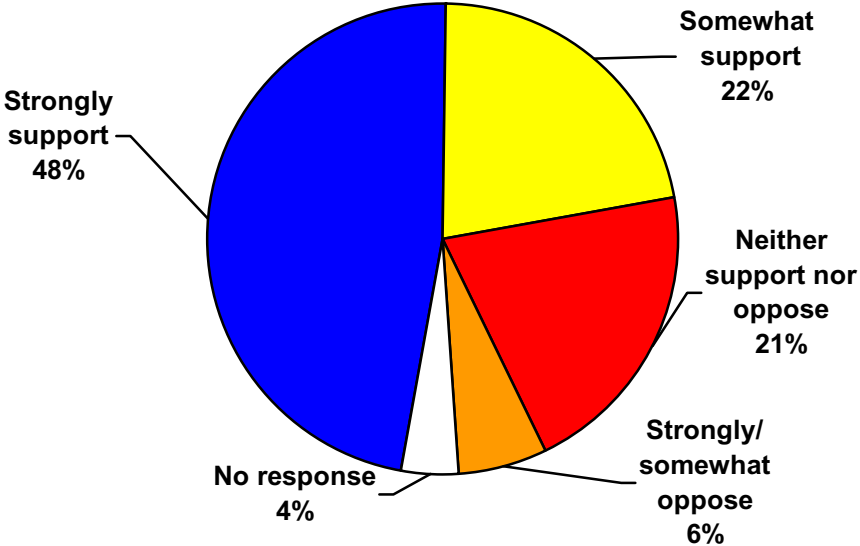


*Percentages may not add up to 100 due to rounding.

Seven in ten Arkansas members support requiring consumers to take credit counseling courses in order to borrow money from the small loan fund.

As part of the proposal for the creation of a small loan fund, consumers would be required to take credit counseling courses in order to be able to get loans from the fund. Seven in ten members strongly (48%) or somewhat support (22%) this requirement. Only six percent oppose this requirement.

Support for Requiring Consumers to Take Credit Counseling Courses in Order to Get Loans from the Small Loan Fund* (N = 1,000)



*Percentages may not add up to 100 due to rounding.

Conclusions

Arkansas members support consumer protections for state residents who may take out high-cost payday loans. More than eight in ten support requiring loan fees to be clearly displayed and having reasonable pay back terms for the loans. Seven in ten or more support requiring payday lenders to assess the borrower's repayment ability and prohibiting triple digit annual interest rates. Over half support requiring payday lenders to be separate businesses not located inside other stores and limiting the number of payday loans consumers can get in one year.

Members further support legislation that would control the high cost of payday loans. Over eight in ten support a law that would require payday lending fees to be considered interest therefore not allowing these fees to go any higher than the 17 percent interest rate cap set by the Constitution.

Arkansas members support the creation of a small loan fund as an alternative for consumers seeking payday loans. The small loan fund would be run by a non-profit organization and be funded by Arkansas banks and other organizations that would make a small profit on the loans. Almost eight in ten members support the creation of such a fund. Members also support requiring consumers to take credit counseling courses in order to get loans from the fund.

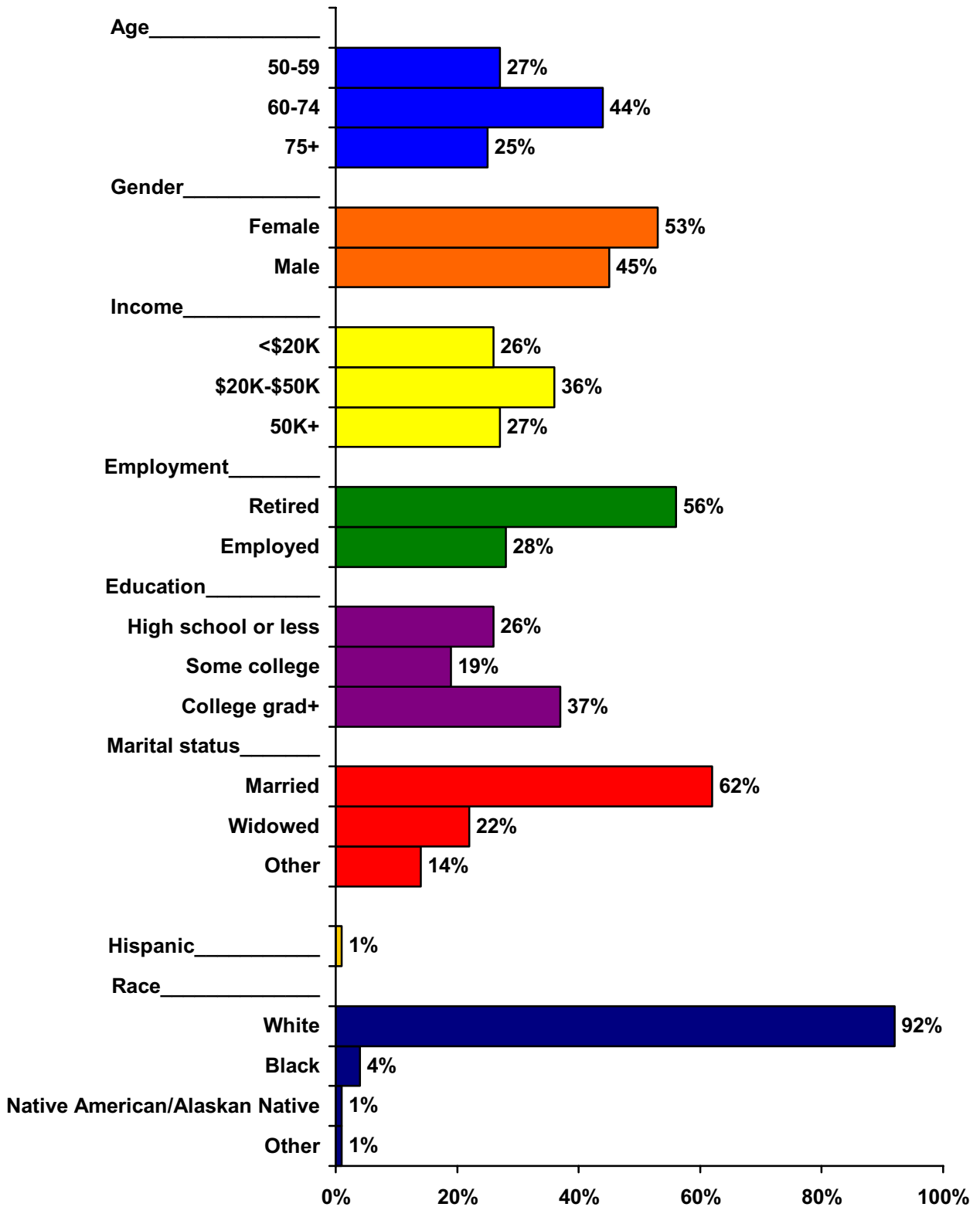
Given Arkansas members' strong support for consumer protections and legislation in the area of payday lending, AARP Arkansas should work towards establishing laws and regulations that will help payday loan consumers avoid the deceptive and unfair lending practices often associated with these loans.

Methodology

AARP conducted the *2005 AARP Arkansas Member Survey* from July 7 through August 4, 2005. A random sample of 2,000 AARP members in Arkansas, proportionally stratified by three age segments, 50 to 59, 60 to 74, and 75+, was selected from AARP's membership database. Each sampled member was contacted about the survey in four ways: a pre-notification postcard, the survey itself, a reminder postcard, and a second survey.

Fifty-one percent of the sampled Arkansas members returned surveys by the cut-off date, providing 1,004 useable surveys for analysis. Thus, the survey has a sampling error of plus or minus 3.2 percent. Survey responses were weighted to reflect the distribution of the age segments in the member population of Arkansas. Due to rounding of the weights, the final number of cases for the weighted dataset is 1,000. As of November 2005, the number of AARP members in Arkansas was 341,226.

Demographic Characteristics (N = 1,000)



Annotated Questionnaire

2005 AARP Arkansas Member Survey

(AARP Members Weighted n = 1,000; Response Rate = 51% Sampling Error = 3.2± %) (Percentages may not add to 100% due to rounding or multiple response.)

Long-Term Care

1. Long-term care refers to services provided over an extended period of time at home, in a community setting, or in a nursing home. These services are available to people of all ages who are frail, ill, or have a disability and who need help with regular daily activities – such as getting dressed, bathing, preparing meals, or eating. **Home and community-based services** refer to long-term care services received by people in their homes or in other home-like settings.

Are the following long-term care services available in your community?

	Yes ▼	No ▼	Not Sure ▼	No Response ▼
a. Home chore services such as heavy housecleaning and yard work	34%	18%	45%	3%
b. Home delivered meals.....	73%	10%	14%	3%
c. Homemaker services such as laundry, shopping, errands, and meal preparation.....	41%	14%	41%	4%
d. Personal care services such as help with bathing and dressing	68%	6%	23%	3%
e. Home health services from a skilled nurse, home health aide, or physical therapist	76%	5%	16%	4%
f. Private duty nurses who provide exclusive services to a single patient in the home	42%	10%	44%	4%
g. Hospice services.....	82%	4%	11%	4%
h. Transportation services to needed medical care	63%	9%	24%	3%
i. Personal emergency response system that provides a 24-hour electronic alarm system that allows a homebound person to call for help	56%	8%	32%	4%
j. Nursing homes	90%	4%	4%	3%
k. Assisted living facilities.....	75%	9%	13%	3%
l. Adult foster care that provides a family living environment for one or two people who are not capable of living on their own.....	21%	17%	59%	3%
m. Adult day care centers.....	48%	17%	32%	3%

2. If you or a family member needed long-term care services, where would you be *most* likely to find out about these services?

Please check your **top three** choices only.

	<u>%</u>		<u>%</u>
Family/friend	42	Clergy	9
Newspaper advertisement	3	Hospital Discharge Planner	24
Area Agency on Aging	48	Internet	7
AARP	22	Senior Centers	18
Health & Human Services	39	Other: _____	2
Telephone book	13	Not sure	8
Physician	54	No response	3

3. How important is it to you to be able to get reliable information about and help applying and arranging for all types of long-term care services, both government and private, from a knowledgeable source that is not trying to promote its own services?

	<u>%</u>
Extremely important	46
Very important	34
Somewhat important	10
Not very important	4
Not at all important	1
Not sure	3
No response	3

4. Have you or any member of your family -- such as grandparents, parents, children, or a sister or brother -- used long-term care services within the last five years?

	<u>%</u>
Yes	32
No	65
Not sure	2
No response	2

5. What is the likelihood that you or a family member may need long-term care services in the next five years?

	<u>%</u>
Extremely likely	11
Very likely	18
Somewhat likely	30
Not very likely	23
Not at all likely	4
Not sure	13
No response	2

6. How worried are you about being able to afford long-term care services for you or your family?

	<u>%</u>
Extremely worried	19
Very worried	17
Somewhat worried	38
Not very worried	15
Not at all worried	6
Not sure	3
No response	3

7. How worried are you about having enough choices regarding the type of long-term care services available for you or your family?

	<u>%</u>
Extremely worried	14
Very worried	18
Somewhat worried	37
Not very worried	19
Not at all worried	5
Not sure	4
No response	2

8. There are several long-term care options available for people who are disabled, ill, or elderly. If you or a family member needed long-term care services, how would you prefer to receive those services? (Please check only ONE)

	<u>%</u>
Have family and friends provide all the care at home	16
Be able to pay a nurse or a personal care aide to provide care at home	40
Have care provided in a residential facility, such as an adult foster care home or assisted living facility where housing, food, and personal care such as help with bathing and dressing are provided for those who live there	20
Have care provided in a nursing home	4
Not sure	17
No response	4

9. If you or any member of your family needed long-term care services, how important would it be to you to have services that would enable you or your family member to stay at home as long as possible?

	<u>%</u>
Extremely important	54
Very important	34
Somewhat important	6
Not very important	1
Not at all important	1
Not sure	2
No response	2

10. Current law in Arkansas requires companies to get a special permit called a “permit of approval” before building an assisted living facility. “Permits of approval” limit the number of assisted living facilities that can be built in the state and therefore the number of people who can live in these facilities. This may help control state spending on assisted living services and avoid overbuilding.

“Permits of approval” can also mean that Arkansas residents needing this type of long-term care may have fewer choices and face higher costs due to the limited number of assisted living facilities in the state. “Permits of approval” can protect sub-standard providers from competition by preventing new facilities from entering the market and can make it difficult for regulators to close poor quality facilities.

How strongly do you support or oppose changing the law so that companies can build new assisted living facilities without getting a “permit of approval”?

	<u>%</u>
Strongly support	32
Somewhat support	22
Neither support nor oppose	23
Somewhat oppose	9
Strongly oppose	10
No response	5

11. Arkansas spends most of its Medicaid long-term care funds on nursing homes rather than on long-term care services that allow people to stay in their homes and communities. How strongly do you support or oppose giving Arkansas residents a choice about where they can receive long-term care services and letting their Medicaid benefits pay for the services they choose?

	<u>%</u>
Strongly support	68
Somewhat support	19
Neither support nor oppose	7
Somewhat oppose	2
Strongly oppose	2
No response	3

12. If a candidate for state office in Arkansas supported giving people a choice about where they can receive long-term care services and letting their Medicaid benefits pay for the services they choose, would you be more likely to vote for that candidate, less likely to vote for him or her, or would it not make any difference?

	<u>%</u>
More likely	76
Would not make a difference	11
Less likely	2
Not sure	9
No response	3

Prescription Drugs

13. Have you bought a prescription drug within the past 12 months?

	<u>%</u>
Yes	91
No (Go to question 17)	7
Not sure (Go to question 17)	<.5
No response	2

14. In the past 12 months, has paying for prescription medications been a major problem, a minor problem, or not a problem for you? (n=907, Respondents who bought a prescription drug in the past 12 months.)

	<u>%</u>
A major problem	20
A minor problem	32
Not a problem	45
Not sure	1
No response	2

15. In the past 12 months, approximately how much have you spent, each month, out of your own pocket for prescription drugs? (n=907, Respondents who bought a prescription drug in the past 12 months.)

	<u>%</u>
Less than \$10 per month	6
\$10 but less than \$50 per month	21
\$50 but less than \$100 per month	24
\$100 but less than \$200 per month	23
\$200 but less than \$500 per month	17
\$500 or more per month	4
Nothing, have not purchased prescription drugs	<.5
Not sure	3
No response	2

16. Many people face difficult decisions when buying prescription drugs. In the past 12 months, have you done any of the following? (n=907, Respondents who bought a prescription drug in the past 12 months.)

	Yes ▼	No ▼	No Response
a. Delayed getting a prescription filled because you didn't have enough money to pay for it.....	17%	74%	10%
b. Taken less medicine than your doctor prescribed to make it last longer.....	20%	70%	10%
c. Cut back on items such as food, fuel, or electricity to be able to afford a prescription drug	12%	77%	11%
d. Ordered your prescription drugs by mail or Internet from a company <u>in the U.S.</u> because they cost less	21%	70%	10%
e. Ordered your prescription drugs by mail or Internet from a company <u>in another country</u> because they cost less.....	4%	85%	11%
f. Decided not to fill a prescription because of the cost of the drug	19%	71%	10%

17. How concerned are you about being able to afford the cost of needed prescription drugs over the next two years?

	<u>%</u>
Extremely concerned	24
Very concerned	22
Somewhat concerned	27
Not very concerned	15
Not at all concerned	8
Not sure	2
No response	2

18. Currently, there is not a centralized source that Arkansas residents can use to get information on prescription drugs, such as how to lower their costs and get the best drug for their illnesses. How important is it to you for the state of Arkansas to create a centralized source that residents can use to get information on prescription drugs?

	<u>%</u>
Extremely important	39
Very important	32
Somewhat important	17
Not very important	5
Not at all important	2
Not sure	4
No response	2

19. How strongly do you support or oppose the state of Arkansas publicizing prescription drug prices in a centralized source to allow consumers to comparison shop?

	<u>%</u>
Strongly support	62
Somewhat support	23
Neither support nor oppose	11
Somewhat oppose	1
Strongly oppose	1
No response	3

20. If a candidate for state office in Arkansas supported creating a centralized source that Arkansas residents can use to get information on the price, safety, and effectiveness of prescription drugs, would you be more likely to vote for that candidate, less likely to vote for him or her, or would it not make any difference?

	<u>%</u>
More likely	70
Would not make a difference	19
Less likely	1
Not sure	9
No response	2

21. Many pharmaceutical companies aggressively market new drugs to doctors. Sales representatives from these companies frequently provide doctors with gifts, meals, entertainment, and trips. How strongly do you support or oppose requiring pharmaceutical companies to report the gifts that they give to doctors?

	<u>%</u>
Strongly support	61
Somewhat support	13
Neither support nor oppose	17
Somewhat oppose	2
Strongly oppose	5
No response	2

Payday Loans

22. Payday loans are short-term loans typically made at extremely high rates of interest. Customers write post-dated checks for deposit at a later date. The payday loan outlet will then advance the customer cash in the amount of the check for a fee and hold the check for the loan term—usually one to four weeks or until the customer’s next payday. Payday lenders in Arkansas sometimes charge fees as much as a 1400% annual percentage rate.

22. (continued)

How strongly do you support or oppose each of these consumer protection measures for Arkansans who may receive a payday loan from a financial outlet?

	Strongly Support ▼	Somewhat Support ▼	Neither Support Nor Oppose ▼	Somewhat Oppose ▼	Strongly Oppose ▼	No Response ▼
a. Prohibiting triple digit annual interest rates for payday loans.....	67%	4%	8%	2%	14%	4%
b. Limiting the number of payday loans consumers can get in one year.....	42%	13%	27%	4%	9%	5%
c. Requiring reasonable loan terms to make it easier for customers to pay back the loan.....	68%	15%	9%	1%	3%	4%
d. Requiring that all fees be prominently and clearly displayed for consumers.....	79%	7%	7%	1%	2%	5%
e. Requiring lenders to assess the borrower's ability to repay the loan.....	57%	17%	17%	2%	3%	5%
f. Requiring payday lenders to be separate businesses (not located inside other stores)	51%	13%	27%	1%	3%	5%

23. The Arkansas Constitution was amended in 1982 to stop lenders and merchants from charging consumers more than 17% interest on consumer loans and credit sales. In 1999, the Arkansas legislature passed the Check Cashers Act which says that a fee paid for holding a check written in advance of the date it is to be cashed will not be considered interest. Using the Check Cashers Act, payday lenders can avoid the 17% interest rate cap set by the Constitution, and are currently charging fees as much as a 1400% annual percentage rate.

How strongly do you support or oppose legislation that would require payday lending fees to be considered interest so that these fees cannot go higher than the 17% interest rate cap?

	<u>%</u>
Strongly support	74
Somewhat support	10
Neither support nor oppose	9
Somewhat oppose	1
Strongly oppose	2
No response	4

24. As an alternative to expensive short-term payday loans, a proposal has been made by a coalition, made up of local non-profit organizations, community organizations, educational institutions, and credit unions, to create a small loan fund to be run by a non-profit organization. The fund would come from Arkansas banks and other organizations that would make a small profit on loans made to consumers.

How strongly do you support or oppose creating a small loan fund so that consumers can get small short-term loans at reasonable interest rates?

	<u>%</u>
Strongly support	58
Somewhat support	21
Neither support nor oppose	15
Somewhat oppose	1
Strongly oppose	3
No answer	3

25. To get loans from the small loan fund, consumers would be required to take credit counseling courses and in return they would be able to open low-cost checking and savings accounts that would otherwise not be available to them. How strongly do you support or oppose requiring consumers to take credit counseling courses in order to get loans from the small loan fund?

	<u>%</u>
Strongly support	48
Somewhat support	22
Neither support nor oppose	21
Somewhat oppose	2
Strongly oppose	3
No response	4

About You

The following questions are for classification purposes only and will be kept entirely confidential.

D1. In the last 12 months, have you accessed the Internet from your home or work, or from some other source such as your local library?

	<u>%</u>
Yes	56
No	42
No response	2

D2. Are you male or female?

	<u>%</u>
Male	45
Female	53
No response	2

D3. What is your age as of your last birthday? _____ (in years)

	<u>%</u>
50-59	27
60-74	44
75+	25
No response	5

D4. What is your current marital status?

	<u>%</u>
Married	62
Not married, living with partner	1
Separated	1
Divorced	10
Widowed	22
Never married	2
No response	2

D5. Thinking about your state elections for Arkansas Governor and Legislators in the last ten years, how often would you say you vote?

	<u>%</u>
Always	68
Most of the time	18
About half of the time	3
Seldom	4
Never	5
No response	2

D6. What is the highest level of education that you completed?

	<u>%</u>
0-12 th grade (no diploma)	12
High school graduate (or equivalent)	26
Post-high school education (no degree)	19
2-year college degree	8
4-year college degree	11
Post-graduate study (no degree)	5
Graduate or professional degree (s)	12
No response	7

D7. Which of the following best describes your current employment status?

	<u>%</u>
Employed full-time	22
Employed part-time	6
Not employed	3
Retired	56
Homemaker	4
Other	4
Temporarily unemployed	1
No response	6

D8. Are you of Hispanic, Spanish, or Latino origin or descent?

	<u>%</u>
Yes	1
No	94
Not sure	1
No response	4

D9. What is your race?

	<u>%</u>
White	92
Black	4
Asian/Oriental/Chinese/Japanese	<.5
Native American/American Indian	1
Other	1
No response	2

D10. What is your 5-digit zip code? (WRITE IN YOUR ZIP CODE.) _ _ _ _ _

D11. What was your annual household income before taxes in 2004?

	<u>%</u>
Less than \$10,000	7
\$10,000 to \$19,999	19
\$20,000 to \$29,999	15
\$30,000 to \$39,999	12
\$40,000 to \$49,999	9
\$50,000 to \$74,999	14
\$75,000 or more	13
No response	11

Thank you for completing this survey. Please use the postage-paid envelope and return it to State Member Research, AARP, 601 E Street, NW, Washington, DC 20049, by **August 4, 2005**.

AARP
Knowledge Management
For more information contact Joanne Binette (202) 434-6303