COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Board of Supervisors

DATE: July 17, 2011
BOARD MEETING DATE: July 26, 2011
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: Supervisor Rose Jacobs Gibson

SUBJECT: Resolution Regarding the Impacts of and Alternatives to Payday Loans

RECOMMENDATION:
Adopt a Resolution Regarding the Impacts of and Alternatives to Payday Loans.

BACKGROUND:
Payday loans are short-term cash loans on personal checks held for future deposit. In such transactions, borrowers write a personal check for the amount borrowed, which includes an expensive finance charge, and receive a cash advance. Lenders hold the check until the borrower's next payday when the payment is due, at which point the borrower can either allow the check to be deposited or redeem the check they wrote by paying back the lender. The typical payday loan transaction:

Step 1: Borrower writes a check for $300 and gives it to the Payday Lender
Step 2: Borrower receives $255
Step 3: In two weeks, the Payday Lender cashes the borrower's check
The APR is 459% and the borrower paid $45 to use $255

Payday loans are made by storefront lenders, check cashers, pawnshops, and via the internet. Payday lenders are often disproportionately concentrated in predominately African American and Latino neighborhoods, and are more prevalent in low- and very low-income communities. California Reinvestment Coalition (CRC), a coalition of more than 280 public agencies and nonprofits, found that the average payday lending consumer takes out an average of 10 - 13 loans per year from a single lender. What often happens is the borrower is unable to pay the initial $255 loan, within the two-weeks allotted. CRC found that some borrowers patronize several payday lenders and take out multiple payday loans simultaneously in order to pay back other payday lenders. According to a report commissioned by the Silicon Valley Community Foundation in 2009, the typical borrower in California pays $800 for a $300 loan.

This issue was of particular significance to military personnel and their families. Thousands of military personnel and their families were taking out payday loans in order to meet their financial obligations. Because of the 459% APR for payday loans, they became too prohibitive to pay back. Pre-2007, the highest concentration of payday lenders in the United States was in Oceanside, California near Marine Corps Base Camp Pendleton. Many military personnel were taking out payday loans, and the resulting financial fallout was compromising military combat readiness. In October 2007, the Talent-Nelson Amendment was enacted with strong support from the Department of Defense, which established a cap of 36% on payday loans for military personnel and their families. Unfortunately, no similar provision has been enacted for all consumers.

To date, many consumer advocacy groups are working in partnership with municipalities to stop the growth of payday lenders through moratoriums or ordinances, as in the case of the cities of Pacifica and Daly City.

DISCUSSION:

According to the California Department of Corporations, the regulatory body for payday lenders, there are 24 payday lending outlets in the County of San Mateo. Calculations conducted by the Center for Responsible Lending, a consumer research and advocacy organization, reveal that each payday lending establishment collects approximately $252,840 in fees per store, resulting in approximately $6,086,160 in payday lending fees assessed on San Mateo County residents annually. Because access to affordable small consumer loans can be difficult in low-income areas and communities of color, my office is working with a group of advocates who are exploring alternatives to usurious payday loans.

This resolution commits San Mateo County to explore alternatives to payday lending practices which could help to address the issues and negative impacts raised by payday lending practices and to work with advocates and community groups to educate the public on existing alternatives. The Resolution also directs planning staff to explore zoning and permitting controls, good neighbor policies and similar measures to prevent blight, overconcentration and other negative impacts that might be caused by payday lending establishments on the local neighborhoods, surrounding communities and the County.

Adoption of this resolution would contribute to the Shared Vision of 2025 of a Collaborative Community by promoting cooperation with community groups to support alternatives to predatory lending practices and to promote responsible lending practices in low-income communities. This Resolution has been reviewed and approved as to form by County Counsel.

FISCAL IMPACT:

Adoption of the Resolution will have no fiscal impact to the County.

RESOLUTION NO. _____________

BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

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RESOLUTION REGARDING THE IMPACTS OF AND ALTERNATIVES TO PAYDAY LOANS

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, payday loans, also known as deferred deposit transactions, are short-term cash loans on personal checks held for future deposit, which are made by storefront lenders, check cashers, pawnshops, and via the internet. Typically, borrowers write a personal check for the amount borrowed, which includes an expensive finance charge, and in exchange receive a cash advance. Lenders hold the check until the borrower's next payday when the payment is due, at which point the borrower can either allow the check to be cashed by the lender or redeem the check by paying back the lender; and

WHEREAS, the California Reinvestment Coalition (CRC), a coalition of more than 280 public agencies and nonprofits, found that the average payday lending consumer takes out an average of 10 - 13 loans per year from a single lender and that what often happens is that the borrower is unable to pay the initial loan, within the two weeks allotted. CRC also found that some borrowers patronize multiple payday lenders and take out simultaneous payday loans to pay back other payday lenders. According to a report commissioned by the Silicon Valley Community Foundation in 2009, the typical deferred deposit borrower in California pays $800 for a $300 loan; and

WHEREAS, there are 24 known payday lending outlets within the County of San Mateo. Calculations conducted by the Center for Responsible Lending, a consumer research and advocacy organization, reveal that payday lending establishments collect an average of $252,840 in fees per store per year, resulting in approximately $6,068,160 in payday lending fees assessed on San Mateo County residents annually; and

WHEREAS, statistics suggest that payday lenders are disproportionately concentrated in predominately African American and Latino neighborhoods, and are more prevalent in low- and very low-income communities, and that access to affordable small consumer loans can be difficult in low-income areas and communities of color; and

WHEREAS, to date, many consumer advocacy groups and local agencies are working to stop the growth of payday lenders through moratoriums or ordinances, as in the case of the cities of Pacifica and Daly City in San Mateo County.

NOW THEREFORE, IT IS HEREBY DETERMINED that San Mateo County will explore alternatives to payday lending practices which could help address the issues and negative impacts raised by payday lending and will work with advocates and community groups to educate the public on existing alternatives and to implement such alternatives where necessary. Further, the Board directs planning staff to explore zoning and land use permitting controls, good neighbor policies and similar measures to prevent blight, overconcentration and other negative impacts that might be caused by payday lending establishments on the local neighborhoods, surrounding communities and the County.

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