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Washington, DC - A full three quarters of the payday industry's loan volume is generated by borrowers who, after repaying one payday loan, must take out another before their next paycheck, new Center for Responsible Lending research shows.

Payday churning--repeat borrowing of what payday lenders market as a short-term loan of a few hundred dollars--has been well documented. But the Center for Responsible lending's new report goes further by verifying for the first time how quickly most payday customers must turn around and re-borrow after repaying a previous payday loan. Among the over 80 percent of payday borrowers who conduct multiple transactions in a year:

• Half of repeat loans are opened at the borrower's first opportunity, immediately or after a 24-hour waiting period, depending on state rules.
• 87% of repeat loans are opened within two weeks, or generally before their next payday.
• Only 6 percent of subsequent payday loans are taken out longer than a month after a previous loan was paid off.

This rapid, widespread re-borrowing indicates that most payday borrowers are not able to both repay one of these loans and clear a monthly billing cycle before having to borrow again. In essence, the bulk of payday loan demand comes from borrowers who are taking out a payday loan to repay a payday loan.

"Our report, Phantom Demand, shows that it's very common for payday borrowers to take out their next payday loan on the very first day on which state regulations allow," said Leslie Parrish, senior researcher at the Center for Responsible Lending and co-author of the report. "Rather than serving as a bridge to get a borrower past a financial emergency to their next payday, the data clearly shows payday loans work more like a shovel into deeper debt."

Payday lenders generate loan volume by making a payday loan due in full on payday and charging a sizeable fee-now nearly $60 for an average $350 loan.

This virtually guarantees that low-income customers will experience a shortfall before their next paycheck and need to come right back in the store to take a new loan. This churning accounts for 76 percent of total loan volume, and for $20 billion of the industry's $27 billion in annual loan originations.

The 59 million churned loans per year by the national payday lending industry cost borrowers $3.5 billion in fees.

"This is money that could be used for other things - savings for an emergency, paying off other debt," said Parrish. "So it's really a huge loss for these families who are taking out a payday loan."

Payday lenders in over 30 states have convinced lawmakers to allow them to charge triple-digit interest rates on their loans, often as an exception to much more reasonable rates on other consumer loans, because they claim there is a heavy demand for their short-term product, and that low-income families have few other options.

CRL supports a 36 percent annual interest rate cap, which forces lenders to reduce the fees they charge or to extend the time period borrowers have to repay, or both. The cap is the only policy solution that proven effective in stopping predatory payday lending, as evidenced by the experience of the 15 states and the District of Columbia that have imposed such a cap, and by the success a national cap has had in preventing payday lenders from targeting armed service members and their families.

Leslie Parrish discusses the findings of Phantom Demand in a 9-minute taped webinar at: http://www.responsiblelending.org/media-center/press-releases/archives/phantom-demand-unfair-payday-loan-terms-generate-most-of-loan-volume.html. To see the full report, visit our website at www.responsiblelending.org.

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About the Center for Responsible Lending
The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.