Missouri does not have a rate cap on payday loans as far as I can determine. The Attorney General called for a rate cap of 36% APR in a February 2007 press release, which is attached as Exhibit 1. Consumer lenders do need to register every year with the Missouri Division of Finance.

The average APR is 422% for a 14 day loan, based on an extensive study for the Missouri Dept. of Finance. This is equivalent to a fee of 16.1% of the principal on average. A 2005 report estimated that $787 million in loans were made in the one year. In 2006 the state issued 1545 payday lending licences, but it estimated that on average 1262 were in operation at any time, showing there is considerable entry and exit. The number of licences issued was an increase of 347 over the previous year. Payday lending in the US seems to have originated in Kansas City, which may explain why there are so many payday lenders in Missouri, and also why the market is so fragmented. In the first area to develop payday lending, small entrepreneurs would naturally be the ones to create this market for small loans. Once the industry was established, the creation of larger players on a national level would be a natural evolution and they would drive the expansion across the US, but it would be hard for these large players to dislodge the entrenched small players from their historical niches in Missouri.

At the end of 2006, Advance America had 84 stores in Missouri, a market share of 5.4% by store number. Dollar Financial, which claims to be the second largest payday lender in the US, had no company-owned stores. It seems to have some franchise locations, though none in the largest city, St. Louis. Since it had only 110 franchise operations in total in the US at the end of 2006, it cannot have a significant market share in Missouri. Dollar Financial’s operations are heavily concentrated in California and Arizona (55% of its US company-owned stores). Ace Cash Express, which I think is the third largest payday lender in the US, has 11 stores in Missouri.

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AA charges 19% of principal on its loans in Missouri. Ace charges 17%, and specifies a fee of 5% on a rollover, with a maximum of three rollovers allowed. I could not determine the Dollar Financial fee.

The states surrounding Missouri have rate caps in place.
Nathan Slee of 310-Loan asserted to the Manitoba Public Utilities Board that the Missouri situation shows that competition will lead to lower rates is partially supported by the facts, but the nature of the competition is very different from Manitoba. There are about as many payday lender outlets in Missouri as there are in all of Canada, or about 20 times the number in Manitoba. This is a very fierce competitive situation that seems to be unique to Missouri. Other states that allow payday lending have per capita numbers of outlets closer to the US average, which is still about double the per capita rate in Canada. All the states surrounding Missouri have payday loan caps in place already. If a Missouri town or city is close to a state border, then the payday lenders there will be obliged to come very close to that state’s regulated rates. For example, Kansas City is a twin city spanning the border, and hence lenders on the Missouri side are competing directly with those on the Kansas side, where the rate is regulated at 15% of the principal.

Furthermore, as Exhibit 1 shows, the threat of regulation is very real and this also forces rates down much as if the regulation already existed, for two reasons. The existing lenders want to pre-empt regulation by showing that it isn’t necessary. Second, no prudent businessperson will enter that market unless able to continue if rates do become regulated, because of the costs of exiting the business.

Finally, there is no evident benefit to the consumer in this competition. The 2005 report from the Center for Responsible Lending, *Financial Quicksand*, shows that the average rate charged in Missouri is 18%, which is higher than that charged in 32 other states, equal to the rate in one state, and lower than the rate charged in seven states. Two of the seven states with higher rates were Oregon and North Carolina, which have both regulated the rate to 36% APR since that report, causing all the payday lenders to exit the business. The two big competitors whose rates I did determine in Missouri were Advance America at 19% (which is well above the average fee charged by Advance America across all states) and Ace Cash Express at 17%.
Appendix 1

Attorney General's News Release

February 16, 2007

Nixon reiterates call for reform in payday loan industry in Missouri after report cites average APR of 422 percent

Kansas City, Mo. — A recent report showing that payday loan businesses in Missouri charged an average annual percentage rate of 422 percent last year has led to a renewed call for reform in the payday loan industry.

Attorney General Jay Nixon and state Rep. John Burnett of Kansas City, the sponsor of House Bill 237, a payday loan bill, held a news conference in Kansas City today to highlight the need for reform. They were joined in calling for payday loan legislation by advocates for the poor, including Larry Weber, executive director of the Missouri Catholic Conference; and Michael Halterman, CEO of Catholic Charities of Kansas City-St. Joseph Inc.

Nixon cited the Jan. 17 report from the Missouri Division of Finance both at the news conference and in a letter to members of the General Assembly asking them to pass legislation on payday loans to protect Missouri families. The biennial report showed that the number of payday loans continues to rise in Missouri - approximately 2.8 million loans were issued for the one-year period that ended Sept. 30, 2006, an increase of 11 percent over the last report issued in 2005. Missourians borrowed more than $787 million from payday lenders in only one year, Nixon said.

There are now 1,545 licensed payday loan businesses, an increase of 347 from the previous report, issued in 2005. In addition, a study by the Center for Responsible Lending showed that Missourians paid $317 million in fees and interest on payday loans in 2005, second only to California nationally.

“The payday loan industry continues to explode in Missouri, and it is doing so at the expense of desperate Missourians who are so cash-strapped that they have serious problems in paying their rent and utilities or purchasing food,” Nixon said. “I have called for reform of this industry in Missouri for years, which we need now more than ever.”

“We have fought the payday loan industry for years now in Missouri,” Burnett said. “In my district, it seems every vacant storefront becomes a payday loan office. We have to control this industry or they will continue to ride roughshod over working people in Missouri. Congress has demanded protection for the military and we should demand similar protection for Missouri citizens.”
“Many people in financial straits are entrapped by payday lenders before seeking financial assistance from Catholic Charities and other social service agencies,” Weber said. “Unfortunately, by the time their debts compound many times their original amount because of payday loans’ prodigious interest rates, it becomes much more difficult to help these people meet their medical, utility or basic living expenses.”

“Poverty is impacting over 12% of people living in Missouri, and many turn to payday loans in a desperate measure to pay for health care bills, mortgage payments, rent, food and utility bills,” Halterman said. “Due to the high interest rates charged by these companies, borrowers find themselves in a downward economic spiral, and they never financially recover.”

Nixon noted that while eight neighboring states have strict limits on the interest rates and forbid renewals, Missouri has no real limit on interest charged and allows up to six renewals - effectively allowing payday operator to charge interest rates of up to 1,950 APR. Nixon is supporting legislation this session sponsored by Burnett, Sen. Rita Days of St. Louis and Rep. James Whorton of Trenton, that would:

- Limit the interest and other fees that may be charged on loans to roughly 36 percent APR.
- Prohibit renewals of loans to circumvent rate restrictions.
- Grant jurisdiction to the Attorney General to issue cease and desist orders against violators.
- Allow the Attorney General to sue for injunctions, restitution, rescission of loan contracts and civil penalties for violations.
- Clarify that the limitations apply to all lenders, whether or not they are properly licensed.

Payday lenders currently are regulated by the Missouri Division of Finance and the Attorney General can only take action when cases are referred by that division.

“Consumers who take out payday loans can easily get themselves in a hole they can never dig out of, and our lack of laws to protect consumers makes the situation worse,” Nixon said. “Reform in regulating this industry is the only way we can provide real protection.”

The Attorney General has long been a vocal advocate to protect Missouri families from payday loan exploitation. Nixon highlighted the problems with payday loans in Missouri in 2005 when the previous report from the Missouri Division of Finance showed lenders were charging an average of 408 percent APR. In 2002, Nixon also urged then-Gov. Holden to veto a payday loan bill that allows the current interest cap at 1,950 percent.

Take the Attorney General's online quiz on Lending
Use a payday loan calculator

Inquiries from consumers should be directed to consumer@ago.mo.gov or 1-800-392-8222 (from within Missouri) or 573-751-3321 (outside Missouri).

All media inquiries should be directed to Press Secretary John Fougere.

E-mail    Phone: 573-751-8844    Fax: 573-751-5818