

STAFF REPORT

COMPARISON OF CITY CONTROLS ON PAYDAY LENDING INSTITUTIONS

February 8, 2011

On November 9, 2010, the City Council directed staff to learn what other communities have done to prevent the expansion of delayed deposit services businesses, commonly known as payday lenders. Staff gathered information about recent changes in ordinances in three Des Moines Metro communities, looked at practices in other states, and researched existing City of Ames ordinances that relate to payday lending.

Summary of Neighboring Community Actions

In response to several high-profile lending businesses opening in the area, the cities of Des Moines, West Des Moines, and Clive recently passed new zoning restrictions on payday lenders and pawnshops. **The restrictions they have proposed are based on land use regulation, since state law pre-empts any city regulation of the business practices of payday lenders.** In addition to the high-profile store openings, the cities also identified the predatory nature of the businesses and their tendency to cluster in concentrated areas as reasons to increase regulation.

Des Moines

- Enacted a 180-day moratorium on zoning permits for new payday lenders and pawn shops beginning in May
- Adopted a zoning ordinance barring pawn and payday loan operations in their neighborhood retail and neighborhood pedestrian commercial districts
- Adopted a zoning ordinance increasing the buffer zone between payday lenders and residential districts from 150 feet to 250 feet
- Adopted a zoning text amendment to increase the minimum separation distance between payday lenders from one-quarter mile to one-half mile
- Was urged by Iowa Citizens for Community Improvement to restrict payday lenders to one for every 20,000 residents, but did not consider the proposal because density requirements are not authorized by Iowa zoning law.

West Des Moines

- Enacted a moratorium on new zoning permits for payday lenders, pawnshops, and check-cashing businesses from August until December
- Adopted a restriction to make these institutions a Permitted Conditional Use in Regional Commercial, Community Commercial, and Valley Junction Commercial zoning districts only. This eliminated the previously permitted use in Valley Junction Historic Business, Warehouse Retail, and Neighborhood Commercial districts. Permitted Conditional Use permits in West Des Moines require at least \$700 in additional fees, public hearings on land use, and significant additional documentation

- Adopted a zoning text amendment to increase the separation distance between payday lenders to one-half mile
- Adopted a zoning text amendment to increase the buffer zone between lenders and residential districts to 250 feet

Clive

- Adopted a zoning text amendment banning payday loan and pawnshop development within 1,000 feet of residential areas, churches, parks, childcare facilities, and schools
- Adopted a zoning text amendment maintaining a minimum separation distance of 1,000 feet between lenders and any adult-oriented business, other pawnshops, or other delayed-deposit lenders
- Restricted the number of zoning districts that would allow lending businesses to three, and enacted restrictions on displays, signage, and window bars on pawn shops and payday lenders

These restrictions in Clive are stronger than other Metro communities in part because Clive does not have any existing payday lenders or pawn shops within the city limits. The new restrictions have the effect of making it very difficult for any payday lending or pawnshop business to be established in Clive.

Payday Lending in Iowa and Nationally

Payday lending is outlawed or effectively outlawed in 15 states. In states where it is legal, land use policy appears to be the main method cities use to control payday lender proliferation. In Iowa, payday lenders are licensed and regulated at the state level, but there are no limits on interest rates. Recent legislative proposals to cap interest rates charged by these businesses have failed.

Two other states that have recently addressed payday lending regulation include Missouri and Mississippi. In Missouri, the City of Columbia initiated a study to determine how other Missouri cities regulate payday lenders. They found that cities regulate lenders through business per population limitations (density) or through location requirements (zoning). However, density limitations are not recognized in Iowa zoning law. In other cities in Missouri and in Mississippi, there are recent examples similar to those highlighted in the Des Moines area, with lenders being restricted through buffer zones, requiring special fees and permits, and restricting allowable land use to a few zoning districts.

Current Ames Ordinances

Currently, Ames City Code classifies payday lenders and pawn shops as an Office Use under the “Lenders and Credit Services” category. Office Use is a permitted land use in any of the City’s commercial base zones. There are no minimum separation requirements, buffer zone requirements, or prohibited commercial zones that restrict where lending establishments are permitted.