

Community Financial Services Association of America

Payday Lending: Realities
and Challenges

Austin, TX

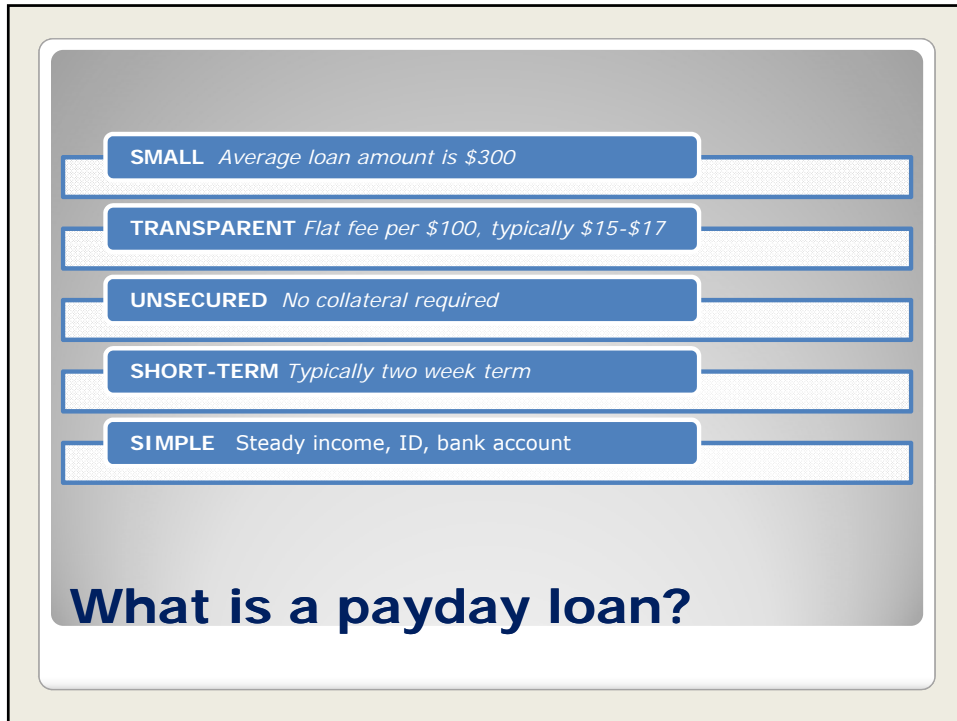
November 14, 2008



- National association of payday lenders
- Established in 1999, represents more than half of the industry
- Members include large, publicly-traded companies and small mom and pops
- Some offer only payday loans, others offer other services and products

Mission: Promote legislation and regulation that provides consumer protections and preserves access to credit

**The Community Financial Services
Association of America**



SMALL *Average loan amount is \$300*

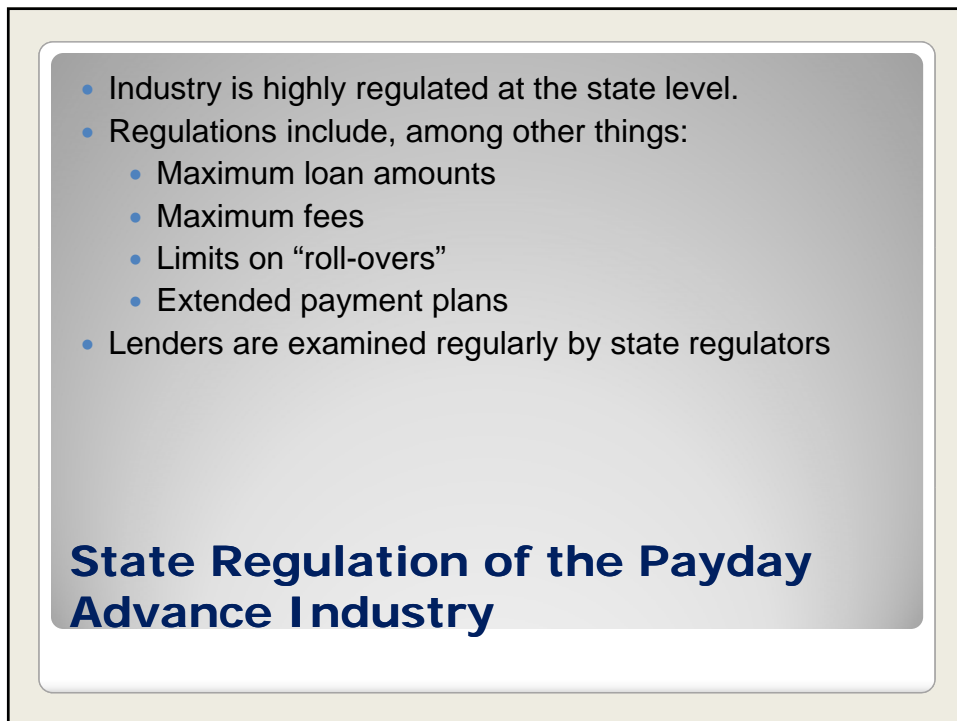
TRANSPARENT *Flat fee per \$100, typically \$15-\$17*

UNSECURED *No collateral required*

SHORT-TERM *Typically two week term*

SIMPLE *Steady income, ID, bank account*

What is a payday loan?



- Industry is highly regulated at the state level.
- Regulations include, among other things:
 - Maximum loan amounts
 - Maximum fees
 - Limits on “roll-overs”
 - Extended payment plans
- Lenders are examined regularly by state regulators

State Regulation of the Payday Advance Industry

- Commitment to consumer protection
- Best Practices required by all members
- Recent additions
 - Extended payment plan
 - Fee transparency (poster requirement)
 - Ban on certain types of advertising
- Independent auditor: 99% in compliance



Industry Best Practices

PAYDAY CASH ADVANCE

FEE SCHEDULE

ADVANCE	FEE	14-DAY APR*
\$100	\$15.00	391.07%
\$200	\$30.00	391.07%
\$300	\$45.00	391.07%
\$400	\$60.00	391.07%
\$500	\$75.00	391.07%

*APR will increase for a Term of less than 14 days and will decrease for a Term of greater than 14 days. See your agreement for disclosure of APR.

Customer Notice: Payday advances should be used for short term financial needs only, not as a long term financial solution. Customers with credit difficulties should seek credit counseling.



This is a sample poster containing the maximum requirements as of last announced disclosure requirements. Your actual poster will vary to comply with state regulations, but will not be greater than the results unless so directed by the state.

Fee transparency

- 87% of customers had an unexpected expense that could not be postponed*
- 19 million households
 - 2% of all consumers reported obtaining a payday loan in the previous 12 months*
- Low to Middle-income
 - 41% have household income of \$25-\$50K; 26% have household income of more than \$50K*
- Educated
- Banked
 - 100% have checking accounts at bank or credit union*; use other types of credit*
- Early family life-cycle
 - 29% less than 35 years old; 23% from 35-44; 23% from 45-54*

** Source: Gregory Elliehausen, Federal Reserve Board*

Payday lending customers

- 18% said they could have used money in a checking or savings account*
- 29% said they could have borrowed from a friend or relative*
- 54% had a bank credit card*
- 51% had available credit on credit card*

** Source: Gregory Elliehausen, Federal Reserve Board*

Customers do have other options

Considered source other than a payday loan company (percentage of payday loan customers)	46.4%
Types of other sources considered (percent of those considering other sources)	
Bank	23.3
Credit union	5.2
Finance company	6.2
Credit card	2.8
Auto title loan	.4
Pawn shop	.9
Friend or relative	49.0
Other	16.6

Source: Gregory Elliehausen, Federal Reserve Board

Customers consider their options

APR Comparisons

The Federal Truth in Lending Act requires all financial institutions to disclose loan fees as Annual Percentage Rates (APR). The 391% APR on a payday loan is derived by multiplying the \$15 fee every two weeks for 26 weeks.

Financial Option	Fee Amount	APR (%)
\$100 Payday Loan	\$15	391
Overdraft	\$29	755
Credit card late fee	\$37	965
Utility bill late/reconnect fee	\$50	1,303
Bounced check fee to bank & vendor	\$54.87	1431

- More desirable than some options
- Simple, easy-to understand transaction
- Avoid more expensive options
- Do not impact credit scores
- Convenient
- Discreet

Why choose a payday loan?

- 88% of customers were satisfied with their most recent payday loan
- 3% of customers mentioned they had difficulty getting out of debt
- Virtually no one mentioned insufficient or unclear information
 - Nearly all customers were aware of the dollar cost

** Source: Gregory Elliehausen, Federal Reserve Board*

Satisfied customers

If payday loan customers live from paycheck to paycheck with very little discretionary income, even small expenses may cause financial problems and make emergencies a frequent event. Frequent use is not necessarily evidence of a debt trap.
- Gregory Elliehausen, Federal Reserve Board

- **Competitors**
 - Businesses who benefit when payday lenders are eliminated
 - Ex. Credit unions are currently lobbying to eliminate payday lending in Arizona
- **Center for Responsible Lending**
 - Founded by a credit union
 - Notorious for promoting flawed, assumption-based research
 - Advocates for payday lending bans
- *People who have never used a payday advance or never known someone who has*

Who opposes payday loans?

- **FDIC payday lending pilot program**
 - Two-year project to study if banks can profitably offer small-dollar loans
 - Of 30 participating banks, many are breaking-even or losing money
 - 36% APR does not include application fees (range from \$18 to \$61.50), annual fees, fees for financial literacy classes
 - Loan restrictions- some require direct deposit, credit checks, financial literacy classes, collateral, only 5 of the 30 can approve loan in less than 24 hours
- **Banks**
 - US Bank, Wells Fargo and Fifth-Third's bank do offer payday loan alternatives, with APR's ranging from 104% to 3,650% based on next deposit date.

Bank Payday Loan Alternatives

- **Cost**
 - Many tout "low APRs" but do not include annual fees, application fees and other fees into the APR calculation
 - Credit unions do not pay taxes, but continue to struggle to find ways to offer sustainable product
 - PA's "Better Choice" program requires \$20 million from Dept of Treasury to be sustainable
- **Limited access**
 - Most have multiple restrictions and requirements
 - Few credit unions actually offering comparable products
 - OH's "Stretch Pay" offered by 31 credit unions (114 branches) in Ohio, compared to nearly 1,700 payday lending locations

Credit Union Payday Loan Alternatives

- Voters in Ohio and Arizona recently voted to effectively ban payday lending
- Unfortunately, the vast majority of voters had no experience with payday lending; had never used the service
 - Research shows that 2% of the adult population have used a payday advance in the past year
- For those that don't use or don't need a payday advance, banning is an easy decision
- Customers face negative consequences

Initiatives in Ohio and Arizona

- Customer quotes in media coverage on Ohio ban:

"It's not right...it's not fair."

"That's real sad, because we need these places."

What do customers say?

- While a 36% APR sounds reasonable, payday loans are two-week loans and cannot be offered at the same rates as annual credit products
- At a 36% APR, the total fee allowed on a \$100, two-week advance is \$1.38.
- Less than 10¢ per day does not cover costs
- Highly-touted "GoodMoney" credit union alternative breaks even at \$9.90 per \$100 (252% APR)
- Where APRs have been capped, payday lenders have closed
- Competition is fierce, if lower rates were possible, lenders would be offering the product at that price

Annual Rate Caps: 36% is a Ban

19

- Research shows, without payday loans, consumers:
 - Do not pay bills, or pay late
 - Use credit card cash advances
 - Have utilities disconnected
 - Bounce more checks
 - Complain more about lenders and debt collectors
 - File for Chapter 7 bankruptcy at a higher rate
 - Forgo prescription medication
 - Damage their credit rating

Impact of payday lending bans

- Americans need continued access to small-denomination, short-term credit
- Competition improves service and price, limiting choice hurts
- Financial institutions are reeling in credit lines; requiring borrowers to meet stringent credit standards.
- Consumers face higher prices, fewer choices and less competition

Customers deserve choices

All payday loan customers have bank accounts and by far most use mainstream credit.

Many payday loan customers showed signs of deliberation; Many considered other sources of credit before obtaining a payday loan.

Most payday loans are used to pay unexpected expenses or expenses that could not be postponed.

Consumers filing for bankruptcy have substantial debts from other sources: Payday loans are generally insignificant relative to other debts.

Studies have found that access to payday loans may increase communities' resiliency to financial difficulties, relax credit constraints without increasing delinquency, and reduce the incidence of financial problems.

Closing thoughts & Questions?

Source :Gregory Elliehausen, Federal Reserve Board