

Payday Loans: Everything You Need to Know, or More

Wisconsin Payday Loan Forum
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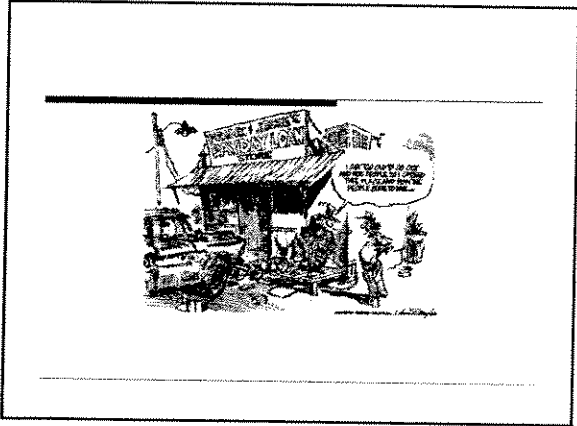
- jafox@erols.com
- 757-867-7523
- www.consumerfed.org
- Consumer Federation of America is a non-profit association of 300 consumer groups, established in 1968 to advance the consumer interest through research, education and advocacy.

Payday Loans: Quick Cash for Cold Checks or Debits

- Borrower writes a check for loan amount and fees/authorizes debit
- Lender gives cash loan and holds check/debit authorization until payday
- On due date, borrower redeems the check with cash, lets lender deposit check, or pays the finance charge to roll over loan

Payday Loan Market

- Industry claims 100 million loans, \$6 billion paid to borrow about \$40 billion 2004, 22,000 retail payday loan outlets, growing 15% a year
- Payday loan stores, pawn shops, check cashers, other storefronts
- Payday loans via Internet, telephone
- Industry: Consolidating/Cashing In



What makes payday lending predatory?

- Extremely expensive
- Little or no underwriting
- Risks a valuable asset
- Fosters coercive collection tactics
- Unaffordable repayment terms
- Ruses to evade consumer protections
- Lack of recourse for consumers, mandatory arbitration clauses

High Cost and Short Terms

- Payday loans cost from \$15 to \$30 to borrow \$100. Average APR 470%
- Loans are for \$100 to \$1,000, typically around \$350 plus finance charge
- Loan term averages 14 to 15 days, due in full on next payday
- NSF fees for returned checks extra

Low Risk to Lenders

- ACE report to SEC 3.97% loan loss as % of matured loan volume
- AA IPO 1.5% loaned in 2003 not recovered, not counting NSF fees
- Motley Fool says 2% PDL default rate
- Missouri 5.4% loans charged off
- Colorado annual report 4% write off
- Florida reports 2% default

Who Uses Payday Loans?

- | | |
|--|---|
| <input type="checkbox"/> Have a job or steady income/benefits | <input type="checkbox"/> Younger |
| <input type="checkbox"/> Have a bank account | <input type="checkbox"/> Female |
| <input type="checkbox"/> Have ID | <input type="checkbox"/> Low to middle income |
| <input type="checkbox"/> Clear TeleTrack or other database inquiry | <input type="checkbox"/> Credit constrained |
| | <input type="checkbox"/> Low/no savings |
| | <input type="checkbox"/> Convenience driven |

Vulnerable Groups of Consumers Targeted

- African American communities are twice or three times more likely to have payday lenders than predominantly white communities
- Military bases are targeted by payday lenders
- Women make up 64% of customers, industry funded study
- Hispanic consumers targeted in Pima County Study

Wisconsin DFI Study 2001

- 54% women, 46% men, age 39
- 64% renters, 22% home owners
- Average net income \$18,675, average gross income \$24,673
- 14 day loans, 542% APR, \$246 average loan amount with \$49.73 finance charge
- 53% loans were rolled over
- 22% rolled twice, 17% rolled >5x

Repeat Borrowing Life Blood of Payday Loan Industry

- 91% of all payday loans made to repeat borrowers with five or more loans per year (CRL)
- 79% of loans made to long-time customers are same day renewals or new loans before payday (WI Caskey)
- Average Iowa borrower had over 12 loans per year at single lender
- FastBucks: 80% of customers buy back checks before loan is due

**Check Holding Leads to
Coercive Collection Tactics**

- Check bounces, two NSF fees added
- Bad credit rating on check databases
- Default reported to credit bureaus
- Lender sues to collect on "bad" check
- Some threaten criminal prosecution
- Some threaten court martial
- Repeat ACH attempts rack up fees

Signing Away Your Rights

- Mandatory arbitration clauses
- Agree not to file for bankruptcy
- Agree not to join or bring a class action lawsuit
- Voluntary wage assignment
- Agree to leave bank account open until loan repaid

Legal Status of Payday Lending

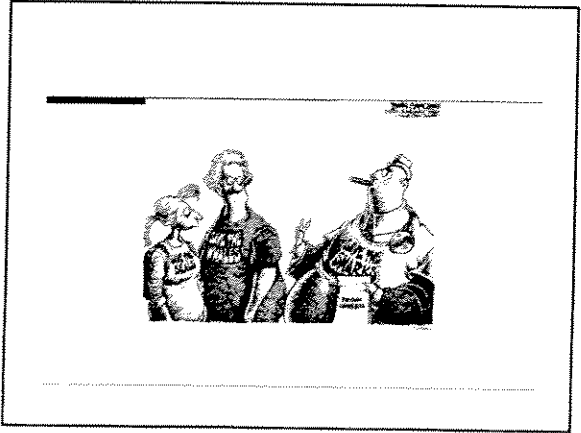
- 35 states and DC authorize payday lending with safe harbor from usury
- 2 states have no usury caps or substantive payday loan regulations
- 13 states prohibit through usury and small loan laws (counting Arkansas)

Ruses and Scams to Evade Laws

- Thinly-veiled retail transactions with a rebate, phone card sales, Internet access with a rebate
- Sham lease arrangements, sale-leaseback, cash "leasing"
- Rent-a-bank payday lending
- Rent a lender from SD or MO
- Credit Services Organization

FDIC and Rent-a-Bank Lending

- Issued revised guideline that more than three months of loans in last 12 months unsafe for bank partners. Big hit on publicly traded lenders.
- Issued cease and desist order to County Bank of Rehoboth Beach, DE to improve unsafe and unsound banking practices
- First Fidelity Bank pulled out of NC



2005 Legislative Battles

- Industry bill killed in Texas, Maine, NC
- Bills pending in Michigan, Pennsylvania, South Carolina
- Compromise bills enacted in Illinois and Nevada
- Industry amendments passed in Ohio, North Dakota, Kansas, Rhode Island; stopped in KY
- Advocates' bills defeated in Virginia, Washington, New Mexico, Iowa, Arkansas, Oklahoma, Utah, West Virginia, Missouri

Legislative Trends

- Industry bills advance in MI and PA
- "No Limit" states, NV, IL, new laws
- Higher loan limits in WA, OH, IL, RI
- VA and ND clarify that state law applies to Internet loans
- "Military Protections" for GA enacted in VA, WA, TX
- Database added in ND

Local Ordinances

- Pima County/Tucson zoning ordinances proposed
- Jacksonville, FL/Duval County ordinance, rate cap for loans to military
- National City, CA proposed local ordinance

New Mexico AG Proposed Regs

- Rates above 54% APR pawn unfair
- Term less than four months unfair
- Loan for more than 25% monthly income unfair, must underwrite
- Paying one loan with another unfair
- High risk of loss of collateral unfair

State and Local Enforcement

- DC AG stopped debits to pay loans
- NC Banking Commissioner case on Advance America, bank pull-out
- WA AG and DFI case against payday lender threats of criminal action
- NY, CO, KS, MA cases against unlicensed Internet lenders
- IN and AR cases on Internet access with a rebate ruse

Questions?
