



Understanding the predatory small dollar loan industry

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Overview

- Predatory Small Dollar Lenders can't self-regulate anymore than the sub-prime mortgage lenders!
- Defective Financial Products
- Comparing Cost By Using APR
- Where are the Non-predatory Lenders?
- Industry Trends
- Solutions

Some Types of Predatory Small Loans



- Payday Loan/Cash Advance
- Car-Title Loan/Title Pawn Loans
- “Faux” Car-Title Loans/MV Equity LOC
- Predatory Installment Loans
- Credit Service Organizations/Credit Repair Organizations
- Predatory Open-End Lines of Credit

What Makes Them Predatory?

- Small dollar loan secured by personal check or access to bank account.
- Triple-digit APR (usually 391% and above)
- To qualify, borrowers only need:
 - personal identification
 - a checking account
 - an income from a job or government benefits
- Ability to re-pay is not considered
- Must pay back in full or renew by paying an additional fee.

Typical Characteristics of Payday Loans



- Small Loan Amount (< \$1000)
- Triple Digit Interest Rates
- Loan Made with No Regard to Ability to Repay
- Single Balloon Payoff at Next Payday
- Payment Guaranteed via ACH or Check
- 90% of loans go to borrowers with 5 or more loans
- 62% of loans go to borrowers with 12 or more loans

Typical Characteristics of Car-Title Loans



- Small Loan amount (< \$5000)
- Triple Digit Interest Rates
- Loans Made With No Regard to Ability to Repay
- Single Balloon Payoff Due in 30 Days
- Payment Guaranteed via ACH or Check
- Secured by Vehicle Title/Vehicle "Equity"

APR Protects the Free Market



- Truth in Lending - requires interest be expressed in terms of Annual Percentage Rate.
- APR allows consumers to compare the cost of credit across products of varying terms and other features.
- Protects free market competition. Consumers can comparison shop and choose the best form of credit for their budget.

Need v. Mkt. Response: Small Dollar vs Short-Term



The Need is For

- Small Dollar Loans – Borrowers may need small amounts of money, but no one *needs* to pay it back in two weeks.

The Industry is Selling

- Short-Term Loans - the terms are so abusive that they can't be paid back immediately and end up being long-term payoff for Industry.
- ACH/Live Check is Key
- No Underwriting – they don't *want* the loan paid.

Phantom Demand Consecutive borrowing



Borrower earning \$35,000 a year, taking out \$300 payday loan @ \$15 per \$100 borrowed

Two-week salary	\$1458
Amount of paycheck (take home pay after taxes deducted)	\$1344
<i>Payday loan due (\$300 principal plus \$45 fees)</i>	-\$345
Paycheck remaining after payday loan repaid	\$999
Basic expenses due over pay period* (housing, utilities, food, transportation, and healthcare)	\$1,107
Shortfall	\$(108)

*Source: 2007 Consumer Expenditure Survey, Bureau of Labor Statistics, households earning \$30,000-39,999 annually. This example excludes other costs such as childcare, clothing, etc. which are likely applicable to many payday borrowers.

It Won't Work Even if it's *Free*



Income and Expenses/ \$35,000 per year	Cost of Two-Week Payday Loan		
	\$0 per \$100 (free loan)	\$15 per \$100 (391% APR)	\$20 per \$100 (521% APR)
<i>Income and Taxes</i>			
Income per half-month pay period	\$ 1,458.33	\$ 1,458.33	\$ 1,458.33
Taxes	\$ 17.79	\$ 17.79	\$ 17.79
Social Security	\$ 96.33	\$ 96.33	\$ 96.33
Income after tax	\$ 1,344.21	\$ 1,344.21	\$ 1,344.21
Payday loan payment due on \$300 loan	\$300	\$345	\$360
Paycheck remaining after paying back payday loan	\$ 1044.21	\$ 999.21	\$ 984.21
<i>Household Expenditures per 2 week period</i>			
Food	\$ 193.54	\$ 193.54	\$ 193.54
Housing	\$ 516.21	\$ 516.21	\$ 516.21
Utilities	\$ 128.00	\$ 128.00	\$ 128.00
Transportation	\$ 165.42	\$ 165.42	\$ 165.42
Healthcare	\$ 103.88	\$ 103.88	\$ 103.88
Total Essential Expenditures	\$ 1,107.04	\$ 1,107.04	\$ 1,107.04
Money from paycheck remaining (deficit)	\$ (62.83)	\$ (107.83)	\$ (122.83)

Harmful Industry Trends



- Fee Increases
- Loan Amount Increases
- “Best Practices” – (Codification of Abusive Practices)
Rollover Bans, Databases, Cooling off Periods,
Limits on Outstanding Loans, Payment Plans
- Internet Lending
- Federal Lobbying for State Preemption at 400%
- Federal Lobbying against CFPA

Learn the Lessons From Other States



State	State Law	Predatory Lenders' Response
Oregon	Rate Cap focused on Payday and Car-title	Renamed products and business as usual under small loan law.
Illinois	Enacted restrictions on Payday product	Industry began making predatory installment loans. 1000% APR
Ohio	28% Rate cap.	Referendum. New product under old small loan law.
Texas	State small loan permits 100% to 130% APR	Industry registered as Credit Service Organizations 664% APR
Virginia	Reduced PDL APR by 25% and capped loans at 10 per year	Industry began "open-end" loans and "faux" car-title loans.

Solutions to Predatory Small Loans



- Plan (support) an issue campaign (regulatory, legislative, judicial, electoral, etc)
- Focus on the Practice not the Product
- Level the Playing Field for Responsible Lenders by regulating the industry (36% rate cap, promoting affordable small loan products)
- End the Schemes that Drain Needed Income and Wealth-building Capacity from Communities
- Save state residents dollars with NO increase in taxes

Elements of an Issue Campaign



1. Identify the issue
2. Plan a Strategy
 - Develop Vision, Goal, Objectives
 - Organizational Considerations, SWOT Analysis
 - Identify constituents (stake holders), allies, and opponents
 - Identify targets
 - Develop tactics
 - Develop timeline
3. Implement
4. Evaluate