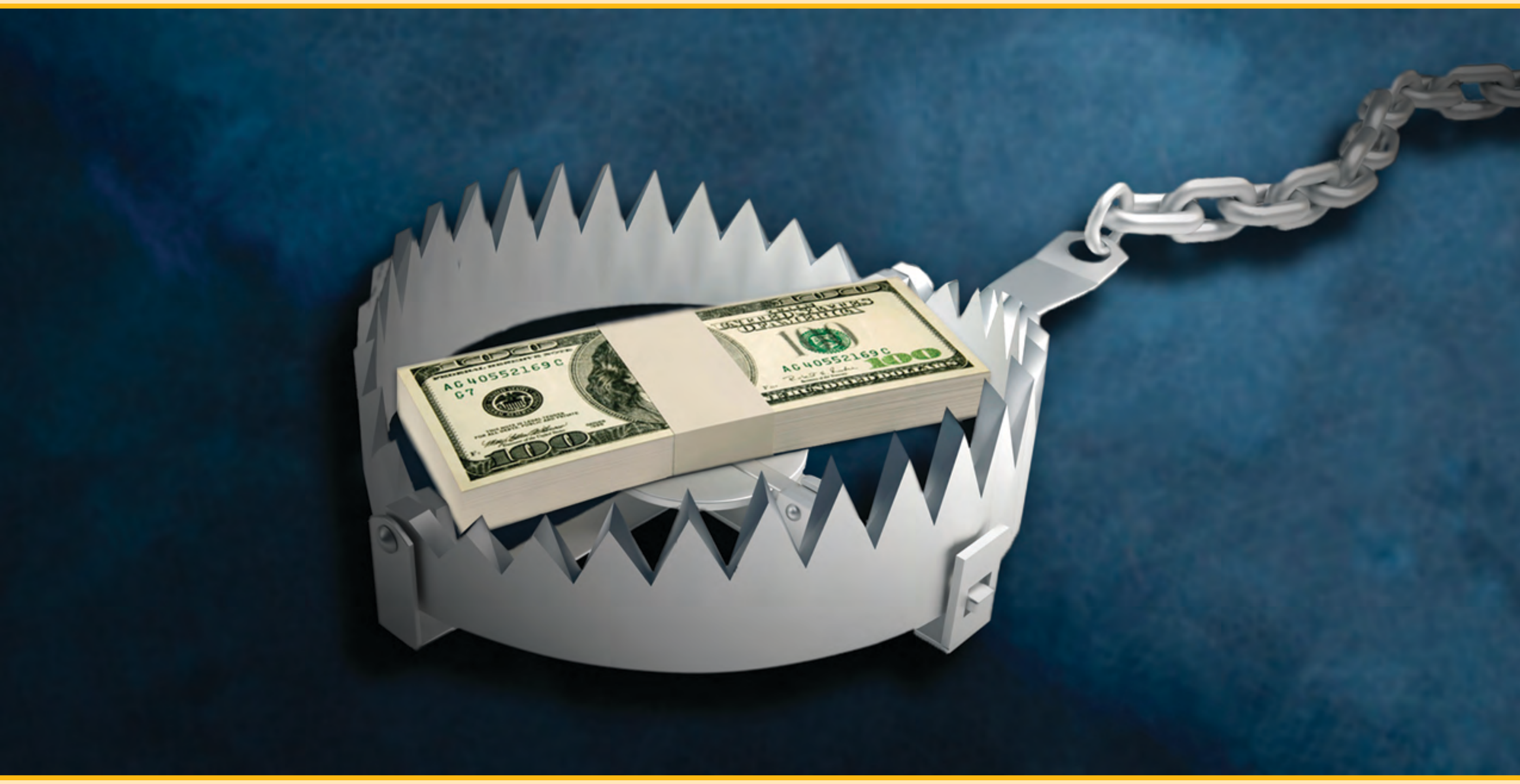
STOPPING THE PAYDAY LOAN TRAP

ALTERNATIVES THAT WORK, ONES THAT DON'T



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The National Consumer Law Center®, a nonprofit corporation founded in 1969, assists consumers, advocates, and public policy makers nationwide on consumer law issues. NCLC works toward the goal of consumer justice and fair treatment, particularly for those whose poverty renders them powerless to demand accountability from the economic marketplace. NCLC has provided model language and testimony on numerous consumer law issues before federal and state policy makers. NCLC publishes an 18-volume series of treatises on consumer law, and a number of publications for consumers.

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EXECUTIVE SUMMARY

Payday loans are very high-cost, short-term loans that ensnare borrowers in a debt trap. As public awareness of the dangers of payday loans has grown, a number of institutions have begun offering alternative products that promise to be more beneficial to the borrower. But payday loan alternatives are not all created equal. Some are considerably more affordable and safer than payday loans. Others differ little from the loans offered by traditional payday lenders.

Several myths surround payday loan alternatives:

- *The myth that any alternative that is slightly cheaper than a traditional payday loan is a good alternative.* An affordable alternative must be just that: affordable.
- *The myth that any loan that does not give the lender excessive profits is a responsible loan.* Loans should be judged by their impact on the borrower, not on the lender's bottom line.
- *The myth that a payday loan alternative needs to look like a payday loan.* That claim is a self-serving justification for offering a loan with such a high fee structure and short repayment period that it is unaffordable.
- *The myth that expensive loans must be tolerated because there is demand for them and we should not restrict access to credit.* Harmful forms of credit should be restricted.

The dangers of payday loans are well documented. Payday loans lead to repeat borrowing and escalating cost. Taking out a payday loan increases the likelihood that the borrower will lose a bank account, file for bankruptcy, be subject to eviction, delay medical care, face a utility cutoff, and become delinquent on a credit card.

To be truly affordable and avoid the pitfalls of traditional payday loans, an alternative product must:

- Have an annual percentage rate (APR), including fees, of 36% or less;
- Have a term of at least 90 days, or one month per $100 borrowed;
- Require multiple installment payments rather than a single balloon payment;
- Not require that the borrower turn over a post-dated check or electronic access to a bank account.

The 36% rate has been the widely accepted benchmark for small loans for over a century and retains broad acceptance today. But though the rate is clearly the most important of these criteria, it is not sufficient. The other terms are also critical for the borrower to have a reasonable chance of repaying the loan without immediately needing to take out a new loan and without endangering the ability to pay for necessities. Taken together, these criteria also force the lender to truly consider the borrower's ability to pay the loan before it is made.

Many of the best alternatives also have a savings component or offer financial education. These features enhance the loans but are neither necessary nor sufficient.

Evaluation of a number of payday loan alternatives finds many that meet these criteria, others that need improvement, and some that are essentially payday loans themselves.

Credit unions dominate the field of the best alternatives. Many credit unions offer products that meet all of our criteria, and a number of others come close. A few banks offer affordable small loans, and many offer reasonably priced overdraft lines of credit that can fit the needs of payday loan borrowers. The larger banks, however, tend not to promote their low-priced lines of credit and prefer to market more expensive fee-based overdraft loans. Nonbank lenders are also emerging with viable payday loan alternatives.

A number of other alternatives are considerably cheaper than a traditional payday loan but fall short of being a safe and affordable alternative. Many payday borrowers have access to credit cards, most of which meet our criteria, though we put them in the "needs improvement" category because other features can make them dangerous. Some credit union small loans are admittedly better than a payday loan but are considerably too expensive and have too short a repayment period.

Finally, a number of credit unions, banks, and bank prepaid cards offer triple-digit, short-term products that are payday loans, plain and simple. Whether they are called payday loans, "direct deposit account advances," or something else, these loans pose the same dangers of repeat lending and an escalating debt trap. Some of these triple-digit loans are even offered by federal credit unions that manipulate the APR to conform to their 18% legal usury cap.

A full list of the products we evaluated is found at the end of this report.

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I. PAYDAY LOANS

A. How Payday Loans Work

A payday loan is a short-term, typically 14-day, cash loan. The cost ranges from $15 to $30 per $100 borrowed, with $15 being common for storefront payday lenders, and online payday lenders charging more. The consumer writes a personal check to the payday lender (or authorizes the electronic equivalent) for the amount borrowed plus the finance charge. The lender holds the check or authorization until the next payday. When the loan comes due, the borrower can redeem the check for cash, allow the check to be deposited, or pay the finance charge and roll the loan over for another pay period at a new fee. Payday loans range from $100 to $1,000, depending on state legal maximums. The typical loan term is about two weeks, and median loan size is $350.[1] Several features of payday loans are worth noting.

High cost, quick repayment. The annual percentage rates run rates from 391% to 782% for a two-week extension of credit.

Check holding and electronic debit authorization combine to hand control of the consumer's bank account over to the lender. In addition to the initial check, the payday contract often authorizes the lender to withdraw the funds electronically in the event that the borrower stops payment on the first check. Such agreements enable payday lenders to avoid laws that permit borrowers to stop payment on checks. The payday lender may re-present the check several times, forcing the borrower to incur a nonsufficient funds fee each time. An internet payday lender operates the same way but dispenses with the initial paper check, taking authorization for either a remotely-created check[2] or an electronic debit.

Fast Cash with Little Underwriting. It does not take much to qualify for a payday loan. A borrower merely has to have an open bank account, a source of income from a job or public benefits such as Social Security, and a valid form of identification. Lenders do not use conventional credit checks but instead use specialized credit reporting services that track the subprime market and weed out only the very worst credit risks. Lenders cater to those with bad credit and do not determine if a borrower can afford to repay the loan.

Repeat Borrowing Leading to Escalating Cost. Payday lenders depend on repeat borrowers for the bulk of their revenues. Payday borrowers take out an average of 8 to 9 loans annually.[3] Payday lenders depend on this repeat borrowing despite their marketing messages that payday loans are for occasional, infrequent use. The CEO of Cash America noted that "you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profitability is."[4] Overall, 90% of payday lending business is generated by borrowers with five or more loans a year; and over 60% of payday lending business is generated by borrowers with 12 or more loans a year.[5]

Unaffordable loans create their own rollover demand. A study by the Center for Responsible Lending found that 76% of payday loans are churned loans—ones that are made not because of a new need for credit, but because the borrower needs a new loan to pay off a previous unaffordable payday loan.[6]

B. Who Takes Out Payday Loans and Why

Payday loan borrowers have regular income and a bank account. Estimates of the median income of a payday borrower range from $20,000 to $50,000. A 2007 survey from the Federal Reserve Board puts the median income of payday borrowers at $30,892.[7]

Many payday loan borrowers are benefit recipients. A survey commissioned by the California Department of Corporations found that 10.6% of payday loan users are public benefit recipients, plus another 4.9% listed disability and 2.9% listed retirement as their regular source of income.[8] Similarly, in Colorado, the three most often cited occupations are laborer, office worker, and benefit recipient.[9] In 2008, Social Security and Supplemental Security Income and other public benefit recipients were estimated to pay $860 million per year in payday loan finance charges.[10]

Payday borrowers may have access to other forms of credit. Payday lenders often claim to be serving those who do not have credit files or cannot obtain credit. That is partly true, but many payday borrowers have credit cards and use other forms of credit.[11]

Borrowers use payday lenders because they are easy and fast. The top reasons that consumers cite for taking out payday loans is that they are quick, easy to get approved, and convenient.[12] Though borrowers also cite the inability to get money at a bank or credit union and maxed out credit cards, those are not typically borrowers' top reasons.

Loans are often used to cover ordinary expenses, not emergencies. Various studies have found that 40 to 60% of consumers take out payday loans to cover routine expenses like utility bills, rent or groceries, or nonessential items.[13] As noted above, much payday loan demand is also created by a prior payday loan.

C. The Harm Caused by Payday Lending

As payday lending has spread across the country, a growing body of independent academic research has documented the adverse impact on the consumers who use payday loans.

Using payday loans increases the chance of losing a bank account. Payday lenders often claim that payday loans are used to prevent bank overdrafts, but they actually may increase them and jeopardize the bank account. One study found that an increase in the number of payday loan outlets in a county is associated with an 11% increase in involuntary bank account closures, even when other variables such as income and poverty rate are taken into account.[14]

Using payday loans increases bankruptcy filings. In a large Texas study, researchers found that payday borrowers were about 88% more likely to file for Chapter 13 bankruptcy in the next two years than the rest of the Texas population.[15] Similarly, a Detroit area study found almost three times the rate of bankruptcy among payday loan users, compared to similar low to moderate-income households without payday loans.[16]

Using payday loans causes financial hardship for families. A University of Chicago Business School doctoral student compared households in states with and without access to payday loans over a five year period and found that access to payday loans increases the chances a family will face hardship, have difficulty paying bills, and have to delay medical care, dental care, and prescription drug purchases.[17] A Detroit area study found double the rate of evictions and phone cut-offs among payday borrowers and almost three times the rate of having utilities shut off.[18]

Payday loan users who also have credit cards are roughly twice as likely to become delinquent on the card. In examining a large sample of payday loan users who also had a credit card from a major issuer, researchers found that credit card customers who took out a payday loan were almost twice as likely as other credit card customers to become seriously delinquent on their credit card during the next year.[19]

Half of payday borrowers default in the first year of use. Researchers at Vanderbilt and the University of Pennsylvania examined a large sample of payday loan files at a Texas payday lender and found that over half (54%) of borrowers defaulted on their payday loans during the first year.[20]

II. MYTHS ABOUT PAYDAY LOAN ALTERNATIVES

Before discussing the criteria for assessing genuine alternatives to payday loans, it is important to address several myths about payday loan alternatives.

Myth 1: *Any Alternative That Is Cheaper than a Traditional Payday Loan is a Good Alternative.*

Some very expensive small loans boast about how they help consumers by pointing out that they are cheaper than the traditional $15 per $100 two-week payday loan. That comparison says nothing at all about whether the loan is helpful or harmful to consumers.

Alternatives to payday loans must stand on their own merits. The question is not whether a loan is cheaper than traditional payday loans; it is whether it is affordable enough to be used sustainably by borrowers. The point of reference is the borrower's well-being, not the cost of the most extreme products on the market. Any loan that is unaffordable is not a genuine alternative. Public policy needs to focus on eliminating harmful forms of credit, not expanding the array of dangerous products available to consumers.

Myth 2: *Any Loan that Does Not Give the Lender Excessive Profits is a Responsible Loan.*

Lenders offering dangerously expensive loans often justify the price by asserting that they do not have a high profit rate and that a high price is necessary to cover loan losses and overhead. Whether lending is responsible or irresponsible, however, is unrelated to profit margin. A lender that is barely breaking even can still be offering loans that endanger consumers. The toxic mortgages made in the last few years were predatory even though they turned out to be money losers for the holders of the loans. The point of reference must be the impact on the consumer, not the lender's economics.

Conversely, there is nothing wrong with healthy profits if the loan is helpful to consumers. Indeed, affordable payday loan alternatives will not become widely available unless lenders can design a business model that builds in reasonable profits. That is undoubtedly a challenge, but a number of institutions are working to make it happen.

High loss rates are also not legitimate justification for high-priced loans. In fact, high loss rates are a sign of a dangerous product. High loss rates indicate that the loans are unaffordable to a high percentage of borrowers, not that lenders need to be compensated for risk-taking. Write-offs do not justify predatory lending, but they may well signal that such lending is taking place.

Myth 3: *An Alternative Needs to Look Like a Payday Loan to "Meet the Consumer Where He Is"*

Some institutions offer short term (two- or four-week) loans with high, fee-based rate structures (i.e., $12 per $100) that look a lot like traditional payday loans. The explanation is often that, to be attractive to a payday borrower, an alternative loan needs to "meet the consumer where he is."

This is simply a self-serving justification for offering an unaffordable loan that contains the same features that make payday loans problematic. Though there is nothing per se wrong with pricing or explaining a loan as dollars per hundred rather than charging interest on a percentage basis, the loan still needs to be affordable. Payday borrowers are capable of understanding that a loan carrying 18% annual interest is cheaper than $15 per $100 every two weeks. They will seek out these cheaper loans if they are made available. Conversely, any benefit to a structure that resembles the payday loans to which borrowers are accustomed is outweighed by the harm of a price structure that is unaffordable.

Similarly, it may be attractive to feed the illusion that a loan is inexpensive because it will be paid off in two or four weeks. But the real needs of payday borrowers are met only by loans that have payments that they can actually make, without repeat borrowing or shortfalls the next pay period.

Myth 4: *Expensive Loans Must be Tolerated Because There is Demand for Them and We Should Not Restrict Access to Credit.*

Free market purists argue that we should not impose strict restrictions on payday loans because the market is supplying a need that is not being met elsewhere and we should not restrict access to credit. We reject this idea for several reasons.

First, some borrowers have other, better (if not ideal) options that they would exercise if payday lending were unavailable. As discussed above, some borrowers have, or could qualify for, a credit card. Some could use a pawnbroker—a form of lending that is far from ideal but still significantly better than a payday loan.[21] Some could qualify for a reasonably priced overdraft line of credit, could borrow from friends or relatives, or could obtain a pay advance directly from their employer. Some will be able to access the alternatives described in this report. The ease and convenience of payday loans is part of their popularity, and payday loans are not always the borrower's only option.

Second, bad credit tends to drive out good. This phenomenon was clear in the mortgage crisis: once some lenders started offering quick and easy loans with little or no documentation of ability to pay the deceptively affordable initial payments, others followed suit and abandoned traditional, safer loans for which many borrowers could have qualified. Conversely, the supply of good alternatives is likely to increase if the bad ones are driven out. One study found that credit was more available in Arkansas, which had a 10% usury ceiling, than in states allowing higher interest.[22] North Carolina documented that the volume of consumer finance lending increased after the state passed laws eliminating triple-digit payday loans.[23] Payday loans are popular in part because they are quick and easy. Elimination of irresponsible "fast cash" will increase both the supply of and demand for more responsible loans that may require more careful underwriting or may a require a trip to the bank or credit union and not just the strip mall.

Finally, and perhaps most importantly, harmful forms of credit *should* be restricted. Just because there is demand among cash-strapped consumers for credit does not mean that that demand must be met on any terms whatsoever. Study after study shows that payday loans lead financially stressed borrowers into even more serious financial problems. If high-rate borrowing is not sustainable for the borrower in the long term, it is better for the borrower to address the underlying problems early rather than later. Even payday lenders will eventually cut off a borrower who cannot pay. At that point, or when the payday debt balloons and the debt collector becomes intolerable, the borrower will have to do something else. She may seek help from friends or family, cut expenses, get relief from an employer loan or a charitable organization, ignore debts that cannot be collected from her if she is judgment-proof, or file for bankruptcy. It is much better to choose one of those options earlier, before the debt explodes, than later after suffering the havoc created by repeated payday lending.

Consequently, the criteria for responsible small loans must be considered on their own merits, without excessive concern for whether or not they will permit the wide availability of easy credit that gets payday borrowers in trouble today. *If a loan cannot be made responsibly, then it should not be made at all.*

III. CRITERIA FOR GENUINE PAYDAY LOAN ALTERNATIVES

The correlation of payday lending with bankruptcy, debt spirals, bank account closures, and other difficulties is not a coincidence. Several aspects of payday loans make them especially pernicious. The terms of a genuine alternative to payday loans must address those aspects of payday loans that make them dangerous.

A. Cost

1. Payday Loans: Triple-Digit Rates

The most obvious danger of payday loans is their high cost. At a typical fee of $15 per $100 for a 14-day loan, with that fee multiplying each time the loan is renewed, a $300 loan carries an annual percentage rate (APR) of 390%. The consumer ends up repaying $1,470–the original $300 plus $1,170 in loan fees--if the loan is carried for a full year. Payday lenders argue that the annual cost is not an appropriate way of judging the cost of payday loans. But even if the loan is only renewed eight times, as the average loan is,[24] the cost of repaying a $300 loan balloons to $705 in four months—well over double the amount borrowed. Even looked at over two weeks, $45 is a lot for a cash-strapped low-income person to come up with in two weeks just to stay even, without making any progress in repaying the principal.

Triple-digit interest rates are a clear hallmark of predatory lending.[25] Loans of 390% used to be illegal, the realm only of mob loan sharks, for good reason. The debt escalates far faster than most borrowers can keep up.

2. Genuine Alternatives: Annual Cost, Including Fees, of 36% or Less

The best payday loan alternatives will have an APR, including fees, of 36%. For small loans, the 36% rate has deep historical roots. It continues to embody the modern consensus of the top rate for loans the size of payday loans—at least among those who agree that any rate caps are appropriate.

a. The History of the 36% Rate Cap

Interest rate caps are more than just numbers: they are reflections of society's collective judgments about moral and ethical behavior, business and personal responsibility, and tolerance for risk.[26] Interest rate caps embody fundamental values.[27]

The 36% rate cap for small dollar lending emerged in the first half of the twentieth century.[28] Although it was originally a response to the excessively *low* legal usury rates of the time, its origins have striking parallels to today's situation, and the reason for a 36% cap are no less valid today.

In the late 19th and early 20th centuries, loan sharks had cornered the market on small dollar consumer lending, a new market as the American economy transitioned toward greater reliance on the purchase of personal goods.[29] Offering products very similar to contemporary payday loans,[30] these so-called "salary lenders" would make small dollar, short-term loans repayable on the borrower's next payday. A typical product carried a *four-digit* annual interest rate.[31] Multiple strategies were pursued to wrest small dollar consumer lending from the grip of these lenders, who built their business on a "variety of legal ruses and questionable practices . . . ."[32] The general civil usury statutes in most states hovered around 6%, so legitimate lenders focused on making large dollar loans to businesses, which netted them more money than small dollar consumer lending.[33]

The idea behind the 36% interest rate cap was to create an exception to the lower general usury statutes so that legitimate lenders would have the incentive to enter the small dollar loan market. Lenders would make a profit—despite the higher costs of administering consumer as opposed to business loans—and consumers in turn would be given a reasonably-priced product.[34]

This idea and the 36% figure itself are generally credited to the Russell Sage Foundation ("RSF"), "among the most respected and influential American social policy research and advocacy institutions during the Progressive Era and beyond."[35] Even though the RSF was not the only institution exploring this approach to the loan shark problem, it is the most responsible for its dissemination and implementation through its Uniform Small Loan Laws.[36]

From 1914 to 1943, thirty-four states adopted a version of the Uniform Small Loan Law or its equivalent.[37] The exact amount of the recommended interest rate cap was not static over the course of the more than half a dozen incarnations of the Uniform Small Loan Law, though they generally ranged from 3% to 3.5% per month.[38] The interest rate caps suggested in the Uniform Small Loan Laws were the result of both "political compromise and practical experience."[39] In other words, they were the result of hypotheses, bolstered by some research studies,[40] being tested in real world arenas.

The real world validated the RSF's efforts. The landscape for small dollar lending was transformed. Through the 1960s, the RSF-inspired small loan laws managed to keep small dollar consumer loans available to consumers.[41]

For a variety of reasons including the development of the credit card, credit cards eventually "began to supplant (and expand) the market for small dollar credit" previously dominated by traditional small dollar lenders.[42] Though most credit cards operate today outside of legal usury limits, rates above 36% are exceedingly rare.

In states where they are legal, payday, auto title, and other fringe products also began targetting payday borrowers.[43]

b. The 36% Annual Interest Rate Cap Today

Until the deregulation of the 1970s and 1980s, virtually all states had usury caps, though they varied widely and were typically well below 36% for larger loans.[44] Deregulation was spurred by two developments, neither of which reflects on the appropriateness of rate caps today. First, a Supreme Court decision permitted banks to charge the rate of their home state, regardless where the loan was made.[45] The decision led some states to repeal their interest rates in exchange for banks' relocating their headquarters and forced other states to follow suit or lose their banking industry.[46] Second, double-digit inflation squeezed the availability of credit and spurred a climate of deregulation. The response of many states to the combined developments was to eliminate interest rate caps.[47]

But the 36% rate continues to have wide acceptance at the state and federal level. Today, over thirty-five jurisdictions—70% of states—still provide for annual interest rate caps at the 36% benchmark or less within their statutory schemes governing small dollar installment loans by nonbank lenders.[48]

This does not mean that the full annual cost of all small-dollar loans in all of these states is capped at 36%. Many of these laws also permit fees and charges in addition to interest, which can bring the APRs for small loan products well above 36%.[49] Typically the interest rate caps were adopted before fees began proliferating on loans on top of interest. In addition, as the payday loan industry was developing, before the dangers were well documented, the industry was very successful in getting exceptions to more general usury rates in order to sell their products.

But the deregulatory tide has begun to turn. The explosive growth of the payday industry—which barely existed two decades ago—and the growing recognition of the dangers of high rate lending have caused many states to reexamine exemptions for payday loans from rate caps. The trend is back toward an APR cap of 36% or less on small loans.

In just the last two years, four jurisdictions—Arizona, the District of Columbia, New Hampshire, and Ohio—have re-imposed rate caps for short-term small loans. In Ohio, voters defeated an industry-sponsored ballot initiative to undo this new rate cap.[50] In Arizona, voters in the 2008 election rejected a ballot initiative that would have permitted payday lenders to remain in business permanently, instead of allowing the 2010 sunset provision in the payday loan law to go into effect.[51] Both of these consumer victories occurred over massive industry spending to support triple-digit APR payday lending.[52] Since 2008, no jurisdiction has repealed its rate cap on payday lending, signaling growing reluctance to exempt payday lenders from comprehensive rate caps of 36% or less. A wide variety of consumer and religious groups are continuing to urge states to impose rate caps of 36% or even less.[53]

Currently, 14 jurisdictions—soon to be 15—either ban payday loans or subject them to an interest rate cap of 36% APR or less. Some of these states permit an origination fee, but the APR for a two-week, six-month, and 12-month loan is well below triple-digits in all of those states even with the fee included.[54]

Several arms of the federal government have also endorsed a 36% rate cap. In 2006, following a report from the Department of Defense detailing the problems that payday loans were posing for servicemembers and military readiness,[55] Congress imposed a 36% rate cap, including fees, on small dollar loans offered to active duty members of the military and their dependents.[56] As DOD made clear in its implementing regulations, the 36% rate was adopted "to balance protections with access to credit."[57]

In 2007, the Federal Deposit Insurance Corporation ("FDIC") announced Small Dollar Loan Guidelines encouraging lenders to offer loans at rates under 36% with low or no fees.[58] In 2008, the FDIC followed up with a two-year pilot program to study sound small dollar loan products based on the 2007 guidelines.[59] The FDIC deemed a 36% APR, as well as the other features set forth in its guidelines, to be helpful for institutions to "meet the goal of safe and sound small-dollar credit programs, which is to provide customers with credit that is both reasonably priced and profitable."[60]

Most recently, in 2010, the National Credit Union Administration ("NCUA") proposed to permit federal credit unions, which currently have an 18% usury cap, to charge either 28% APR plus a $20 application fee, or 36% without fees, on short-term, small loans.[61] As NCUA explained, "[p]ermitting a higher interest rate for [small] loans will permit FCUs [federal credit unions] to make loans cost effective while the limitations on the term, amount, and fees will appropriately limit the product to meeting its purpose as an alternative to predatory credit products."[62]

Thus, within the last three years, no less than three federal agencies—DOD, FDIC, and NCUA—have drawn upon the 36% benchmark to construct responsible and fair small dollar loan frameworks. The DOD views its "social compact" with military families as including an understanding of "personal finances as an integral part of their quality of life."[63] The "social compact" between society as a whole and civilian consumers demands no less.

Even 36%, of course, is high, and that rate is appropriate only for small dollar loans. The DOD, FDIC and NUCA caps are all directed at small loans. The DOD report noted that lenders "should not interpret the 36 percent cap as a target for small loans provided to Service members; it would be a ceiling, and often a lower rate would be more appropriate to the risk of a borrower."[64] NCUA limited its proposed 28% to 36% rate to loans of $1,000 and below; higher amounts are still subject to the 18% rate cap.[65] Many state credit unions also are subject to an 18% rate cap. Outrage over rampant credit card rate increases into the 25% to 30% range spurred considerable public anger and helped propel passage of a new federal credit card law restricting unrestrained rate increases. Bills are pending in Congress to impose a 15% rate on all lenders.[66]

For small loans, however, the 36% rate has widespread and long-standing support. It is high enough to make up for the small dollar values on which the interest accrues, but low enough to avoid predatory lending.

The 36% rate cap also works on a practical level for the loans we are evaluating. For a loan that meets the criteria we propose for an affordable small loan—a 90-day minimum $300 installment loan carrying a 36% APR with fees—the borrower would have to pay about $48 every two weeks, including interest and a portion of the principal. That is virtually the same as the $45 fee that payday borrowers commonly now pay every two weeks to carry over a payday loan without making progress on the principal. Even $48 is a lot for someone living paycheck to paycheck, as most payday borrowers are. But the payments are realistic, unlike the repayment schedule of a payday loan. For a borrower with a $35,000 annual income, $48 would account for less than 4% of after tax income every two weeks, an amount that is conceivably within budget.

c. How 36% APR with Fees is Measured

This report compares loans based on the calculation of an annual percentage rate ("APR") with fees. The "APR with fees" as used in this report is not the same as the APR that the Truth in Lending Act ("TILA") requires lenders to disclose. The complicated regulations that detail how the TILA APR must be calculated have gaps that can leave out several fees, such as application fees and annual, monthly or other "participation" fees. Lenders can use those fees to manipulate and add considerably to the disclosed APR.[67] Indeed, regulators have proposed to improve the APR in the mortgage context by including all fees.[68] With that same correction for the short-term loans that we are examining, the APR is widely accepted as a uniform method of comparing the cost of loans.

We did not attempt to capture penalty fees, such as late fees or over-the-limit fees. Depending on how they are triggered, the amount of the fee, and the pricing structure of the loan, penalty fees may or may not be appropriate. For example, a $10 late fee on a four-month fully amortizing installment loan that carries 18% interest would not trouble us and could appropriately be excluded from an APR calculation. But a payday lender could purport to charge only 18% interest on a 14-day loan, while knowing that the borrower would not be able to repay the loan in full on the 14th day, and planning to refuse to roll over the loan until the borrower was a day late and incurred a $15 per $100 late fee. Late fees of that sort should be included in measuring the cost of that loan, but designing a measure to capture them is beyond the scope of this report.

We calculated an APR with fees by figuring the total cost of a loan that nets the consumer $300 over approximately a four-month period, or the period of the loan, whichever is longer.[69] Four months was chosen as the time period for comparison because it reflects the typical amount of time the average payday loan is renewed. That is, if the typical payday borrower rolls over a loan eight times—a total of nine 14-day periods or 126 days—then it makes sense to compare the cost of alternative loans over the same period of time. Four months is also long enough to take into account the impact of loans whose fees multiply with each rollover and those that do not.

Our methodology results in even some of the more affordable loans having an APR with fees over 36% for a four-month loan. For example, if a loan has a $20 application fee and 18% interest, the APR with fees for a 120-day loan would be 50%. Though this might seem like a large jump from the 18% interest rate, adding the $20 fee nearly triples the $11.32 cost of a comparable 18% loan with no fee, so the APR should be three times as high as well.

The purpose of this report is not to justify a precise methodology of measuring whether a loan is or is not over 36%. We do not foreclose the possibility that modest, one-time application fees could legitimately be excluded from an APR with fees calculation in some circumstances, which would result in more lenders meeting the 36% threshold.[70] Moreover, if the lender does not charge multiple application fees, the APR with fees may be under 36% for loans over $300 or with terms longer than four months. For these reasons, we have included in the category "Genuine Alternatives and Ones that Come Close" several loans that yielded APRs with fees of somewhat more than 36%.

Payday lenders argue that an APR is a distorted way of measuring the cost of a two-week loan and makes that loan look more expensive than it actually is. But we believe that an APR (with fees) should be used to compare loans for several reasons.

First, the risk and expense of a loan are due more to what happens over the long term if renewals are needed than to the cost for the first installment. Any loan can look affordable over only two weeks. That is a big reason why consumers fall into the payday loan trap.

Second, looking at an APR with fees enables a comparison between loans that vary in structure, including the length of the loan, the combination of flat fees and interest, whether the fees recur, whether the loan is repayable in installments rather than a single payment, and whether the loan has a fixed beginning and ending date (a "closed-end loan") or is more fluid, like a credit card or line of credit (an "open-end loan"). That is precisely why the APR was developed in 1968.[71] Providing an APR with fees also provides a method of comparing them to other loan rates that are not analyzed in this report (assuming that those loans are not heavily dependent on fees that TILA does not require the creditor to include in the APR).

Consider, for example, the relative costs, not including principal repayment, of the alternatives in Table 1 for a $300 loan. The APR with fees gives a snapshot of which alternatives are cheaper over the long haul.

B. Length of the Loan

1. *Payday Loans: 14 Days*

The second aspect of payday loans that makes them dangerous is their short, typically two-week, repayment period. Even if used solely as a means of covering short-term

Table 1. Cost of $300 Loan

Type of Loan	Structure	First 2-week loan	Cost for 4 months	APR With Fees for 4-month loan
Overdraft line of credit	17.5% APR	$ 2.01	$ 8.08	17.5%
Credit card cash advance	25.24% APR plus 3% cash advance fee	$11.99	$ 33.91	35%
Overdraft loan	$34 per overdraft plus $15 after 5 days	$49.00	$441.00	397%
Payday loan	$15 per $100 for 14-day loan	$45.00	$405.00	391%

emergencies, few payday borrowers will have the means to repay the loan plus the fee in two weeks. Borrowers with the cash flow to do so most likely have other, more affordable options. Moreover, as discussed above, borrowers often take out payday loans to cover ordinary living expenses that have fallen short. The chances of being able to repay those loans plus a fee in two weeks, without causing an even larger shortfall the next pay period, are remote.

Payday lenders count on borrowers' inability to repay the loans in two weeks as a central part of their profit structure. Indeed, they have vigorously opposed limits on back-to-back loans, arguing that they cannot make a profit unless the loan is rolled over multiple times.[72]

If the typical payday loan is rolled over eight times for a total of 18 weeks, why doesn't a payday lender instead make an 18-week installment loan? The answer is clear: the fictitious two-week deadline and relatively small fee for those two weeks are part of the deceptive aspect of the loans. Writing that post-dated check for two weeks from now gives the illusion that the loan will be paid off then at only the cost of the amount in that check and permits the borrower to ignore the longer-term cost.

Payday loans would not be nearly so attractive if lenders were up front about how long the borrower is likely to be in debt and how much the borrower will pay over that period for that $300 loan. Instead, it is much easier to get the borrower on the hook with what looks like a very short-term loan. Once snared, the lender then is in control and the loan takes off.

2. *Genuine Alternatives: At Least 90 Days or One Month Per $100*

Cost is not the only important feature of an affordable small loan. The length of the loan is also critical. A viable alternative to payday loans will carry a term of at least 90 days, unless the loan is only $100 or $200, in which case the term should be one month for every $100 borrowed. Ideally, the borrower should get one month per $100 for larger loans as well.

This term is consistent with the FDIC's Small Dollar Loan Guidelines. The FDIC explained:

> We encourage institutions to utilize a reasonable time frame for the repayment of closed-end credit, e.g., at least 90 days. This should enable borrowers to repay the debt without incurring the cost of multiple renewals.[73]

A borrower who does not have $300 today is unlikely to have $300 plus a fee in two weeks without putting herself behind for the next pay cycle. Time to chip away at that debt is essential. Two-week loans stretch out to much longer for an obvious reason: the borrower simply cannot come up with enough to pay the loan off in two weeks or even four or six.

Instead of basing lending on the myth of a two-week loan, the terms of a responsible loan do not depend on renewals. The actual repayment period is built into the initial term of the loan. For a $300 loan, a 90 day repayment period means that for a payment of $48 every two weeks, the borrower will have fully repaid the loan at the end of the 90 days. Even $48 is a lot for a cash-strapped borrower, but any more than that is likely to be completely unaffordable.

C. *Single or Multiple Installment Payments*

1. *Payday Loans: Single Balloon Payment*

The balloon-payment structure of payday loans is another pernicious aspect. When payment comes due, the borrower cannot make a partial payment; the entire loan is due. Borrowers who roll over their loans must pay off the old one completely with a new one that carries the same high fees.

Though the lender typically requires a payment to roll the loan over, the payment goes entirely to the fee on the old loan and does not reduce the principal. The full $300 is due again in the next two weeks, and the cycle continues when the borrower inevitably does not have the $300 then either. Payday lenders typically do not take partial payments; it is all or nothing. The Center for Responsible Lending analyzed the budget of a typical borrower earning $35,000 a year and found that, even at zero interest, the borrower would be hard pressed to pay back the typical $350 loan in just one pay period.[74]

Balloon payments are one of the hallmarks of predatory lending.[75] They are part of the design of payday loans that traps the borrower into a debt spiral and forces repeat loans. The loan continues until eventually, out of desperation, the borrower finds some way of coming up with that $300 balloon payment—often friends, family, skipping more important expenses, or bankruptcy (options that were likely available before the borrower took out the loan and incurred months worth of fees).

2. *Genuine Alternatives: Multiple Installment Payments with Amortization*

A responsible small loan requires multiple installment payments and does not rely on balloon payments. The payments are more affordable because they need not cover the entire loan amount. Each payment must cover part of the principal, not just accrued fees and interest, so that with each payment the borrower is making steady progress. With no sudden balloon payments at the end, the final payment does not send the borrower back into the cycle of borrowing again.

D. Form of Security

1. *Payday Loans: Check Holding or Electronic Equivalent*

Payday loans are, in effect, secured by the borrower's future paycheck. By holding a post-dated check and/or the electronic equivalent, the lender can grab the paycheck when it comes in, without the need to engage in any formal debt collection action.

This form of security enables payday lenders, like typical predatory lenders, to engage in lending without responsible underwriting—that is, without considering whether the borrower will be able to repay the loan. They rely on their ability to coerce repayment.

Paper or electronic check holding are the modern equivalent of several practices that the Federal Trade Commission banned over 25 years ago as unfair trade practices. In the Credit Practices Rule,[76] the FTC banned the following practices, among others:

- Confessions of judgment, which like a post-dated check or electronic debit authorization, allow the lender to seize the borrower's income without judicial process.
- Exemption waivers, which permit lenders to reach Social Security and other exempt income, much like payday lenders can.
- Assignment of wages, which is effectively the same as a two-week payday loan secured by the paycheck.

Loans secured by wage assignments in particular bear a striking resemblance to the structure of payday loans. The "substantial injury" to consumers that led the FTC to ban mandatory wage assignments and other credit practices[77] is mimicked by the effect of check holding or electronic bank account access:

Food or the payday loan. Borrowers who turn over access to their bank account lose control over whether to pay food, rent, or the payday loan if funds are insufficient for all three. Bank account access, like a wage assignment, causes "disruption of the family's finances and make[s] it difficult for the debtor to purchase necessities."[78]

Evasion of protections for Social Security, Disability Income, Unemployment Insurance, and other exempt funds. The ability to grab the paycheck without formally garnishing the account enables payday lenders to defeat laws that protect from debt collectors funds that are needed to pay essentials. A high proportion of payday borrowers are public benefits recipients. These and other forms of income are protected in most states from garnishment by debt collectors. Even for ordinary wages, under federal law the maximum amount a debt collector can garnish is 25% of the borrower's disposable earnings for that week or the amount by which those earnings exceed 30 times the federal minimum hourly wage, whichever is less.[79] Many states have laws that protect a greater amount.[80]

In banning exemption waivers, the FTC explained that the "reason for exemption laws is to afford minimal protection to debtors and their families by allowing them to retain the prime necessities of life, with a view to preserving the family unit and furnishing the insolvent with nucleus to begin life anew."[81] Payday lenders evade these fundamental protections by securing direct access to the protected income. Payday lenders happily accept proof of regular public benefits as qualification for a loan and even sometimes target the recipients of public benefits. The lenders' ability to grab those benefits as they come in is even more immediate and harmful than the exemption waivers banned by the FTC.

Check on illegal loans or illegal fees. Control over one's bank account is important if the payday lender has operated illegally in some fashion. For example, online payday lenders often ignore state laws limiting the rates of payday loans. Like wage assignments and confessions of judgment, bank account access occurs "without the procedural safeguards of a hearing and an opportunity to assert defense or counterclaims."[82] Moreover, the security used for payday loans deprives consumers of their legal right to stop payment on checks and other preauthorized electronic transfers. Payday lenders evade the laws by taking advantage of loopholes in the laws and by changing the amount or form of the payment so as to confound a stop payment order. The right to stop payment is an important one that gives the borrower control if a creditor is attempting to collect an illegal or disputed amount, or if the borrower simply cannot make good on the check without losing money to buy food.

Coercion to roll over the loan. With no way out, the borrower is forced to pay a new fee for a rollover that increases the debt. Payday loans, like wage assignments, "can result in costly refinancing."[83]

Added pressure of bank fees: Finally, the payday lender's ability to present and re-present the check or electronic debit subjects the borrower to multiplying nonsufficient funds fees or to overdraft fees, either on the payday check or other outstanding checks.

2. *Genuine Alternatives: No Coercive Security*

For these reasons, a safe payday loan alternative will not be secured by the borrower's post-dated check or the equivalent electronic form of access to the bank account. Many lenders—even ones whose loans are reasonably priced—rely on electronic debit authorizations as security for their loans. Even in the hands of an otherwise responsible lender, however, turning over access to the bank account has harmful effects on the borrower. It gives the lender first crack at income needed for necessities, deprives the borrower of legal protections for exempt income, and can subject the bank account to multiplying overdraft fees.

Lenders, like those 25 years ago using wage assignments, undoubtedly justify requiring access to the borrower's bank account as necessary for borrowers who are bad credit risks or whose paycheck is their only asset, as a way of keeping the transaction costs of underwriting down, and to minimize collection costs. The FTC found that those justifications did not outweigh the harm to borrowers from wage assignments used as a collection device,[84] and the same is true for electronic check holding. Indeed, a big part of the problem is that a security interest in the borrower's paycheck enables the lender to avoid the underwriting that is critical for a responsible and affordable loan. As long as the paycheck comes in, the lender has a good chance of being repaid, or at least of extracting several large fees that cover the loan principal before the borrower defaults.

To those who would argue that lending is impossible without electronic check holding, it is important to remember that credit cards are generally unsecured and are widespread even among low and moderate income households. A credit card company takes no security and cannot take the funds that a borrower needs for food, rent, and other necessities. Indeed, the unsecured nature of credit cards is what justifies their relatively high interest rates–18% to 29% APR or more--compared to deposit interest rates or the rates on secured forms of lending such as mortgages.

Even though the best payday loan alternatives do not and should not require electronic check holding, borrowers always have the option of electronic repayment. Many of the best alternatives discussed below offer the borrower the choice of a lower rate with electronic repayment or a higher rate without it.

E. Evaluation of Ability to Repay

1. *Payday Loans: None*

The final dangerous feature of payday loans is that they are made to consumers without any significant evaluation of their ability to repay the loan. Having a checking account to which regular paychecks or public benefits are deposited is about all that is required. Though payday lenders typically check specialized credit reporting services, they are looking to weed out only those with the very worst credit. Payday lenders do not consider whether the consumer will be able to afford to repay the loan plus the fee in two weeks when it is due, or what other obligations the consumer has.

In the end, all of the other dangerous aspects of payday loans come down to this:

borrowers cannot afford to repay them when due. Lending without regard to ability to repay is one of the most central aspects of abusive lending.[85] For example, recent reforms aimed at abusive mortgage lending and credit card practices have both included requirements that lenders consider ability to repay before extending credit.[86]

2. *Genuine Alternatives: Consider Ability to Pay*

A lender that is offering a truly affordable alternative to payday loans will consider the ability of the borrower to make the payments as they come due. This is not a criterion that we have included directly in our ratings. We have not attempted to delve into the internal underwriting practices of those offering alternatives to payday loans to determine how or whether they assess ability to pay. Nonetheless, adherence to the other criteria for a genuine alternative will ensure that ability to pay is taken into account.

A small loan that only costs 36% on an annual basis does not leave the lender a lot of room for write-offs once the cost of processing the loan and the cost of funds are taken out. A lender who charges only 36% will have to ensure that the vast majority of borrowers can afford the loan. Those who do not or cannot will not stay in business.

A longer loan term, with multiple amortizing installment payments, also gives the lender an incentive to ensure that those payments are affordable. If the borrower defaults early, the lender must write off most of the loan. The loan structure does not give the lender reason to encourage rollovers. If the borrower does complete the repayments, the final payment is no larger than the ones in the paychecks before and does not leave the borrower with an immediate deficit leading to re-borrowing.

Finally, the lack of a coercive form of security is probably the most important incentive to appropriate underwriting. The creditor of an unsecured loan depends on the ability of the borrower to make payments. An unaffordable loan will have to be turned over to collectors, an expensive process.

F. *Savings Components and Other Features*

Many of the best alternatives to payday loans also include other features that help borrowers on a path to financial security. Several of the best loans include a savings component, requiring the borrower to make regular contributions toward savings, or putting a portion of the loan principal into a savings account that is turned over to the borrower upon complete repayment of the loan. Though instilling the habit of savings is important, required savings also add to the cost of the loan. Some lenders require participation in financial education as part of their small loan programs. Other lenders have credit counseling available that kicks in if the borrower has trouble making payments.

These features are not necessary for a loan to be a genuine alternative to payday loans. They are also not sufficient to make up for a loan that is not affordable. But they enhance the borrower's experience, and we have noted loans that have these features.

IV. THE ALTERNATIVES

The products surveyed in this report include truly affordable payday loan alternatives, ones masked as alternatives that are little better than traditional payday loans, and everything in between. No attempt was made to find every alternative on the market. Rather, this report describes examples of the types of products available. A full listing of the products surveyed is found in Appendix A. A sampling of the alternatives is discussed below.

A. Genuine Alternatives and Ones That Come Close

1. Credit Unions

Given that credit unions are nonprofit institutions formed for the purpose of serving their communities, and that most operate with interest rate caps well under 36%, it is not surprising that many of the best alternatives come from credit unions.

Through its REAL ("Relevant, Effective, Asset-building, Loyalty-producing") Solutions program, the National Credit Union Foundation has been collaborating since 2007 with state credit union leagues to encourage credit unions to offer affordable small dollar loan products to their members who have limited assets. There is no "one size fits all" REAL Solutions loan. The goal of the program is to provide loan products that support borrowers' efforts not only to obtain short-term funds but also to build good credit and savings. The REAL Solutions effort includes 650 credit unions across 34 states.[87] Several credit unions involved in the REAL Solutions program offer affordable alternatives to payday loans that meet our criteria. However, we note that some of the very expensive loans we identified came from credit unions that also participate in the program.

Credit unions that participate in REAL Solutions include:

- Alternatives Federal Credit Union in New York offers a Credit Builder Loan for low-income borrowers with little or no credit and a Score Builder Loan for those with low credit scores. Both have 14.25% interest and no fees for a six-month loan.
- Novartis Federal Credit Union in New Jersey has a Personal Loan with 16.5% APR, and no fees, for a loan up to two years. The loans are available to borrowers with credit scores from 550 to 559. The payments are amortizing installment payments and automatic payment is not required.
- First New England Federal Credit Union in Connecticut also offers Personal Loans for borrowers with low credit scores. For those with credit scores under 600, the rate is 17.99% with no fees, and the loans can be up to three years. The rate goes down to 10.25% and the term can be up to five years for those with a credit score over 640. Again, the loans come with amortizing installment payments and neither direct deposit nor automatic payments are required.

Other credit unions also offer affordable products. Eglin Federal Credit Union in Florida has a SAFE Loan Salary Advance of up to $500 or half of the borrower's monthly pay, whichever is less.[88] The loan term is 90 days at 16.9% APR interest, with no fees other than the Florida documentary stamp fee of $0.35 per $100 borrowed. Even including that fee, the APR with fees is 19%. Direct deposit is required. Payments can be made automatically by payroll deduction but this is not required. The minimum payment, due on each payday, is $25 weekly, $50 bi-weekly/semi-monthly or $100 monthly. Members who have had two SAFE Loans are required to complete the BALANCE Budget Counseling course prior to receiving their third SAFE Loan.

A number of other credit unions offer loans that are not specifically marketed as payday loan alternatives but may serve that purpose. Most credit unions offer unsecured personal loans, often called "signature loans," and in some cases these are available in small amounts for borrowers who do not have perfect credit. The National Credit Union Administration surveyed credit unions and found 605 federal credit unions offering loans of $500 or less and 352 federal credit unions that offer small-dollar, short term loans designed to be repaid the next payday.[89] Some of course offer both. A list of these federal credit unions, as well as the state credit unions surveyed, is included in Appendix C.

For example, Navy Federal Credit Union, the nation's largest credit union, does not have a specific payday loan alternative product but does have flexibility in adapting its standard Signature Loan to the needs of its military clientele. Though the standard minimum loan is $250, loan officers can make exceptions. The Signature Loans start at 11.25% and carry a maximum rate of 18% with no fees. Loans are repaid in installments from six months to five years (for large loans). The loans do require automatic repayment at some point, however. Though the credit union does check credit scores, and former payday borrowers might be initially disqualified, more senior loan officers are available to review applications that are turned down. For example, the credit union is willing to make exceptions to its underwriting criteria to make an emergency loan, or to pay off payday lenders, if the borrower has the capacity to pay the new loan. The credit union tries to distinguish between those for whom a loan means a fresh chance, and those who will not be helped by more credit and should instead be referred to the credit union's financial counselors.

A number of other credit unions that offer loans meeting our criteria for affordable loans are listed in Appendix A.

A number of credit unions offer small loans that otherwise meet our criteria but charge a one-time application fee that pushes the cost of a four-month loan over 36%. Some of these come down below 36% if the borrower renews the loans for a full 12 months. As discussed above, one could argue that a modest, one-time application fee should be excluded from the APR with fees, but we have included all fees in our calculations.

Veridian Credit Union in Iowa offers a Payday Alternative Loan from $200 to $1,000 with a 6-month term and a $20 application fee.[90] The borrower can choose between 19% interest with automatic payment and 21% without, and thus is not required to sign over access to her bank account. Borrowers must have direct deposit of their paycheck and payments are due every payday. Half of the loan amount requested is deposited into a savings account and is available after the loan is repaid. With the application fee included, and assuming the higher 21% interest rate, the APR with fees for a 6-month $300 loan is 44%. However, since the application fee is constant regardless of the size of the loan, the APR with fees is lower for larger loans. For a $500 six-month loan, the APR with fees is 35%.

A number of other credit unions offer small loans with an APR with fees under 36%, but the loans have a short repayment period or a single balloon payment, and may also require electronic repayment. (Most of them have all three of these negative features). The payments for these loans will be more challenging for borrowers and are more likely to leave them short in the next pay cycle. Therefore, repeat borrowing appears more likely, though the low price tag means that the fees do not multiply excessively, and they are a considerable improvement over a payday loan.

North Carolina State Employees Credit Union offers a Salary Advance of up to $500 at 12% APR and no fees. The loan must be repaid in full by automatic repayment on the next payday. The finance charges are very affordable, and the loan could be helpful to a borrower who is coming into extra cash by payday. The short repayment period is problematic, however. Many borrowers may find that they do not have enough extra paycheck to cover the loan principal and that they will fall short again in the next pay cycle.

The same is true of the Payday Freedom Loan at Watermark Credit Union in Washington State.[91] The loans are only 18% APR with no fees, but are repaid on the next payday one to 31 days later. The credit union puts 5% of the loan in a savings account, which the borrower can access in 20 months.

2. *Banks*

The FDIC has been conducting a Small-Dollar Loan Pilot Program to review affordable and responsible small-dollar loan programs in financial institutions.[92] Twenty-eight banks participated in the study, with nearly 450 branches located in 27 states. All offer loans under 36% including fees. All but one also have 90-day or longer repayment periods with multiple installment payments. Not all of these banks are included in our survey, but a couple of examples are described below.

Amarillo National Bank in Amarillo, Texas has had a small dollar loan program for more than 100 years.[93] There are no established parameters for loan amounts, but the standard minimum is $500, with terms from 9 to 12 months. The maximum interest rate is 18%, and the bank does not charge an origination fee, giving the loans an APR with fees of 18%. The bank offers a discount for consumers who choose to have their payment automatically debited from their checking account but does not require automatic payment. In the first year of the FDIC pilot program, the bank originated 1,074 loans under $1,000. The bank does not formally advertise these loans but instead relies on word of mouth.

Bank of Commerce recently began offering small dollar loans primarily out of its Stilwell, Oklahoma branch as part of the FDIC pilot program.[94] Stilwell is rural, with a large concentration of low and moderate income households. Loans range from $200 to $1,000 with a 12-month term. The interest rate does not exceed 13.75% with an origination fee of $25 to $50, depending on the size of the loan. The fee brings the APR with fees on a $300 12-month loan to 29%. A credit report is obtained as part of the underwriting process, but the bank does not require a particular credit score. If the customer's documents are in order, a loan can be underwritten in less than one hour. Borrowers can choose to add 25% to the monthly payment for deposit in a linked savings account. Checking accounts are not required and consumers may choose, but are not required, to have their loan payment debited from their checking account. Results from the first year of the program indicated that the loans were profitable on a stand-alone basis and have provided a gateway to establishing customer relationships. According to Vice

President Jason Garhart, "We offer check-cashing services and see lots of folks that we'd like to have as customers, and we see our own customers writing checks to payday lenders and such. We thought that an affordable small-dollar loan product might be a good way to build relationships with new customers, strengthen our relationships with existing customers, and do some good for the community."[95]

BankPlus in Mississippi offers CreditPlus loans up to $500 for those with a credit score below 500 and up to $1,000 if the borrower's score is higher. The rate is only 5% APR with no fees and a 12- to 24-month repayment period. Half of the loan proceeds are placed in an interest-bearing savings account and put on hold until the loan is fully repaid. Even considering the interest paid on the savings half, the terms are very affordable. Borrowers are required to take a three-hour course in financial literacy.

In addition to traditional closed-end loans, responsible interest-based overdraft lines of credit are also available at many banks (and credit unions), which can be used for short term emergencies. Some large, nationwide banks also have reasonably priced overdraft lines of credit that may be available for customers with less than perfect credit. But as our researchers found when looking for these products, banks are quick to offer much more expensive overdraft fees as the first option, and sometimes revealed the existence of cheaper lines of credit only when pressed.

Our researcher called Capital One and said she was interested in opening a checking account but had trouble with overdraft fees and wanted to find an account that would be cheaper. The customer service representative described a checking account with no monthly fee, no minimum balance, and $35 overdraft fees (maximum 4/day) for overdrafts over $5. Only when asked for something cheaper did the Capital One representative describe an overdraft line of credit with a variable rate currently at 17.5% and no fees. Payments each month are either 2.5% of the outstanding balance or $50, whichever is greater. This line of credit meets all of our criteria. The APR with fees is 17.5%, a $300 loan would be paid in installments over 6 months, and it does not require automatic repayment or check holding. The representative could not tell us whether this overdraft line of credit might be available to someone with blemished credit.

The experience was similar at Citibank. After first mentioning a high-cost fee-based overdraft loan program, the bank revealed an overdraft line of credit that charges $10 for each transfer and then a top rate of 18.25% interest on the amount drawn from the line. The $10 fee can be avoided by transferring the money online before the overdraft occurs. Repayment is similar to a credit card where there is a low monthly payment each month, well over 90 days. Even including the $10 fee, we calculate the APR with fees at 29% for a four-month loan of $300.

U.S. Bank was more forthcoming. When asked about overdraft protection, the customer service representative described the "Reserve Line of Credit," which requires income of at least $1,000 per month, well within the means of most payday borrowers. Interest is 21.9% APR plus $2 per transfer, but there is no annual fee. The APR with fees for a $300 overdraft comes to 38%, a bit over our target of 36%. Unlike the Capital One and Citibank plans, however, once money is deposited into the linked checking account, it is automatically deducted to pay off any outstanding balance on the line of credit. This security feature makes the loan less safe than it could be because the loan payment comes before any other necessities.

3. Other Lenders

Progreso Financiero, a Community Development Financial Institution (CDFI)-certified lender, offers small dollar loans in California and Texas. Target clientele are lower-income and underbanked Latinos with no credit file, a thin credit file, or a low FICO Score, averaging around 545. Loans are made from 29 retail points across California, mostly located within Latino supermarkets and pharmacies. Applicants are given an initial electronic screening, lasting about two minutes. Those that pass are given a seven- to ten-minute questionnaire, followed by a conditional approval.

Loan amounts typically range from $250-$2,500 and last about 6–18 months. The flagship product is a $900 average loan for about 9–10 months. The cost to borrowers is 24–30% annual interest, with 26% being the average, as well as an origination fee of 5%, capped at $50. For a $300 six-month loan, the APR with fees comes to 43%. For a 12-month loan, the APR with fees goes down to 32%. For their more standard $900, nine-month loan, the APR with fees is about 39%. Loans are repayable in installments, no security is required, and renewals are only available when the prior loan has been paid off in full.

Progreso Financiero reports borrowers' payments to credit bureaus and finds that 88% of borrowers increase their credit score from the first loan. The typical borrower builds from no score to a 660 credit score after three loans and strong payment behavior. In its loan underwriting, Progreso Financiero uses a proprietary credit-scoring model designed for its target population. Since 2006, Progreso Financiero has made over 50,000 loans, totaling around $46 million, with low losses. Progreso believes that the performance of its portfolio is better than that of most super-prime credit cards portfolios in America.

In addition to the institutions discussed in this report, many charities and military service societies offer free or low-cost emergency loans. However, we did not include these subsidized loans in our survey.

B. Better Than a Payday Loan But Still Very Problematic

A number of payday alternatives are available that are considerably less expensive than a traditional payday loan but still fall short of being affordable for many borrowers.

Credit cards are the primary form of small dollar lending in this country, a widely available alternative to payday loans often ignored in the debate over payday loans. Credit cards are marketed heavily and are widely available. Even a consumer who needs a short-term loan because of a financial bind may qualify for a credit card. Indeed, some payday borrowers already have credit cards, and they have not always reached their credit limit. Traditional credit cards—either on their own or linked to a checking account—meet or come close to all of the criteria used in this report for affordable payday loan alternatives. [96]

Nonetheless, we include credit cards in the "needs improvement" category because they have other flaws not analyzed in this report's criteria. They have the opposite problem of too-short payday loans: the payments are stretched over such a long period of time—20 years is common—and so little of the principal is repaid with each payment that debt can continue endlessly.[97] Credit cards also often permit the borrower to incur high debt levels beyond their means, and may contain hidden traps that induce over-limit or late fees that add considerably to the interest rate. For a disciplined borrower, however, who is able to limit how much he borrows and who pays, on time, more than the minimum payment, mainstream credit cards are a vast improvement over payday loans.[98]

The Capital One Standard Platinum Card is available to those with "fair" credit. It carries a 24.9% APR on purchases and cash advances, and a 3% fee (no less than $10) for cash advances. For a $300 advance held for 120 days, the APR with fees comes to 36%. Like all credit cards, it has a long repayment term and multiple amortizing payments and does not require that the borrower turn over access to her bank account.

The Chase Freedom Card is available to those with "good" (rather than "excellent") credit. It has a maximum standard APR of 23.44 but that rate goes up to 29.99% if the borrower triggers the penalty rate. With a cash advance fee of the greater of $10 or 5% of the advance, and assuming the high range of interest at 23.44%, the APR with fees over 120 days is 40%. At the 29.99 % penalty APR, the APR with fees is 46%.

Some credit unions offer small loans that are admittedly much cheaper than traditional payday loans but are far too expensive to be considered affordable. Assuming that the loans are renewed for a total of 120 days, we calculate rates as follows:

- Q-Cash Loans at $12 per $100 for members of the Washington State Employees Credit Union are repayable in 60 days, for an APR with fees of 72%.[99] Q-Cash Loans for members of Salal Credit Union (Washington State) have a 45-day term and an APR with fees of 97%.
- Oregon Community Credit Union offers a Payday Loan through CUonPayday.com, which costs $9 per $100 for a 31- to 40-day loan, for an APR with fees of 108%.

These loans also fail our other criteria, with less than 90-day terms, single, balloon payment structures, and required electronic repayment.

C. A Payday Loan By Any Other Name . . .

Triple digit loans are unfortunately not solely the province of payday lenders. Some banks and credit unions offer loans that are nearly as bad as or even worse than payday loans.

1. Bank And Prepaid Card Direct Deposit Account Advances.

A growing number of banks, including U.S. Bank, Wells Fargo, Fifth Third Bank and GuarantyBank, offer account advances to customers who have wages or benefit checks directly deposited to their checking accounts. Customers must sign up for the plans and can take out advances by telephone or at ATMs. The funds are deposited into the consumer's bank account and the bank automatically repays itself in full when the next deposit of $100 or more is received, even if that is the next day. If not paid in 35 days, the bank may overdraw the account and trigger overdraft fees.

At U.S. Bank, Wells Fargo and Fifth Third, the advances cost $2 per $20. These advances are payday loans, plain and simple—triple digit loans repaid on the next payday. They carry an APR with fees of 240%, based on our generous assumptions that the borrower is paid semi-monthly and has a full 15 days' use of the advance each pay period before the loan is repaid. This assumes that the borrower takes out the first advance on the same day she is paid, and takes out a new advance the moment the first one is automatically repaid 15 days later when the next paycheck is deposited. The APR with fees goes up to 521% if a single advance is taken out 7 days before payday, and even higher if the loan is taken out only a day or two before payday. The banks claim an APR of 120%, but that rate is calculated assuming that the borrower keeps the money for the maximum 30 days—which requires both a single monthly paycheck and an advance taken the same day as payday. In reality, the loan term is likely to be only a few days, as most consumers undoubtedly take out the advances towards the end of their pay period, as money is running short.

The payment structure is different at GuarantyBank, headquartered in Milwaukee with locations in five Midwestern states. Advances cost a flat $25 application regardless of amount; apparently no APR is disclosed. Advances up to $400 are available for those with direct deposit, and up to $200 without. Under the same assumptions as above, the APR with fees for advances held a full 15 days is 203% (whether or not rolled over for 120 days). The APR with fees for a seven-day advance is 434%.

All of these account advances also failed our other criteria. They have a maximum repayment period of one paycheck and a single lump sum payment. They also give the bank the right to seize the paycheck the moment it is deposited, regardless whether the money is needed for food or other necessities or comes from a protected source like Social Security. The only exception on the latter point is Wells Fargo, which gives borrowers the option of paying by mail, but requires an up front fee of $100 to exercise that option. In the unlikely event that a borrower chooses to pay the extra $100 to pay by mail, the APR with fees for advances held 15 days is 340%.

This type of bank payday loan is likely to spread now that changes in federal law prohibit banks from automatically enrolling consumers in abusive fee-based overdraft programs to cover ATM and debit card transactions. Bank consultants have touted account advances as one of the products banks can use to make up for lost overdraft fee income.

The same type of account advance payday loan is also available on prepaid debit cards (which are essentially a bank account debit card without the bank account). In fact, this type of cash advance may spread as a means of circumventing state laws limiting the fees on payday loans.

MetaBank offers account advances, called iAdvance, on its prepaid cards if the consumer has direct deposit of wages or public benefits. The advances cost $12.50 per $100 and are repaid automatically in a lump sum with the next deposit, for an APR with fees of 300% under our generous assumptions.

CheckSmart, an Arizona payday lender, appears to be preparing to circumvent Arizona's new payday loan restrictions by offering "Bridge Accounts" through an Insight Prepaid MasterCard from Urban Trust Bank. For borrowers who use the accounts for direct deposit of wages or benefits, account advances are available for a fee of 15% of the advance, due on the next payday. The cost is similar to a payday loan—$15 per $100, but with a cap of $36. Assuming that the borrower is paid semi-monthly and gets a $300 advance twice a month for the full 15 days, the APR with fees is 288%. These fees far exceed the 36% interest, plus a single 5% origination fee, that will be permitted once the payday loan exception to Arizona's usury law expires on July 1, 2010. However, because the loans are technically made by an out-of-state bank—Atlanta-based Urban Trust Bank—and not by CheckSmart itself, Arizona's laws are preempted.

In some respects, these bank and prepaid card loans are much worse than payday loans. First, the loans are repaid as soon as the next deposit is made, which could be the very next day, not even giving the borrower the full 14 day loan that payday lenders offer. As a disabled Army veteran reported, "on several occasions I took a direct deposit advance on a Thursday, only to have the advance and fee taken out of the very next day's deposit . . . . I'm not good at math, but I began to suspect that a one day loan of $500 with interest of $50 (the current maximum loan amount and the dollar interest amount) certainly exceeded the claimed APR rate."[100] Second, these loans are made by the bank that controls the borrower's income, leaving absolutely no possibility that a borrower who needs the money for food can stop payment on the check or cancel the electronic authorization (which is a possible, though difficult, with traditional payday loans).

2. Credit Union Payday Loans.

Though credit union loans dominate the field of good alternatives described in this report, a growing number of credit unions offer triple-digit payday loans.

Kinecta Federal Credit Union offers payday loans, marketed through its Nix Check Cashing subsidiary. Despite the fact that federal law subjects Kinecta, as a federal credit union, to an 18% annual interest usury cap, the credit union evades that limit by charging a $39.95 application fee for each of its standard $400 14-day loans on top of 15% annual interest.[101] The application fee is charged each time, even for repeat borrowers, making the APR with fees 362%. Clearly, the credit union is collecting most of its profit through the "application" fee, not the interest.

Prospera Credit Union in Wisconsin has created the GoodMoney payday loan, which it offers through Prospera branches at Good Will stores. Prospera also sells GoodMoney as a turnkey product to other credit unions. The loans are due on the next payday, and the fee depends on how often the borrower is paid: $4.90 per $100 per pay period if paid every 1–7 days; $9.90 per $100 if paid every 8–14 days; $15 per $100 if paid 15–45 days. Borrowers can take up to 60% of their income with a max of $700. A 14-day loan carries an APR with fees of 258%. For a 15-day loan, the APR with fees is 365%. The APR with fees goes down to 182% for a borrower who is paid monthly. After five rollovers and a two-day cooling off period, the credit union will offer a repayment plan consisting of the minimum fee, part of which goes towards principal. Yet the borrower has to wait for five rollovers before any of the payment goes toward reducing principal—little different from the repayment plans that payday lenders claim to offer. Though a 14-day loan (but not a 15-day loan) is cheaper than the average payday loan, the difference is not enough to make this an affordable product.

More typically, credit unions do not make payday loans directly but rather do so through arrangements with subsidiaries of other credit unions (called Credit Union Service Organizations, or "CUSOs"). The credit union lends its name to the CUSO, may include the loans on its website, might even permit terminals in its lobby, and receives a finder's or broker's fee.

E-access Loans[102] offers 30-day loans in the name of several credit unions, primarily federal ones, at a cost of $59 per month plus 18% interest. With the fee included, the APR with fees for a $300 loan is 254%. Despite the 18% usury cap for federal credit unions, E-access Loans makes these triple-digit payday loans in the name of the following federal credit unions:

America First (Utah)
Chemcel (Texas)
County Federal (Maine)
Community One (Nevada)
Crossroads Financial (Indiana)
Family First (Utah)
Heritage Trust (South Carolina)
Huntington County (Pennsylvania)
LAMPCO (Indiana)
Pocahy Family (Texas)
The Local Federal Credit Union (Texas)
Tip O'Texas.

Several state credit unions also lend their names to E-access Loans.

CU on Payday[103] works primarily with state credit unions in Colorado, Oregon, Utah, and Washington. The rate structures vary state to state, but typically charge $12 to $15 per $100 for a loan repaid automatically on the next payday, except in Oregon and Washington, where the loans carry a 31-day minimum term. We calculate the APR with fees for these loans at 141% for a loan with a 31-day term and 288% to 360% for a 15-day loan.[104]

Fine print on both the E-access and CU on Payday websites tells borrowers that the credit union is not the lender. That distinction is likely lost on borrowers. Indeed, America First Credit Union in Utah—a federal credit union—even directs borrowers to apply at terminals *in the credit union's lobby*. The fact that the credit union receives a finder's or broker's fee makes the distinction meaningless in any event.

The only consolation is that most of these credit unions do not disguise the fact that these are in fact payday loans, typically using that term in their name. Though their rates may be slightly cheaper than the loans from traditional payday lenders, their triple-digit rates are still extremely expensive, and they also fail to meet any of the other criteria in this report, requiring short term 14- to 30-day terms, balloon repayments, and paper or electronic check holding as security.

3. Fee Harvester Credit Cards.

"Fee harvester" credit cards are marketed to borrowers with poor or no credit history. The cards come with low credit limits and very high, not always transparent, fees that add considerably to the APR that is disclosed.[105] Recent changes stemming from the Credit CARD Act of 2009 reduce the permissible fees considerably. But some institutions continue to offer credit cards with very high fees to individuals without good credit. These cards may be an option that some payday borrowers are considering, but they are a very expensive and risky option.

The First Premier Bank Classic Credit Card has a 23.9% APR. However, the card has a $75 annual fee charged immediately to the credit line, and a $95 processing fee must be paid up front before the card is issued. The card has an initial credit limit of $300 but the $75 annual fee is charged against that credit limit. The cash advance fee is 3% of the advance or a minimum of $5 and a maximum of $10. The minimum monthly payments are the greater of $30 or 3% of the balance, and there is no required security. If the consumer immediately took out the maximum cash advance of $225 ($300 minus the $75 annual fee), the net credit extended would only be $130 in light of the $95 processing fee. Making the minimum payments for three months and then repaying the remaining balance in four months would yield an APR with fees of 417%. Clearly, this is a very expensive option. Moreover, the expense might be even higher because the confusing structure of the card and other tricks hidden in the fine print could induce borrowers to incur multiple late fees of $29 to $35.

Orchard Bank has a Classic MasterCard with a 20.9% APR. However, the card has a $39 annual fee charged immediately to the credit line, and a $35 processing fee must be paid up front before the card is issued. If the initial available credit line is $300, and the cardholder immediately took out a cash advance that netted $226, the card would have an APR with fees of 146%. These APRs do not include any late or other penalty fees.

4. Overdraft Loans.

Though overdraft loans are not typically thought of as alternatives to payday loans, payday lenders definitely promote their products as alternatives to overdraft fees. Overdraft fees have exploded in the last several years as banks and credit unions began putting hidden lines of credit on accounts, which permit overdrawn debit and ATM transactions to be approved and to trigger large overdraft fees. Recent changes in the federal regulations governing overdraft loans now require consumers to opt in to overdraft coverage, and banks have made some improvements in pricing. But overdraft loans remain a very expensive and dangerous way to cover expenses.

To compare overdraft loans to the other short-term loans that this paper examines, we assumed that a borrower who is paid semimonthly overdrew his account by $300 twice a month (once before each paycheck), incurring an overdraft fee each time. That is, the overdraft was automatically repaid with each paycheck but the borrower effectively rolled the loan over like a payday loan by overdrawing at the beginning of each of eight consecutive pay cycles over a four-month period. We also assumed that the loan was "outstanding" for the full 120 days with no gaps, ignoring any other overdraft fees likely triggered by checks or debits coming in while the account was overdrawn.

Capital One's basic Rewards Checking account charges $35 per overdraft, but no fee if the overdraft is less than $5. No more than four overdraft fees (or a total of $140) can be charged in a day. The APR with fees for two $300 overdrafts per month (one per pay period) over four months comes to 283%. If the $300 in overdrafts occurred in two separate transactions (i.e., one for $100 and one for $200), the APR with fees would rise to 568% and of course it could rise much higher than that.

U.S. Bank charges $19 per item for the first overdraft, $35 per item for the second incident and $37.50 per item for the third and each additional incident. The bank will only charge three overdraft fees per day. If a consumer has two overdrafts per month over a four month period, the escalating fee structure leads to a total of $279 in fees or an APR with fees of 283%. If there are twice as many overdrafts (as would happen if the $300 were split into two transactions), the APR with fees comes to 579%. As with Capital One, the cost could rapidly rise beyond that.

Consequently, at first blush, the payday lenders have a legitimate claim that their loans are cheaper than overdraft fees and could be used to help consumers avoid those fees. However, the payday loan is more likely to exacerbate than to solve the borrower's overdraft problems due to the deficit caused by the payday loan payments and the NSF fees that the check written to the payday lender to secure the loan can trigger.

V. CONCLUSION

The growth in the number of products touted as "alternatives" to payday loans is strong evidence of a growing public recognition of the dangers of payday loans. But to be a true alternative, a loan must be more than just a little bit cheaper than a traditional payday loan. It must be designed so that it can be affordably repaid, over time, by a borrower who does not have a lot of excess income and who can make the payments without falling behind again the next pay cycle.

A number of genuine payday loan alternatives are available, especially at credit unions. Banks should also publicize more widely their reasonably-priced lines of credit instead of encouraging credit-impaired customers to rely on pernicious fee-based overdraft programs that can be even worse than payday loans. Mainstream credit cards, while carrying their own problems and not available for all, are also a viable option for a number of borrowers.

But many loans that purport to be alternatives to payday loans are little or no better than payday loans themselves. These loans are more likely to exacerbate the borrowers' problems than to help. A slightly lower price and a new name do not make a loan a genuine alternative to payday loans.

As lenders and policymaker explore alternatives to payday lending, they should insist on truly affordable products like ones that meet the criteria discussed in this report: a 36% annual rate including fees, 90 days to repay the loan in manageable installment payments, and either no security or a security method that does not put money for food and rent at risk.

APPENDIX A-1

GENUINE PAYDAY LOAN ALTERNATIVES AND ONES THAT COME CLOSE

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security/ Electronic Payment	Special Features	Comments
Capital One, overdraft line of credit	B	nat'l	17.5%	none	revolving	17.5	✓	✓	✓		
Citibank Checking Plus	B	nat'l	15.75%–18.25%	$10 transfer fee per overdraft	revolving	29%	✓	✓	✓		
U.S. Bank, overdraft line of credit	B	nat'l	21.9%	$2/transfer	revolving	38%	✓	✓			
Family Security Credit Union	C	AL	15%	none	up to 36 months	15%	✓	✓	✓		
Comunidad Latina Federal Credit Union	FC	CA	18%	none	6 months	18%	✓	✓	✓		
Payday Plus SF (through some CA Credit Unions)	C	CA	18%	none	12 months	18%	✓	✓	✓		
Progreso Financiero	O	CA	25–28%	Lesser of 5% or $50 origination fee	6–15 months	32–43%	✓	✓	✓		
First New England Federal Credit Union, Personal Loan	FC	CT	17.99%	None	up to 3 yrs if credit score under 600	17.99%	✓	✓	✓		
West End Neighborhood House through Wilmington Trust Co., Loans Plus	B	DE	12–15%	none	up to 3 months	15%	✓				Can pay in installments.
Eglin Federal Credit Union, SAFE Loan - Salary Advance	FC	FL	16.9%	None except Florida documentary stamp fee of $0.35 per $100	120 days	19%	✓	✓	✓		

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security/ Electronic Payment	Special Features	Comments
Veridian Credit Union, Payday Alternative Loans	C	IA	21%	$20	6 months	35–44%	✓	✓	✓	Half deposited in savings.	19% with automatic repayment, 21% without
Ascentra Credit Union, Signature Loan	C	IA, IL	13–21%	none	48 months	21.0%	✓	✓	✓		
Ascentra Credit Union, Open-End Line of Credit	C	IA, IL	13.5%	none	revolving	13.5%	✓	✓	✓		
Family Credit Union Personal/ Signature Loan	C	IA, IL	20%	none	6 to 36 months	20%	✓	✓	✓		
Austin Bank of Chicago, Ready Cash Now Overdraft Line of Credit	B	IL	16.99%	$35 annual fee	Revolving	32–54%	✓	✓			
North Side Community Federal Credit Union Payday Alternative Loan	FC	IL	10.5–16.5%	$30 application fee	6 months	45%	✓	✓	✓	If credit score below 600, must attend 4 financial education workshops. $75 put in savings.	
Campus Federal Credit Union, Money-Wise Loan	FC	LA	18%	none	6 months	18%	✓	✓	✓		
City of Boston Credit Union, Holiday Loan	C	MA	10%	none	Up to 12 months	10%	✓	✓	✓		
Goldmark Federal Credit Union, Zero Credit Score Loan	FC	MA	11.99%	None	generally 6 months	11.99%	✓	✓	✓		Borrower must have close to zero credit to qualify.

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security/ Electronic Payment	Special Features	Comments
Communicating Arts Credit Union, Stretch Pay	C	MI	18%	$35 annual fee	30 days	40–63%					
BankPlus, CreditPlus	B	MS	5.083%	none	12 or 24 months	5%	✓	✓	✓	Must take financial literacy course	
Missoula Federal Credit Union, Payday Alternative Loan	FC	MT	18%	none	90 days	18%	√	√			
Pinnacle Bank	B	NB	10%	up to $50	7–10 months	28%	✓	✓	✓	Half of fees rebated if have a savings account	
North Carolina State Employees Credit Union, Salary Advance	C	NC	12%	none	next payday	12%					
Service Credit Union, Early Pay Loan	C	NH	8.75–17.99%	none	30 days	14.99%				10% of loan proceeds placed in savings account.	
St. Mary's Bank, MyPay Loan	C	NH	18%	$15 annual fee for $250, $25 for $500	30 days	33–36%				Open-end line of credit.	
Aspire Federal Credit Union, Credit Builder Loan	FC	NJ	12%	none	12 months	12%	✓	✓	✓		
Novartis Federal Credit Union, Personal Loan	FC	NJ	16.5%	none	Up to 2 yrs	16.5%	✓	✓	✓		
Corners Federal Credit Union	FC	NM	18%	$20 application fee	120 days	53%	✓	✓	✓		

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security/ Electronic Payment	Special Features	Comments
Alternatives Federal Credit Union, Credit Builder Loan and Score Builder Loan	FC	NY	14.25%	none	6 mo.	14.25%	✓	✓	✓		
Cooperative Federal, PRIDE Loan	FC	NY	9%	none	revolving	8.54%	✓	✓	✓		
Bank of Commerce	B	OK	13.75%	$25-$50 origination fee	12 months	29%	✓	✓	✓		
OnPoint Community Credit Union, Payday Advantage Loan	C	OR	14%	none	next payday	14%					
Unitus Community Credit Union, Advance Loan	C	OR	18%	none	1 month per $100 up to 6 months	18%	✓	✓			
Kimberly Clark Credit Union Signature Loan	C	TN	17.75%	none	up to 36 months	17.75%	✓	✓	✓		
Memphis Area Teachers Credit Union Personal Loan	C	TN	17.74%	none	Up to 60 months	17.74%	✓	✓	✓		
Amarillo National Bank	B	TX	18%	none	9-12 months	18%	✓	✓	✓		Lower rate for automatic repayment
Armed Forces Bank	B	UT	18%	none	Up to 24 months	18%	✓	✓			
Bayport Federal Credit Union, PayDay Cash Loans	FC	VA	18%	$35 annual fee	30 days	40-63%					
Langley Federal Credit Union, Quick Cash	FC	VA	18%	none	next payday	18%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security/ Electronic Payment	Special Features	Comments
Virginia Credit Union, VA State Employees Assistance Fund Personal Loan	C	VA	24.99%	none	6 months	24.99%	✓	✓	✓	Must complete an online financial fitness course.	.25% rate reduction if pay by automatic transfer.
Navy Federal Credit Union, Signature Loan	FC	VA, DC	18%	none	6 mo to 5 years	18%	✓	✓			
Watermark Credit Union, Payday Freedom Loan	C	WA	18%	none	30-59 days	18%				5% placed in savings for 20 months	
Mitchell Bank	B	WI	15–22%	$8 application fee	6 or 12 months	31%	✓	✓	✓	20% of loan put in savings as security. If credit score above 570, rate 18.5% and only 10% in savings.	
University of Wisconsin Credit Union, Paycheck Advance	C	WI	22%	none	10 months	21.75%	✓	✓			

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

APPENDIX A-2

BETTER THAN A PAYDAY LOAN BUT STILL PROBLEMATIC

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
CorePlus Federal Credit Union, Flex Pay	FC	CT	0%	$20 processing fee	Up to 30 days	160%					
Members Credit Union, Quick Loan	C	CT	0%	$25 application fee	30 days	100%					
ASI Federal Credit Union, Stretch Plan	FC	LA	12%	$4 if paid weekly, $7 biweekly, $16 monthly	$101 due each payday	115%		✓	✓		Line of credit.
Chase Freedom Credit Card	B	nat'l	19.24%–23.24% cash advance APR	Transac-tion fee of greater of $10 or 5%	revolving	40%	✓	✓	✓		Used as cash advance.
Capital One Standard Platinum Card	B	nat'l	24.99% purchase & cash advance APR	Cash advance fee of 3%, no less than $10	revolving	36%	✓	✓	✓		Used as cash advance.
Citi Diamond Preferred MasterCard	B	nat'l	25.24% cash advance APR	Transac-tion fee of 3%, $5 minimum	revolving	35%	✓	✓	✓		Used as cash advance.
Chetco Federal Credit Union, Payday Loan through CUonPayday.com	FC	OR	$2 per $100	$10 per $100	Next payday 31–40 days	144%					
Clackamas Federal Credit Union, Payday Loan through CUonPayday .com	FC	OR	$2 per $100	$10 per $100	Next payday 31–40 days	144%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
MaPS Credit Union, Payday Loan through CUonPayday.com	C	OR	$2 per $100	$10 per $100	First payday 31–40 days away	144%					
Oregon Community Credit Union, Payday Loan through CUonPayday.com	C	OR	$1 per $100	$8 per $100	First payday 31–40 days away	108%					
Rivermark Community Credit Union, PayDay Advance Loan	C	OR	25%	$15 application fee	First payday 14–30 days away	170%					
Rogue Federal Credit Union, Payday Loan through CUonPAyday.com	FC	OR	$2 per $100	$10 per $100	First payday 31–40 days away	144%					
Smart Cash Payday Loan through CUonPAyday.com	O	OR	$3 per $100	$10 per $100	First payday 31–40 days away	156%					
Pacific Crest Federal Credit Union, Payday Loan through CUonPAyday.com	FC	WA	$2 per $100	$10 per $100	First payday 31–40 days away	144%					
Salal Credit Union, through q-cash.com	C	WA	0%	$12 per $100	45 days	97%				Can pay in 2 install-ments.	
Washington State Employees Credit Union, through q-cash.com	C	WA	0%	$12 per $100	60 days	72%				Can pay in 2 install-ments.	

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

APPENDIX A-3

A PAYDAY LOAN BY ANY OTHER NAME . . .

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Anheuser-Busch Employees Credit Union, through e-accessloan.com	C	nat'l	18%	$59 monthly	30 days	254%					
Chase Fee-Based Overdraft	B	nat'l	0%	$34 plus $15 if outstanding at day 5	revolving	391%					
First PREMIER Bank Classic Credit Card	B	nat'l	23.9%	$75 annual fee. $95 Processing Fee. 3% cash advance fee ($5 min, $10 max)	revolving; minimum payment greater of $30/mo or 3%	393%	✓	✓	✓		Tricks in card structure likely trigger additional fees, raising rate.
MetaBank, iAdvance on prepaid cards	B	nat'l	0%	12.5% advance fee	Next payday	300%					
Orchard Bank, Classic MasterCard	B	nat'l	21%	Processing fee $39. Annual Fee $35 first year. Cash advance fee of 5%, $5 minimum	revolving	146%	✓	✓	✓		Tricks in card structure likely trigger additional fees, raising rate.
US Bank, Account Advance	B	nat'l	0%	$2 per $20	1-35 days	240%					
Wells Fargo Bank, Direct Deposit Advance	B	nat'l	0%	$2 per $20	1-35 days	240–340%					$100 fee to pay by mail
Arizona Central Credit Union, through e-accessloan.com	C	AZ	18%	$59 monthly	30 days	254%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Pinal County Federal Credit Union, through e-accessloan.com	FC	AZ	18%	$59 monthly	30 days	254%					
Urban Trust Bank, Insight Prepaid Mastercard through CheckSmart	B	AZ	0%	15% up to $36	Next payday	288%					
California Coast Credit Union, through e-accessloan.com	C	CA	18%	$59 monthly	30 days	254%					
Kinecta Federal Credit Union (offered at Nix Check Cashing)	FC	CA	15%	$39.95 application fee	14 days	362%					
Priority One Credit Union, through e-accessloan.com	C	CA	18%	$59 monthly	30 days	254%					
Arapahoe Federal Credit Union, Payday Loan through CUonPayday.com	C	CO		$15 per $100	Next payday	360%					
PBC Credit Union, through e-accessloan.com	C	FL	18%	$59 monthly	30 days	254%					
Fifth Third Bank	B	FL, IL, IN, KY, MI, MO, OH, TN	0%	$10 per $100	1-35 days	240%					
Urban Trust Bank, Elastic Cash	B	FL, MD, VA	0%	$2.50 per $20 cash advance	Varies. 10% per pay period	300%	✓	✓			

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Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Univ. of Hawaii Federal Credit Union, through e-accessloan.com	FC	HI	18%	$59 monthly	30 days	254%					
Community 1st Credit Union, through e-accessloan.com	C	IA	18%	$59 monthly	30 days	254%					
Potelco United Credit Union, through e-accessloan.com	C	ID	18%	$59 monthly	30 days	254%					
Crossroads Financial Federal Credit Union, through e-accessloan.com	FC	IN	18%	$59 monthly	30 days	254%					
LAMPCO Federal Credit Union, through e-accessloan.com	FC	IN	18%	$59 monthly	30 days	254%					
Medical Community Credit Union, through e-accessloan.com	C	KS	18%	$59 monthly	30 days	254%					
Midwest Regional Credit Union, through e-accessloan.com	C	KS	18%	$59 monthly	30 days	254%					
County Federal Credit Union, through e-accessloan.com	FC	ME	18%	$59 monthly	30 days	254%					
FM Financial Credit Union, through e-accessloan.com	C	MI	18%	$59 monthly	30 days	254%					
Meijer Credit Union, through e-accessloan.com	C	MI	18%	$59 monthly	30 days	254%					
1st Financial Federal Credit Union, Fast Ca$h Loan	FC	MO	9.99%	$50 application fee	30–45 days	210%					

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Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Mazuma Credit Union, Xtra Cash Loan through xtracashllc.com	C	MO	0%	$45 for $300	14 days	360%					
River Valley Credit Union, through e-accessloan.com	C	NH, VT	18%	$59 monthly	30 days	254%					
Zia Credit Union, through e-accessloan.com	C	NM	18%	$59 monthly	30 days	254%					
Community One Federal Credit Union, through e-accessloan.com	FC	NV	18%	$59 monthly	30 days	254%					
Financial Horizons Credit Union, through e-accessloan.com	C	NV	18%	$59 monthly	30 days	254%					
Northern Hills Federal Credit Union, through CUonPayday.com	FC	OR	0%	$12 per $100	Next payday	288%					
Huntington County Federal Credit Union, through e-accessloan.com	FC	PA	18%	$59 monthly	30 days	254%					
Heritage Trust Federal Credit Union, through e-accessloan.com	FC	SC	18%	$59 monthly	30 days	254%					
Chemcel Federal Credit Union, through e-accessloan.com	FC	TX	18%	$59 monthly	30 days	254%					
Gulf Coast Federal Credit Union, through e-accessloan.com	FC	TX	18%	$59 monthly	30 days	254%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Hapo Community Credit Union, through e-accessloan.com	C	TX	18%	$59 monthly	30 days	254%					
Members Choice Credit Union, through e-accessloan.com	C	TX	18%	$59 monthly	30 days	254%					
Pocahy Family Express Cash, through e-accessloan.com	FC	TX	18%	$59 monthly	30 days	254%					
The Local Federal Credit Union, through e-accessloan.com	FC	TX	18%	$59 monthly	30 days	254%					
Tip O'Texas Federal Credit Union, through e-accessloan.com	FC	TX	18%	$59 monthly	30 days	254%					
1st Odyssey/ Odyssey One Source Cash Advance Loan, through peocash.com	O	UT	0%	$13 per $100	Next payday	312%					
Alliance Credit Union, through e-accessloan.com	FC	UT	18%	$59 monthly	30 days	254%					
America First Credit Union, through e-accessloan.com	FC	UT	18%	$59 monthly	30 days	254%					
Cyprus Credit Union, Payday Loan through CUonPAyday. com	FC	UT	0%	$12 per $100	Next payday	288%				Financial counsel-ing available.	
Family First Federal Credit Union, through e-accessloan.com	FC	UT	18%	$59 monthly	30 days	254%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
Heritage West Credit Union, Payday Loan through CUonPAyday.com	FC	UT	0%	$12 per $100	Next payday	288%					
Mountain America Credit Union, through CUonPayday.com	C	UT	0%	$12 per $100	Next payday	288%					
Southwest Federal Credit Union, Payday Loan through CUonPAyday.com	FC	UT	0%	$12 per $100	Next payday	288%					
USU Charter Credit Union, Payday Loan through CUonPAyday.com	FC	UT	0%	$12 per $100	Next payday	288%					
CUonPAyday.com for members of Washington credit unions	O	WA	0%	$12 per $100	Next payday	288%				Loan may be converted to 90 day installment plan if not in default.	
People's Community Federal Credit Union, Payday Loan through CUonPAyday.com	FC	WA	0%	$12 per $100	Next payday	288%					
Blackhawk Community Credit Union, through e-accessloan.com	C	WI	18%	$59	30 days	254%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

Lender and Name of Loan	Bank, FCU, CU or Other*	State	Interest	Fee	Term	APR with Fees	90+ Days	Install-ment payments	No Required Security	Special Features	Comments
First American Credit Union, through e-accessloan.com	C	WI	18%	$59	30 days	254%					
GuarantyBank	B	WI	0%	$25 application fee	1–35 days	203%					
Prospera Credit Union, GoodMoney Loan (Good Will Stores)	C	WI	0%	$4.90 per $100 if paid every 1–7 days; $9.90 per $100 if paid every 8–14 days; $15 per $100 if paid 15–45 days	Next payday	258-365%					

*Credit unions are listed if loans are offered in their name, even if the credit union is not technically the lender.

APPENDIX B

HOW THE ANNUAL PERCENTAGE RATE WITH FEES WAS CALCULATED

A consistently-calculated annual percentage rate (APR) that takes all costs of credit into account is necessary if policymakers, lenders, consumer advocates, or consumers are to evaluate whether a payday loan alternative is less costly than a payday loan, or compare one alternative to another. Unfortunately, the Federal Reserve Board's rules for calculating the APRs that must be disclosed under the Truth in Lending Act are so riddled with exceptions, and so different from product to product, that they are of little use at best, and misleading at worst. For purposes of this report, we attempted to calculate an "APR with Fees"—an APR that is consistent from product to product and that captures all the costs of the extension of credit.

The APRs with Fees listed in Appendix A are approximations. It was necessary to make several assumptions about how loans operated in order to provide rough consistency in calculations and to create an APR without knowing exactly how charges and payment schedules were treated for every loan. The APRs may not reflect precisely how the loans operate in practice.

We generally figured the cost of the loan over four months, or the nearest approximation to that time depending on the structure of the loan. If the loan had a minimum six- or twelve-month term, we used that time period.

For loans that were payable on the next payday, we assumed that the borrower was paid semi-monthly and that the loan was taken out on the first day of the pay cycle so that the borrower had use of the money for the full half month.

In general, for a loan with an annual, monthly or application fee and an interest rate, we assumed that the borrower took out a loan that would net her $300 cash, and we then figured the cost of that loan as a percentage of a $300 loan. For example, if a four-month loan had a $30 application fee and 18% interest, we calculated the cost of a $330 loan but then used $300 as the amount financed to calculate the APR. But if the lender only made loans in specific amounts, such as $250, we deducted the fee from that amount and used the net cash to the borrower as the amount financed.

For loans that had a range of rates, we used the highest rate, except that we generally gave the borrower the benefit of any discount for direct deposit, which many of the loans required.

For open-end loans, we assumed that borrowers would make minimum payments each month and then pay off the remaining balance at the end of the fourth month.

APPENDIX C

CREDIT UNIONS OFFERING MICRO LOANS OR SHORT-TERM LOANS

The following credit unions reported to the National Credit Union Administration that they offer Micro Consumer Loans (loans of less than $500) or Pay Day Loans (small, short-term loans that are intended specifically to cover a borrower's expenses until his or her next payday, when the loan is to be repaid in full). The loans offered by these credit unions are not necessarily available to subprime borrowers and the terms vary widely. Some credit unions that do offer affordable payday loan alternatives are not on this list.

1st Advantage
1st Community
1st Financial
1st Gateway
1st Liberty
1st North West
1st Pacific
1st Patriots
1st Priority
1st Valley
77th Street Depot
A C M G
A O Smith Employees
A. E. A.
A.C.P.E.
A+
A-B
Abbco Community
ABCO
Aberdeen
Academic Employees
Acadia
Acadian
Access
Access First
Ace Community
Advanced Financial
Advantage
Advantage One
Advantage One
Advantis
Afena
Affinia
Affinity
Affinity Plus
Agassiz
Agfirst
Agility Financial
Air Academy
Air Force
A-K Valley
Alabama Central
Alabama State Employees
Alabama Teachers
Alaska USA
ALCO
ALCON Employees
ALCOSE
Alexandria Municipal Employees
Alhambra
Allcom
Allegacy
Allegheny Central
Allegiance
Alliance
Alliance of Maine
Alliant
Allied
Allsouth
Alpena Community
Alta Vista
Altana
Alternatives
Alton Route
ALTRA
AMBRAW
Ambridge Area
America First
American
American 1
American Airlines
American Chemical Society
American Heritage
American Lake
American Partners
American Southwest
American Spirit
America's
America's First
Americhoice
Americo
Amicus
ANECA
Anheuser-Busch Employees
Animas
Anoka Hennepin
AOD
AP
APCO Employees
Appalachian
Apple
Appliance
ARC
ARC
Arcadia
Archer Cooperative
Archer Heights
Arizona
Arizona State
Arlington Community
Armour Kankakee
Arrowhead Central
Ascend
Ascension

Source: NCUA.

ASI
Assurance
Atlanta Postal
Auburn University
Augusta Seaboard Community
Aurora
Aurora Schools
Autotruck
Avanti
Aventa
B.A.E.
B.C.S. Community
B.E.A.
Bangor
Banner
Barksdale
Bashas' Associates
Bay Area
Bay Gulf
Baylands
Bayport Credit Union
BCM
Beach Municipal
Bear Paw
Bell
Bellco
Berrien Teachers
Besser
Bethlehem Teachers
Bethpage
Big Island
Big Valley
Billings
Biloxi Municipal
Birmingham Police
Black Hills
Blackhawk Community
Blue Cross Blue Shield K.C.
Bluestone
BMI
Boeing Employees
Boeing Helicopters Credit Union
Boulder Valley
Bourns Employees
Bowater Employees
Box Elder County
Bragg Mutual
Brainerd B. N.
Brazos Community
Brewery
Brooklyn Cooperative
Brotherhood
Buffalo Cooperative
Buffalo Fire Department
Building Trades
Bull's Eye
Burlington Northern Santa Fe Railwy
Business And Industrial
BVA
C G H
C R C
C.H.H.
CACL
Caddo Parish Teachers
Calaveras Tehachapi
Calcite
California
California Agribusiness
California Center
Campus
Canandaigua
Canton School Employees
Capital
Capital
Capitol
Carnegie Mellon University
Carolina Cooperative
Carolina Employees
Carolina Family
Carolina Trust
Carter
Carter County
Cascade
Case
Catholic
Catholic Family
CBI
Cecil County School Employees
Cedar Point
Centex Citizens
Central Credit Union of Illinois
Central Electric
Central Florida Postal
Central Illinois
Central Maine
Central Michigan Community
Central Minnesota
Central Star
Central Valley
Central Willamette Community
Central Wisconsin
Cessna Employees
Champion
Champion
Changing Seasons
Cheektowaga Community
Chelsea Employees
Chemcel
Cheney
Chetco
Chicago Area Office
Chicago Heights Onized
Chicago Municipal Employees
Chino
Chiphone
Choice One Community
Choices
Christian Financial
Cinco Family Financial Center
Cinfed
Cintel
CIT-CO
Cities
Citizens
Citizens Community
Citizens Equity First
City
City
City & Police
City Employees
City of Ukiah Employees
City-County Employees
Clackamas Community
Class Act
Classic
Clawson Community
Coast Central
Coasthills
Coast-Tel
Code
Collins Community
Columbia Community
Columbus United
Columbus-Lowndes Educational
Combined
Commonwealth Central
Commonwealth One

Communicating Arts
Community
Community
Community 1
Community 1st
Community 1st
Community Choice
Community Choice
Community Financial Members
Community First
Community First
Community First
Community Healthcare
Community Plus
Community Resource
Communitywide
Compass Financial
Comstar
Comunidad Latina
Concordia Parish School Emp
Conservation Employees
Consumer's
Consumers Cooperative
Cook Area
Co-Op
Co-Op Credit Union of Montevideo
Co-Operative
Cooperative Center
Coosa Pines
Coral Community
Coreplus
Cornerstone
Corpus Christi City Employees
Cosden
Cottonwood Community
County - City
County & Municipal Employees
County Schools
Covantage
Covenant Health
CP
CPM
Crane Gulf
Credit Union 1
Credit Union of Denver
Credit Union of Dodge City
Credit Union of Johnson County
Credit Union of The Berkshires
Credit Union of Vermont
Credit Union One
Credit Unions United
Cross Valley
CTCE
CTECU
CU Community
Cutting Edge
CVPS Employees'
Cyprus
Dacotah
Dairyland Power
Dakotaland
Dallas
Dane County
Dannemora
Danville City Employees
DATCU
Day Air
DC
Decatur Earthmover
Decatur Policemen
Dekalb County
Delaware Alliance
Delta Community
Delta County
Delta Schools
Denali Alaskan
Denver Community
Dept of Labor
Derry Area
Deseret First
Desert Sage
Desert Schools
Desert Valleys
DEXSTA
DFCU Financial
Diebold
Dillon Employees'
Directions
Discovery
Doco Regional
Dodge Central
Dow Louisiana
Down East
Dresser Alexandria
Dupaco Community
Dupont Community
Dupont Fibers
Dupont Goodrich
Dutch Point
Dyersburg
Eagle One
East Allen
East Central
East End Baptist Tabernacle
Eastern Michigan University
Eastern Panhandle
Eastern Utah Community
Eastman
Eaton County Educational
Eaton Family
ECU
Eddy
Education Associations
Eglin
El Futuro
El Reno R.I.L.
Elec Workers Union 474 IBEW
Electric
Electrical
Electrical Workers No 22
Electrical Workers No 558
Elgin Mental Health Center
Elk Basin
ELKO
Elm River
EM
Emerald Coast
Employees
Employees
Emporia State
Empower
Encentus
Enrichment
ENT
Entrust
Envision
EPA
Episcopal Community
Erie
Erie Flagship Community
Erie General Electric FCU
Escondido
ESPEECO
ETMA
Evansville Teachers
Everett

F R B
F.R.S.A.
Fairfield
Fairmont
Fairview Employees
Faith Based
Family Advantage
Family First
Family First of Ny
Fannin
Farm Bureau Family
Farm Credit Employees
Farmway
Federal Building
Federal Employees of Chippewa Cnty
Fedmont
Fedone
Fedstar
Fellowship
Fergus
Filer
Finance Center
Financial One
Financial Partners
Financial Plus
Financialedge Community
Finans
Fire Fighters
Fire Police City County
Firelands
First Alliance
First Capital
First Community
First Community
First Community Credit Union
First Community CU of Beloit
First Eagle
First Entertainment
First Financial
First General
First Metropolitan
First New York
First Ohio
First Pace
First Pioneers
First Priority
First Priority
First South
First Technology
Firstmark
Fitzsimons
Five County
Flag
Flasher Community
Florence
Florida
Florida Central
Florida Commerce
FME
Fond Du Lac
Foothills
Fort Bragg
Fort Campbell
Fort Gordon
Fort Mcclellan
Fort Sill
Fort Worth Telco
Founders
Four Corners
Four Points
Fox Valley
Frankenmuth
Franklin County Teachers
Franklin Mint
Franklin-Oil Credit Union
Freedom
Freedom First
Fresno County
Friends First
Frontier Community
G.A.P.
G.H.S.
Galaxy
Gateway Metro
General Electric
Generations
Generations Community
Generations Community
Genesee Co-Op
Genesee Valley
Genie-Watt
Georgia
Georgia Guard
Georgia's Own
Gesa
GFA
Glacier Hills
Glass City
Glatco
Gnc Community
Golden Key
Golden Triangle
Golden Valley
Goldenwest
Goldmark
Good Shepherd
Goodyear-Danville Family Credit Uni
Grand Valley Co-Op
Granite
Great Northwest
Great River Community
Greater Institutional A.M.E. Church
Greater New Orleans
Greater Pittsburgh Police
Green Bay Central
Greenville
Grenada Lake Medical Center Empls
Gropaco
Group Health
Guadalupe
Guardian Angels
Guardian First
Gulf Coast
Gunnison Western
H. E. Telephone
Hampton Roads Catholic
Hampton VA
Hancock
Hanscom
Hapo Community
Harbor
Harbor Area Postal Employees
Harborlight
Harborone
Harris County
Hartford
Hartford Healthcare
Harvest
Hawaii First
Hayward Community
Health
Health Alliance
Health Associates
Health Care Family
Health Center
Health Systems
Healthcare First Credit Union
Healthcare Plus
Healthcare Services

Healtheast Employees
Healthnet
Heard A.M.E.
Heart of Louisiana
Heartland
Heartland Area
Henrico
Heritage
Heritage
Heritage Community
Heritage Family
Heritage Trust
Heritagewest
Hickory Springs
Highmark
Hillside Hospital
Hinds Community College
Holley
Holsey Temple
Holston Valley
Holy Family Parma
Holy Rosary
Home Town Community Credit Union
Homeport
Hope Community
Hopewell
Horizon
Horizon Utah
Horizons North
Hospital System
Houston Texas Fire Fighters
Huntington County
Hurlbut Employees
Hutchinson
I. H. Mississippi Valley
IBM Southeast Employees
I-C
Idaho Advantage
Idaho State University
Idahy
Illinois Community
Incenta
Incol Credit Union
Indiana Heartland
Indiana United Methodist
Indiana University
Industrial
Industrial CU of Whatcom County
Innovations
Inova
Insight Financial CU
Integrity
Investex
Iowa Community
IQ
Iron County Community
Iron Mountain Kingsford Community
Ishpeming Community
J.C.T.
JAX
Jeanne D'arc
Jessop Community
Johnson City
K G C
K I T
K. C. Police
Kankakee County Federal Emp
Kansas Air Guard
Kansas Blue Cross-Blue Shield
Kansas Super Chief
Kaskaskia Valley
Ka'u
Kearney Eaton Employees
Keesler
Kemba
Kemba Peoria
Kennedy VA Employees
Kent
Kern
Kerr County
Keystone
Keystone
Kinecta
Kingsville Area Educators
Kitsap
Knoxville Law Enforcement
Knoxville Post Office
Knoxville Teachers
Knoxville Tva Employees
Kootenai Valley
Kramer Homes
L&N Employees
L.C. School Employees
La Capitol
La Crosse Area Postal
La Crosse-Burlington
La Joya Area
La Terre
Lacamas Community
Lake Shore
Lake State
Lake Superior
Lakelands
Lakes Community
Lakeview
Landmark
Lan-Fair
Langley
Lassen County
Latah
Latino Community
Les Bois
Lexington Postal
Liberty Alliance
Library of Congress
Light Commerce
Limestone
Lincone
Lion's Share
Lisbon Community
Listerhill Employee's
Lithium
Little Giant
Livingston Parish
LM
Local 265 IBEW
Local 32 Asbestos Workers
Local Government
Loco
Longshore
Longshoremen's Local 4
Louisiana Usa
Lower Columbia Longshoremen
LU 354 I B E W
Lufkin
LUSO
M E A
Madison
Main Line Health Employees
Maine Education
Marine
Marinette County Employees
Marion Community
Marisol

Maroon Financial
Marriott Employees
Marshall Community
Martinsville Dupont Emp Credit Unio
Matadors Community
Mazuma
McAlester Aap
McCone County
McCoy
Meadow Gold Employees
Member One
Members
Members
Members 1st
Members Choice
Members Choice Wv
Members Cooperative
Members Exchange
Members First
Members First Credit Union of Flori
Members United
Members1st Community
Membersfirst
Memberstrust
Memorial
Memorial Health Credit Union
Memphis Area Teachers'
Memphis Municipal Employees
Menasha Corporation Employees
Mennonite Financial
MERCO
Mercy Health Partners
Meriden Postal Employees
Meridian Trust
Meritrust
Metro Health Services
Metrum Community
Michigan Schools And Government
Michigan State University
Mid East Tennessee Community
Mid Minnesota
Mid-Hudson Valley
Mid-Kansas
Midland
Midsouth Community
Midstate
Mid-Tex
Midwest City
Midwest Community
Midwestern State University
Military and Civilian
Millbury
Minnco
Minnesota Power Employees
Minnesota Valley
Missoula
Mitchell Area
Mohawk Progressive
MONAD
Monroe Telco
Montana
Montana Educators'
Monterey County Employees
Mountain America
Mountain High
Mountain Laurel
Mountain States
Mountain West
MPO
MSU
Mt. Garfield
MTC
Multi-Media
Multiple Employee Group
Municipal
Municipal Emps CU of Oklahoma City
Mutual Security
Mwrd Employees
N E Blue Cross Employees
N.G.H.
Napus
Narfe Premier
National Institutes of Health
Navigant
Navigator CU
Navy Federal Credit Union
NCE
NCI Community Development
Ne Pa Community
NEBO
Nebraska Rural Community
Nebraska State Employees
Neches
Neighborhood
Neighborhood Trust
Nekoosa
Net
New Albany Schools
New Century
New Cumberland
New Dimensions
New England
New Generations
New Hampshire
New Kensington Municipal
New Salem
New York State Employees
Newcomer Employees
Newspaper Employees
Niagara County's
NIU Employees
NLRB
No. Mass. Tel Workers Community
Norfolk Fire Department
Norstate
North Coast
North County
North East Welch
North Iowa Community
North Jersey
North Kent Catholic
North Side Community
North Western Employees
Northeast Community
Northeast Community
Northeast Regional
Northern Hills
Northern Indiana
Northern Tier
Northland Teachers Community
Northstar
Northwest Community
Northwest Plus
Northwoods
Notre Dame
NRS Community Development
Numark

Numerica
Nuvista
O.S.U.
O.U.R.
Oakland Municipal
Ocala Community
Ocean Communities
Ocean Crest
Oconee
Ohio University
Ohio Valley Community
Ok Members First
Oklahoma Employees
Old Hickory
Olympia
Omaha Public Power Dist Emp
Onaway Community
One Source
Onomea
Onpoint Community
Opportunities
Oregon Community
Oshkosh Postal Employees
Otero County Teachers
Otter Tail
OU
Ouachita Valley
Our Family
Our Mother of Mercy Parish Houston
P S T C Employees
P. C. M. Employees
P.I.A.S.
PA Healthcare Credit Union
PAC
Pacific Cascade
Pacific Crest
Pacific N W
Pacific Postal
Paducah Teachers
Palmetto Trust
Pannonia
Paradise Valley
Parish
Parishioners
Park Side
Park View
Parkside
Parkview Community
Parkway
Patelco
Patent and Trademark Office
Pathfinder
PCH
Peach State
Pelican State
Pen Air
Penn State
Pennstar
Penobscot County
Pensacola Government
People First
People For People Community Develop
Peoples
Peoples
Peoples Choice
Peoples Choice
Peopleschoice
Peoria Journal Star
Permaculture
PFD Firefighters Credit Union Inc.
Phenix Pride
Philadelphia
Pickens
Pine Creek
Pinekraft
Pinellas
Pioneer
Pioneer
Pioneer Valley
Pittsburgh
Pittsburgh Central
Pittsford
Platinum
Pocahy Family
Pocatello Simplot
Point Loma
Polish & Slavic
Porter-Cable Employees
Portland
Post Community
Postal Employees
Postel Family
Potlatch No 1
Powerco
PPG & Associates
Premier Financial
Prevail
Prince Kuhio
Professional
Progressions
Prospera
Provident
Public Employees
Public Service Employees
Pueblo Government Agencies
Pueblo Horizons
Purdue Employees
Putnam County
Quaker Oats Employees
Queen Of Peace Arlington
R G
Racom Community
Radio Cab
Railway
Rainbow
Randolph-Brooks
Rapid City Telco
Ravalli County
Red River Employees
Rediform Niagara Falls NY
Redstone
Redwood
Regional
Register Guard Employees
Reliant
Renton Community
Resource One
Rheem Arkansas
Richfield-Bloomington
Rio Grande
Ripco
River City Community
River Region
River to River
River Valley
River Valley
Riverfront
Rivermark Community
Rivers Edge Community
Riverset Credit Union
Riverside Community
Rivertown Community
Roanoke Postal Employees
Roanoke Virginia Firemen
Rockford Postal Employees
Rocky Mountain
Rocky Mountain Law Enforcement

Rogue
Royal
S F Recreation & Parks
S G E
Sabattus Regional
Sabine
SAC
Saco Valley
Safe
Sagelink
San Antonio Citizens
San Antonio Water System
San Francisco
San Gabriel Valley Postal
San Jacinto Area
San Juan
San Mateo
Sandia Laboratory
Santa Ana
Santa Cruz Community
Santee Cooper Credit Union
Savannah Schools
SCE
Schofield
School District 3
School Employees Lorain County
School Employees of Washington
Schools Financial
Schoolsfirst
Scott
Scott Schools
Sea Comm
Seaboard
Seaford
Seattle Metropolitan
Secure First Credit Union
Security First
Security Service
Selco Community
Self-Help
Self-Help
SEMC
Seminole Schools
Sentinel
Service
SERVU
Settlers
Seven Seventeen
Shamrock Foods
Sharefax
Sheridan Community
Sherwin Williams Emp.
Shiloh of Alexandria
Shipbuilders
Shoreline
Shoreline
Shrewsbury
Signal Financial
Sioux Empire
Sioux Falls
Sioux Valley Community
Siouxland
SIU
Sky
SLO
SMW
Snocope
Snowflake Mills
Solidarity Community
Soo Co-Op
South Dekalb Church
South Side Community
South Western
Southeast Michigan State Employees
Southern
Southern
Southern Chautauqua
Southern Illinois Area
Southern Mass
Southern Select Community
Southpoint
Southpointe
Southwest
Southwest Colorado
Southwest Communities
Southwest Community
Space Age
Space Coast
SPCO
Spirit of Alaska
Spirit of America
Spokane Firefighters
Spokane Media
Spokane Teachers
Springdale P. P. G.
SRP
St. Agatha
St. Agnes Employees
St. Anne's of Fall River
St. Cloud
St. Gertrude's
St. Jean's
St. John Dallas
St. Jude
St. Mary
St. Mary Parish School Emp.
St. Mary's & Affiliates
St. Mary's Bank
St. Pats Employees
St. Paul
St. Paul Postal Employees
St. Roses Parish
St. Thomas
St. Thomas Hospital Employees
St. Vrain Valley
Star of Texas
State Agencies
State Employees
State Employees
State Employees'
State Employees CU of Maryland, Inc
Steel Valley
Sterling
Suffolk
Suffolk, VA City Employees
Summit
Summit
Sumter City
Sun
Sun Financial
Suncoast Schools
Sunset Science Park
Superior Choice
Superior Credit Union
Sylvania Area
T & P
T L C Community
T M H
Tabernacle
Tahquamenon Area
Tanner Employees
Tarrant County
Taunton
Tazewell County Government Emp
Tazewell County School Employees

TCT
Teachers
Teachers
Team Financial
Team One
Teamsters
Teamsters Council #37
Telco Plus
Telcom
Telhio
Tenet
Tennessee Employees
Tennessee Members 1st
Tennessee Valley
Texaco of Houma
Texas
Texas Associations of Professionals
Texas First Choice
Texas Plains
Texas Tech
Texas Workforce
Texhillco School Employees
Texoma
The County
The Family First
The Florist
The Golden 1
The Health & Education
The Infirmary
The Labor
The New Orleans Firemen's
The Partnership
The Richmond Postal Credit Union IN
The Summit
The Triumph Baptist
The Union
The Wright
Thornapple Valley Community
Three Rivers
Ticonderoga
Timberland
Timken Aerospace
Tinker
Toledo Police
Toledo Urban
Tongass
Topline
Toro Employees
Total Assurance
Tower
Town And Country
TPS
Trailblazer
Transit Employees
Transit Workers
Tremont
Trenton
Tri Boro
Tri-Lakes
Tri-Pointe Community
Trugrocer
Truliant
Trumark Financial
Trustus
Tucson
Tucson Healthcare Affiliates
Tucson Telco
Tulsa
Tuscaloosa County
TVA Allen Steam Plant
Twinstar
U. H. S. Employees
U.S. New Mexico
UARK
Ufirst
UGI Employees
Umassfive College
Unified Correctional
Unilever
Union Pacific California Emp
Union Settlement
Unison
United
United 1st
United Churches
United Community
United Community
United Financial Services
United Heritage
United Methodist First Choice
United Poles
United Services of America
United Workers
Unitus Community
Unity Catholic
Unity One
Universal 1
University
University Credit Union
University First
University of Illinois Emps
University of Louisiana
University of Michigan
University of Nebraska
University of VA Community CU
University of Wisconsin
University of Wisconsin-Oshkosh
UNIWYO
UNO
Upper Cumberland
UPS Employees
US
USC
USF Credit Union
USU Charter
Utah Central
UT-MUO
Valdosta Teachers
Valex
Valley
Valley Board
Valley Communities
Vantage
Vatat
Velsicol
Veridian
Vermillion
Vermont State Employees
Veterans Health Administration
Via Credit Union
Victor Valley
Victoria
Victoria Community
Virginia Beach Schools
Virginia Credit Union, Inc.,
Virginia Educators Credit Union
Visions
Visterra
W T N M Atlantic
W. N. M. H.
Walker County
Wanigas
Warren
Washington Area Teachers
Washington Postal Employees
Washington State Employees

Watermark
Wauna
Wawa Employees
Weber
Weber State
Weld Schools
WES
WESC
Wesley Medical
West Michigan Postal Service
West Monroe
West Oahu Community
West Orange Municipal
West-Aircomm
Westby Co-Op
Westconsin
Westerly Community
Western
Western
Western Cooperative
Western Districts Members
Western Region
Western Valley
Westerra
Westmark
Westmoreland Community
Westside Employees
Whatcom Educational
White River
Whitefish Credit Union Association
Wichita Falls
Wildfire
Wiltruco Employees
Winkler County
Winslow Community
Winston Salem Firemen's
Winthrop
Winthrop-University Hospital Employ
Wiregrass
Wisconsin Heights
Word of Life
Wright Patman Congressional
Wright-Patt
Y-12
Yakima Valley Cu
Yellowstone
Yha South Unit
Yolo
Youngstown Ohio City Emp
ZIA

Source: National Credit Union Administration

APPENDIX D

SMALL DOLLAR LOAN PILOT PROGRAM PARTICIPANTS

Twenty-eight banks are participating in the FDIC study. The participating banks are headquartered in 15 states with more than 450 offices located in 27 states. They have total assets ranging from $28 million to nearly $10 billion.

Name	*Location*
Amarillo National Bank	Amarillo, TX
Armed Forces Bank	Fort Leavenworth, KS
Bank of Commerce	Stilwell OK
BankFive	Fall River, MA
BankPlus	Jackson, MS
BBVA Bancomer USA	Diamond Bar, CA
Benton State Bank	Benton WI
Citizens Trust Bank	Atlanta, GA
Citizens Union Bank	Shelbyville, KY
Community Bank of Marshall	Marshall, MO
Community Bank - Wheaton/Glen Ellyn	Glen Ellyn, IL
Kentucky Bank	Paris, KY
Lake Forest Bank & Trust	Lake Forest, IL
Liberty Bank	New Orleans, LA
Liberty National Bank	Paris, TX
Mitchell Bank	Milwaukee, WI
National Bank of Kansas City	Kansas City, MO
Oklahoma State Bank	Guthrie, OK
Pinnacle Bank	Lincoln, NE
Red River Bank	Alexandria, LA
State Bank of Alcester	Alcester, SD
State Bank of Countryside	Countryside, IL
The First National Bank of Fairfax	Fairfax, MN
The Heritage Bank	Hinesville, GA
The Savings Bank	Wakefield, MA
Washington Savings Bank	Lowell, MA
Webster Five Cents Savings Bank	Webster, MA
Wilmington Trust	Wilmington, DE

Source: FDIC.

ENDNOTES

[1] Uriah King & Leslie Parrish, Center for Responsible Lending, Phantom Demand: Short-Term Due Date Generates Need for Repeat Payday Loans, Accounting for 76% of Total Volume at 15 (July 2009) "Phantom Demand"), *available at* http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-short-term-due-date-generates-need-for-repeat-payday-loans-accounting-for-76-of-total-volume.html.

[2] A remotely created check, often called a demand draft, is a paper check that is created from the borrower's bank account information and does not contain the borrower's signature but may be negotiated just like a traditional paper check.

[3] This data is discussed in further detail in Uriah King and Leslie Parrish, Springing the Debt Trap, Center for Responsible Lending (Dec. 13, 2007), *available at* http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap-exec-summary.pdf.

[4] Dan Feehan, CEO of Cash America, remarks made at Jefferies Financial Services Conference (June 20, 2007) (transcript on file with the Center for Responsible Lending).

[5] Springing the Debt Trap at 2.

[6] Phantom Demand.

[7] Center for American Progress, Who Borrows from Payday Lenders? An Analysis of Newly Available Data at 7 (March 2009) (analyzing Federal Reserve Board's Survey of Consumer Finances).

[8] California Budget Project, Payday Loans: Taking the Pay Out of Payday at 31 (Sept. 2008) ("Cal. Budget Project") (reporting on study by Calif. Dep't of Corp.), *available at* http://www.cbp.org/pdfs/2008/080926_paydaychartbook.pdf.

[9] Colorado Uniform Consumer Credit Code Administrator, Payday Lending Demographic and Statistical Information: July 2000 through December 2008 (March 1, 2010).

[10] Jean Ann Fox, Consumer Federation of America, Testimony on Protecting Social Security Beneficiaries from Predatory Lending and Other Harmful Financial Institution Practices, Subcommittee on Social Security, Committee on Ways & Means (June 24, 2008).

[11] Rebecca Blank & Michael Barr, Eds., Insufficient Funds: Savings, Assets, Credit and Banking Among Low-Income Households at 89 (Russell Sage Fdn. 2009) ("Insufficient Funds") (43% of payday users had paid a late fee on a credit card); Cal. Budget Project at 25-26 (54% of payday borrowers have a bank credit card and 29% had home equity-lines of credit).

[12] Federal Deposit Insurance Corp., National Survey of Unbanked and Underbanked Households at 43 (Dec. 2009) ("FDIC National Survey"); Texas Appleseed, Short-Term Cash, Long-Term Debt: A Survey of Payday Borrowers at 9 (Apr. 2009) ("Texas Appleseed").

[13] FDIC National Survey at 42 (38% of underbanked households that used some form of alternative financial service credit product did so to pay for basic living expenses, 6.2 did for special gifts or luxuries, 15.4% to make up for lost income, 7.4% for house repairs or to buy an appliance, 4.5% for car repairs, 2.3% for medical expenses, 1.6% for school or childcare expenses, and 24.9% for other reasons); Calf. Budget Project at 25 (50% to pay bills; 22.3%, to buy groceries and other necessities; 10.3% for an emergency; 1.8% to repair a vehicle); Texas Appleseed at 9 (Apr. 2009) (over half cited the need to pay routine utility bills, to buy groceries, gas or to pay rent; 38% had an emergency); Michael S. Barr, Payments, Credit and Savings Among Low- and Moderate-Income Households: Evidence from the Detroit Area Survey, Federal Reserve Bank of Philadelphia (May 22, 2007) (60% used payday loans to pay for everyday expenses; 11% paid credit card or bank debt).

[14] Dennis Campbell, Asis Martinez Jerez, and Peter Tufano, Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures (June 6, 2008) (paper presented at Boston Federal Reserve Board workshop on Consumer Behavior and Payment Choice).

[15] Paige Marta Skiba and Jeremy Tobacman, Do Payday Loans Cause Bankruptcy? (Oct. 10, 2008), *available at* http://www.law.vanderbilt.edu/faculty/faculty-personal-sites/paige-skiba/publication/download.aspx?id=2221.

[16] Michael S. Barr, Financial Services, Savings, & Borrowing Among LMI Households in the Mainstream Banking & Alternative Financial Services Sectors,

Federal Trade Commission (Oct. 30, 2008) ("Barr FTC Paper").

[17] Brian T. Melzer, The Real Costs of Credit Access: Evidence from the Payday Lending Market (Nov. 15, 2007), *available at* http://home.uchicago.edu/%7Ebmelzer/RealCosts_Melzer.pdf.

[18] Barr FTC Paper.

[19] Sumit Agarwal, Paige Marta Skiba, and Jeremy Tobacman, Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles? (January 13, 2009), *available at* http://ssrn.com/abstract=1327125 (study by researchers at the Chicago Federal Reserve Bank, Vanderbilt University, and the University of Pennsylvania, concluding that for all credit card users, the seriously delinquent rate was 6%, while for payday loan borrowers in this sample the rate was around 11%).

[20] Paige Marta Skiba and Jeremy Tobacman, Payday Loans, Uncertainty, and Discounting: Explaining Patterns of Borrowing, Repayment, and Default (August 21, 2008) (determining that by the time loans are written off by the lender, borrowers have repaid fees equaling about 90% of their initial loan principal but are counted as defaults for the full amount of the loan), *available at* http://www.law.vanderbilt.edu/faculty/faculty-personal-sites/paige-skiba/publication/download.aspx?id=1636.

[21] The effective rate for a pawnbroker loan is very high, but it does not have the rollover problem that payday loans do. The pawnbroker does not demand one TV this week and another one every two weeks if the borrower cannot afford to redeem it. The real costs of pawnbrokers are also very transparent: the borrower knows that he may never get that TV back, so pawnbrokers are clearly a lender of last resort.

[22] R. Peterson & G. Falls, Credit Research Center, Purdue Univ., Impact of a Ten Percent Usury Ceiling: Empirical Evidence (1981).

[23] *See* Center for Responsible Lending, NC Consumer Finance Company Lending Reports 2003–2006 (report on file with NCLC) (from 2003–2006, the total number of loans made of $1,000 or less went up 39%).

[24] *See* Springing the Debt Trap at 9.

[25] *See* Department of Defense, Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents at 13 (Aug. 9, 2006) ("DOD Report"), *available at* http://www.defense.gov/pubs/pdfs/Report_to_Congress_final.pdf; Nine Signs of Predatory Payday Loan, Center for Responsible Lending, *available at* http://www.responsiblelending.org/payday-lending/tools-esources/ninesigns.html.

[26] *See generally* Lynn Drysdale & Kathleen E. Keest, The Two-Tiered Consumer Financial Services Marketplace: The Fringe Banking System and Its Challenge to Current Thinking About the Role of Usury Laws in Today's Society, 51 S.C. L. Rev. 589, 657-64 (2000) ("Drysdale & Keest") (examining moral and economic underpinnings of usury laws).

[27] *See* National Consumer Law Center, The Cost of Credit: Regulation, Preemption, and Industry Abuses § 2.2.2 (4th ed. 2009) ("The Cost of Credit") (tracing the origin of the general usury laws on the books in many states today to England's laws before American independence).

[28] *See* The Cost of Credit § 2.2.3.2.

[29] The Cost of Credit § 2.2.3.2.

[30] Drysdale & Keest at 619 (describing the "direct antecedent of today's postdated check [payday] loan: some early salary lenders convinced borrowers to sign a bank check in the amount of the loan's principal and interest, even though the borrower had no bank account.").

[31] The Cost of Credit § 2.2.3.2.

[32] Christopher L. Peterson, Usury Law, Payday Loans, and Statutory Slight of Hand: Salience Distortion in American Credit Pricing Limits, 92 Minn. L. Rev. 1110, 1119-20 (2008).

[33] *See* The Cost of Credit § 2.2.3.2.

[34] *See* The Cost of Credit § 2.2.3.2.

[35] Elisabeth Anderson, Experts, Ideas, and Policy Change: The Russell Sage Foundation and Small Loan Reform, 1910-1940 at 2 (Mar. 8, 2006) ("Small Loan Reform"), *available at* http://www.yale.edu/scr/andersen.doc.

[36] *See* Small Loan Reform at 17, 39.

[37] Small Loan Reform at 39.

[38] *See* Small Loan Reform 36-37, 42.

[39] Small Loan Reform at 27-28.

[40] *See* Small Loan Reform at 34-39 (discussing RSF's use of studies related to the Uniform Small Loan laws, which were generally state-specific as opposed to systemic).

[41] *See* Drysdale & Keest at 623.

[42] *See* Drysdale & Keest at 625.

[43] *See* Drysdale & Keest at 625; The Cost of Credit §

7.5.5.5 (explaining the state statutory frameworks that permit or prohibit payday lending).

[44] *See generally* The Cost of Credit §§ 2.2.2, 2.2.3, 2.4. Though exceptions for small, short-term loans have since been carved in many of them, the usury rates that are still in effect for mid-size loans are typically those that would have applied to small dollar loans before deregulation. *See* National Consumer Law Center, Consumer Federation of America, Consumers Union, Small Dollar Loan Products Scorecard-- Updated (May 2010) ("Small Dollar Loan Scorecard"), *available at* http://www.nclc.org/issues/payday_loans/content/cu-small-dollar-scorecard-2010.pdf.

[45] *Marquette National Bank v. First of Omaha Serv. Corp.*, 439 U.S. 299 (1978).

[46] The Cost of Credit § 3.4.5.1.1 at 70 & n.165.

[47] The Cost of Credit § 2.4.1.

[48] *See* National Consumer Law Center, Consumer Federation of America, and Consumers Union Small Dollar Loan Products Scorecard 2010: Statutory Back-Up (May 13, 2010), *available at* http://www.nclc.org/issues/payday_loans/content/cu-small-dollar-scorecard-backup-2010.pdf.

[49] *See* Small Dollar Loan Scorecard.

[50] *See* Tyler Evilsizer, Nat'l Institute on Money in State Politics, Lenders Couldn't Buy Laws 6-8 (Aug. 18, 2009), *available at* http://www.followthemoney.org/Research/index.phtml.

[51] *See id.* at 1.

[52] *See id.*

[53] *See, e.g.,* Springing the Debt Trap (documenting that reforms short of rate caps of roughly 36% will not stop payday lending); "Virginia's 'Faithful Pledge' Challenges Payday Lenders," Washington Post (Aug. 27, 2007).

[54] The jurisdictions are: Arkansas, Arizona (effective July 1, 2010), Connecticut, District of Columbia, Georgia, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, and West Virginia. *See* Small Dollar Scorecard. New Hampshire recently imposed a 36% rate cap, with no fees, on payday loans, but the state has no rate cap for longer term loans. Georgia permits triple-digit auto-title loans.

[55] DOD Report.

[56] *See* John Warner National Defense Authorization Act of 2006, Pub. L. No. 109-364, § 670 (2006); Limitations on Terms of Consumer Credit Extended to Service Members and Dependents, 72 Fed. Reg. 50,580, 50,587-90 (Aug. 31, 2007). The Military APR ("MAPR") calculation is based on a finance charge that must include more fees than the finance charge under the Truth in Lending Act and Regulation Z. *Compare* 15 U.S.C. §§ 1605, 1606; 12 C.F.R. § 226.4.

[57] 72 Fed. Reg. at 50,582.

[58] *See* FDIC, PR 52-2007, Small Dollar Loan Guidelines, *available at* http://www.fdic.gov/news/news/press/2007/pr07052a.html.

[59] FDIC: Small Dollar Loan Pilot Program, *available at* http://www.fdic.gov/smalldollarloans/.

[60] FDIC, Small Dollar Loan Guidelines.

[61] NCUA, Short-Term, Small Amount Loans, 75 Fed. Reg. 24497, 24498 (May 5, 2010).

[62] *Id.*

[63] 72 Fed. Reg. at 50,580.

[64] DOD Report at 7.

[65] *See* 75 Fed. Reg. at 24,499.

[66] *See, e.g.,* Interest Rate Reduction Act, S. 582, United States Senate (introduced by Sen. Sanders Mar. 12, 2009).

[67] Furthermore, some forms of credit, like overdraft loans, are not required to disclose an APR, and for open-end forms of credit that do not have a set repayment period, such as credit cards and lines of credit, the APR disclosures do not include fees and can be very misleading.

[68] Federal Reserve System, Proposed Rules, 74 Fed. Reg. 43232, 43241-6 (Aug. 26, 2009).

[69] A detailed explanation for how the cost and rate are calculated for various types of loans is found in Appendix B.

[70] For example, a bill pending in Congress that would impose a federal 36% usury cap, including fees, excludes application or participation fees that in total do not exceed the greater of $30 (or, if there is a limit to the credit line, 5 percent of the credit limit, up to $120), if the loan is payable over at least 90 days in multiple, amortizing installments, the fees are not part of the TILA APR, the fees cover all credit extended or renewed by the creditor for 12 months, and the minimum amount of credit extended or available on a credit line is equal to $300 or more. *See* Protecting Consumers from Unreasonable Credit Rates Act, S. 500, United States Senate (introduced by Sen. Durbin Feb. 26, 2009).

[71] *See* Elizabeth Renuart & Diane Thompson, The Truth, The Whole Truth, and Nothing but the Truth:

Fulfilling the Promise of Truth in Lending, 25 Yale J. on Reg. 181, 186–91 (2008).
[72] *See, e.g.,* Associated Press, "Payday loan law takes effect in Washington state" (Jan. 1, 2010) (due to new limit of 8 loans in 12 months per borrower, owner of payday stores said: "We don't know if we're gonna be open in six months."); Jeff Shapiro, "Payday-loan fights loom," The Richmond Times-Dispatch, February 29, 2008 (quoting Carol Stewart, Vice President of Advance America, saying that the industry "can't live on five [loans]").
[73] FDIC, Affordable Small Dollar Loan Guidelines at n. 6.
[74] Phantom Debt at 15.
[75] *See, e.g.,* Office of the Comptroller of the Currency, Guidelines for National Banks to Guard Against Predatory and Abusive Lending Practices, OCC Advisory Letter AL 2003-2 at 2 (Feb. 21, 2003) ("OCC Predatory Lending Guidelines").
[76] *See* 49 Fed. Reg. 7740 (Mar. 1, 1984), codified at 16 C.F.R. Part 444.
[77] 49 Fed. Reg. at 7757.
[78] *Id.* at 7758.
[79] National Consumer Law Center, Collection Actions §§ 12.4.1.1, 12.4.1.4.1 (2008 & Supp.).
[80] *Id.* Appx. F.
[81] 49 Fed. Reg. at 7768.
[82] *Id.*
[83] *Id.*
[84] *Id.* at 7759. The Credit Practices Rule permits voluntary payroll deduction plans as a repayment device. However, paper or electronic check holding is not voluntary for payday loans. Moreover, like the wage assignments banned by the Credit Practices Rule, check holding or electronic debit authorizations are used as a collection device, not as a method of making recurring payments. They are typically mandatory for single payment loans, which often roll over without the paper or electronic check being cashed.
[85] *See, e.g.,* OCC Predatory Lending Guidelines; NCUA et al., Statement on Subprime Mortgage Lending, 72 Fed. Reg. 37569 (Jul. 10, 2007).
[86] *See* 15 U.S.C. § 1665e; 12 C.F.R. § 226.35(b)(1).
[87] http://realsolutions.coop/assets/2009/7/23/REAL_Solutions_Overview_final_July_2009.pdf.
[88] http://www.eglinfcu.org/rt.asp?rt=22.
[89] *See* 75 Fed. Reg. at 24497.
[90] Veridian Credit Union, http://www.veridiancu.org/loans/pal.asp.
[91] *See* http://www.watermarkcu.org/html/cc_ml_pdf.htm.
[92] A description of the project and links to the results to date are *available at* http://www.fdic.gov/smalldollarloans/.
[93] *See* FDIC, "The FDIC's Small-Dollar Loan Pilot Program: A Case Study after One Year" (July 14, 2009), *available at* http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/smalldollar.html.
[94] *See id.*
[95] *Id.*
[96] High-fee credit cards marketed to borrowers with bad credit are discussed in the next section.
[97] The Credit CARD Act of 2009 now requires that monthly statements disclose how long it will take the borrower to pay off the credit card if only the minimum payment is made.
[98] Though the Credit CARD Act limits the circumstances under which a credit card issuer can increase rates retroactively on existing balances, it requires only a 45-day notice before the rate for new purchases can be raised.
[99] If the borrower repays in two installments rather than one, and thus does not have use of the full amount borrowed for the full 60 days, the APR with fees is 95%.
[100] Email to National Consumer Law Center (April 21, 2010).
[101] The credit union exploits a loophole in the Truth in Lending Act that permits some application fees from being counted in the APR, though it is not clear that Kinecta's payday loan application fees qualify.
[102] Http://www.e-accessloan.com.
[103] Http://www.cuonpayday.com.
[104] The one exception is the CUonPayday Loan offered to members of the Oregon Community Credit Union, which has a lower rate structure described in the section above.
[105] *See* Chi Chi Wu, National Consumer Law Center, Fee-Harvesters: Low-Credit, High-Cost Cards Bleed Consumers (Nov. 1, 2007), *available at* http://www.nclc.org/issues/credit_cards/content/FEE-HarvesterFinal.pdf.

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