

Report Challenges Traditional Lenders to Offer Payday Loan Alternatives

The Annie E. Casey Foundation recently released a report titled, “*Low-Cost Payday Loans: Opportunities and Obstacles.*” The report underscores the importance of small-denomination, short-term loans and encourages banks and credit unions to offer payday loan alternatives.

Members of the payday advance national trade group, the Community Financial Services Association of America (CFSA), would welcome the entry of traditional lenders into the payday advance market. Although most have been unable to rise to the challenge, we believe such competition would be good for the consumers we serve and would help mainstream the payday advance product, forcing more providers to follow higher operating standards like those required of CFSA members by the association’s code of Best Practices.

The report is available at: <http://www.aecf.org/publications/data/paydayloans.pdf>.

Noted in the report:

Payday loan customers consider their financial options before making a choice

- “Interviews and industry survey indicate that payday loan customers do make a cost analysis in comparing the price of a payday loan with the alternative costs of bouncing a check and/or incurring late fees.”

Payday loans can be the lowest-cost option available to consumers

- “When used on a recurring basis for small amounts, the annualized percentage rate for fee-based bounce protection far exceeds the APRs associated with payday loans.”
- “...APR disclosure of fee-based bounce protection might help payday loan vendors, since for some consumers, their product will be less expensive.”

Banks and credit unions may be reluctant to offer payday loan alternatives

- “To the extent so many depository institutions are relying on bounce protection for significant fee income, they may view it as against their own interests to cannibalize profits through development of other, lower-cost forms of small dollar credit.”
- “Why offer a small dollar line of credit linked to a checking account at an 18 percent APR if a bank can collect many multiples of that by assessing a \$17 to \$35 fee each time a consumer overdraws his/her account.”

APR disclosure requirement should apply to payday loan alternatives

- “Banks and credit unions offering fee-based bounce protection may benefit from the lack of APR disclosure requirements ordinarily applicable to credit extensions under the Truth in Lending Act.”
- “The fact that bounce protection plans are not currently subject to Truth in Lending Act may obfuscate their true cost for consumers and inhibit the ability of consumers to shop and compare.”