

PAYDAY LENDING FACTS

PAYDAY LENDING RATES ARE NOT EXCESSIVE

The average payday loan fee is 2.3 times less expensive than bank and credit union overdraft charges! Customers find that the lower fees charged by payday lenders are a bargain compared to late fees, utility reconnect fees, and other more costly charges they would otherwise pay. If the APR on payday loans was capped at 30% APR (Annual Percentage Rate), a lender could only charge \$1.15 on a \$100.00, two-week loan. At that rate a lender could not cover expenses such as rent and payroll, let alone losses from bad debt. No lender, not even banks or credit unions can offer short-term loans at 30% APR and remain profitable. Payday loan rates are a much less expensive alternative to overdraft protection and NSF fees, utility reconnection penalties, and late fees.

Uses of Annual Percentage Rates to compare short term loans are misleading. However, payday loans are far better values than alternative short term credit sources or costs facing consumers:

	\$100 PAYDAY ADVANCE	\$100 OVERDRAFT PROTECTION	CREDIT CARD LATE FEE ON \$100 BILL	LATE/DISCONNECT FEE ON \$100 UTILITY BILL	\$100 BOUNCED CHECK NSF/MERCHANT
FEE	\$15.00	\$30.00	\$29.00	\$50.00	\$25.00
APR	391%	782%	756%	1304%	652%

Banks and credit unions are exempted from disclosing their fees for overdraft protection and NSF charges as an APR. Rates, terms, and the APR of all loans are required to be conspicuously posted in each location. Consumers know the cost associated with their loans and choose to use them because it saves them money.

The Center for Responsible Lending claims borrowers pay \$4.2 billion dollars in fees every year, but fails to mention that consumers receive \$40 billion in credit for the fees. To put it in perspective:

- Consumers will pay \$4.2 billion in ATM service charges in 2006 to withdraw their own money(1)
- Consumers pay an estimated \$22 billion in NSF fees to banks and credit unions(2)
- Banks collect an estimated \$10.3 billion annually for overdraft protection services(3)
- In 2000, consumers paid credit card interest of more than \$87 billion(4)
- An estimated \$57 billion in late bill payment fees were collected by businesses in 2003, more than 140 percent of the total estimated payday lending volume in the United States(5)
- Credit card late fee penalties totaled over \$11 billion in 2005(6)

(1) Bankrate.com Fall 2006 Survey

(2) Contrasting Payday Loans to Bounced Check Fees, Consumer Credit Research Foundation, Thomas E. Lehman, Ph.D., 2005

(3) Overdraft Fees Can Overwhelm, Washington Post, June 26, 2005

(4) Public Interest Research Group, 2002

(5) Sizing NSF-Related Fees, BAI Banking Strategies Magazine, Bill Stoneman, January-February, 2005.

(6) CreditCards.com, November 2006

STATES STRICTLY REGULATES PAYDAY LENDING

States' payday loan laws are restrictive and most do not allow for "rollovers" which consumer groups claim is the basis of their "cycle of debt" arguments. Most states limit the number of loans a customer may have outstanding and they must affirm that fact when they make a loan.

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Payday rates are strictly regulated and among the lowest in the country.

Arizona	15% Max Fee; \$500 max loan; 3 rollovers
California	15% Max Fee; \$300 max loan; No rollovers
Colorado:	20% Max Fee on first \$300, 7.5% on next \$200; \$500 max loan; 1 rollover;
Kansas:	15% Max Fee; \$500 max loan; No rollovers;
Missouri:	75% of loan amount Max Fee; \$500 max loan; Up to 6 rollovers;
Nebraska:	15% Max Fee; \$500 max loan; No rollovers;
Nevada	No Limit; 25% of gross income max loan; None beyond 60 days for original due date;
Oklahoma:	15% Max Fee up to \$300, 10% above \$300; \$500 max loan, No rollovers
Oregon:	No Limit; Subject to net income max loan; 3 rollovers
Washington:	15% on the first \$500, 10% to \$700 max fee; \$700 max loan loaned; No rollover.

- Consumers have a 24 hour right of rescission without paying any fees.
- Each loan agreement must comply with the Truth In Lending Act, disclosing all loan costs.
- Disclosures are written in both English and Spanish.
- Consumers can not be criminally prosecuted for writing bad checks unlike regular merchants.
- Pay day loans are straight forward, easily understood and do not contain junk and late fees to artificially reduce the APR.
- Each state audits every payday loan company. They receive few complaints about licensed payday lenders. The large majority of complaints payday lenders were about unlicensed and internet payday lenders.
- The Community Financial Service Association had protections for military borrowers included in their member charter several years before they were enacted by Congress. In each bill introduced by the CFSA includes these protection is not already enacted.

PAYDAY LOANS ARE NOT PREDATORY LENDING

The Federal Reserve Bank of New York concluded in their 2007 study that payday loans are not predatory lending.

Payday loans are not welfare reducing, or “predatory”

“We define predatory lending as a welfare reducing provision of credit.”

“Our findings seem mostly inconsistent with the hypothesis that payday lenders prey on, i.e., lower the welfare of, households with uncertain income or households with less education.”

“On the whole, our results seem consistent with the hypothesis that payday lending represents a legitimate increase in the supply of credit, not a contrived increase in credit demand.”

Payday loans may enhance the welfare of households

“Credit delinquency rates are not higher for households in states with higher payday loan limits.”

“Households with uncertain income who live in states with unlimited payday loans are less likely to have missed a debt payment over the previous year...consistent with claims by defenders of payday lending that some households borrow from payday lenders to avoid missing other payments on debt.”

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“Those types of households who happen to live in states that allow unlimited payday loans are less likely to report being turned down for credit, but are not more likely, by and large, to report higher debt levels...”

Price does not make payday loans “predatory”: limiting access raises prices

“Higher prices are neither necessary nor sufficient to conclude that a certain class of credit is predatory.”

“We find somewhat lower payday prices in cities with more payday stores per capita, consistent with the hypothesis that competition limits payday loan prices...The problem of high prices may reflect too few payday lenders, rather than too many.”

“Before payday lending...very small, short-term loans may not have been worthwhile for banks. Payday lending technology may have lowered those fixed costs, thus increasing the supply of credit...That suggests the payday innovation was welfare improving, not predatory.”

STATE DATABASES HARM CONSUMERS AND DO NOT LIMIT EXCESSIVE PAYDAY LOANS

There is a large demand for short term credit. Instituting a database that limits state licensed lenders from making loans does not eliminate or reduce the overall number of payday loans. The majority of payday loans are done on the internet mostly by unregulated, offshore companies outside the reach of state regulatory agencies. The demand for these loans is not going away. That demand will be satisfied by customers in border towns getting their loans in other states or turning to the unregulated internet.

- Fees are high and disclosure inadequate; rates are typically \$20 to \$300 per \$100 dollars lent; and frequently no TILA or other required disclosures
- Consumer are exposed to privacy and security risks; systems are unsecured and bank accounts vulnerable
- Online Lenders are unknown, faceless entities, often leaving consumer with no risk
- States have little ability to control or discipline on-line lenders that they can't find
- Most state banking departments confirm a majority of consumer complaints stem from internet payday lenders

FACTS ABOUT OUR CUSTOMERS*

- The average payday advance customers earn \$40,000 annually
- 68% are under 45 years old; only 4 percent are over 65, compared to 20% of the population
- 94% have a high school diploma or better, with 58% have some college or a degree and 19% have a college degree
- 41% percent own their own homes
- 85% have access to other credit, including savings accounts
- 77% of the customers were satisfied with their experience
- 92% of customers think payday lenders offer a valuable service
- 90% of customer are satisfied with their understanding of the terms and conditions of the loan
- 100% have steady incomes and active checking accounts, both of which are required to receive a payday advance

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*Sources: The Credit Research Center, McDonough School of Business, Georgetown University, Gregory Elliehausen and Edward C. Lawrence. "Payday Advance Credit in America: An Analysis of Customer Demand", April 2001. Cypress Research Group, "Payday Loan Customer Satisfaction Study", April 2004.

CONSUMERS DO NOT WANT FURTHER GOVERNMENT REGULATION OF PAYDAY LOANS

The Cyprus Research Group study discovered that over 80% of payday loan customers do not want the government placing further restrictions on their ability to get cash advance/payday loans. The findings of this study have been supported by a recent petition drive where over 20,000 Utah citizens asked their elected officials not to place further restrictions on their ability to use cash advance products.

Over eighty-six percent (86%) of a Wichita "Eagle" poll, published in the internet form of the newspaper, conducted in December 2006 said that they opposed further restrictions on payday loans in Kansas.

PAYDAY LENDERS SUPPORT CREDIT EDUCATION FOR CONSUMERS

The best customer for payday lender is an educated customer. Payday lenders believe that they best serve their customers as an infrequent resource for emergencies and unexpected needs for cash. Consumers who are having long-term financial difficulty will not be able to pay their payday loans. Thus, most payday lenders have information in their operations that explain the details for payday loans.

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