

# Zapped: Payday Loans Harm Utility Customers

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Impact of Fringe Financial Services  
on Low and Moderate Income  
Consumers

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# Fringe Financial Services

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- Check cashing
    - Cash checks
    - Bill pay services
  - Payday loans
  - Car title loans/pawn
  - Refund anticipation loans
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# Check Cashing is Big Business

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- ❑ 2005: 13,000 check cashing stores
  - ❑ Process 180 million checks worth more than \$55 billion every year
  - ❑ Sell one-fifth of money orders worth \$20 billion in US
  - ❑ Wire one-tenth of US money transfers worth \$4 billion per year
  - ❑ Majority are payday lenders
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# Check Cashers

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- Charge percentage of face value to cash checks: Averages from CFA
    - 2.4% or \$24.45 to cash a \$1,002 Social Security check in 2006
    - 2.78% to cash tax refund check
    - 4.1% or \$19.66 to cash a \$478.41 blue-collar worker's paper paycheck weekly
    - 2.5% to cash computer generated paycheck
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# Check Casher Bill Pay Services

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- ❑ 55% of surveyed check cashers offer bill pay services for a variety of bills (CFA)
  - ❑ Average fee to pay a utility bill \$1.29, ranged from 78 cents to \$12.95
  - ❑ 85% sold money orders. Ave. fee for \$100 MO \$1.08, ranged from 50 cents to \$16
  - ❑ 83% offer remittance services. \$11.71 average fee to wire \$200 next day to Mexico
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# Payday Loans

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- ❑ Cash loans for \$100 to \$1,000
  - ❑ Based on personal check/debit held for future deposit
  - ❑ Job/benefits, open bank account, ID
  - ❑ Due on next payday, typical 14 days
  - ❑ Cost 390 to 780% annual interest
  - ❑ Finance charge \$15 to \$30 per \$100  
\$75 to \$150 per \$500 two-week loan
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# Payday Loans, 2

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- ❑ Five percent of Americans use PDLs
  - ❑ \$28 to \$40 billion in loans (CRL and Stephens, Inc.)
  - ❑ Almost 25,000 payday loan stores
  - ❑ Loans made at stores, via Internet and telephone
  - ❑ Legal in 39 states, prohibited for military borrowers Oct. 1
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# Car Title Loans/Pawn

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- ❑ Cash loan secured by title to borrower's vehicle
  - ❑ \$100's to thousands, based on value of car owned by borrower
  - ❑ 30 day term loans, can be renewed
  - ❑ 300% APR average price
  - ❑ Legal in about half the states, no industry-wide size data
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# Refund Anticipation Loans

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- ❑ Cash loan secured by expected tax refund and Earned Income Tax Credits
  - ❑ Bank loan sold by tax preparers and repaid by IRS in less than 2 weeks.
  - ❑ 9.6 million RALs in 2005 cost borrowers over \$1 billion in interest and fees
  - ❑ Loans cost 40% to 500% APR. Average \$2,500 loan 85% to 170%
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# High Risk, High Cost

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- Extremely expensive
  - No ability to repay determination
  - Do not build positive credit rating
  - Debt trap from repeat borrowing
  - Risk valuable asset/repossession
  - Coercive collections
  - Second class consumer protections
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# Who uses these products?

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- Low to moderate income consumers
  - Renters more than homeowners
  - Minorities, women, benefit recipients
  - Credit impaired, thin credit file
  - Consumers without emergency savings
  - Unbanked, underbanked or formerly banked
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# Payday Loans Unaffordable-CRL

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|                         | \$25,000      | \$35,000      |
|-------------------------|---------------|---------------|
| Before tax inc. (2 wks) | \$962         | \$1346        |
| Minus taxes (BLS)       | -\$65         | -\$120        |
| After tax income        | \$897         | \$1227        |
| Minus 2-wk costs        | -\$882        | \$1018        |
| Money left over         | \$15          | \$208         |
| PDL balance plus fee    | \$377         | \$377         |
| <b>Deficit</b>          | <b>-\$362</b> | <b>-\$169</b> |

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# Payday Loan Users and Utilities

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- ❑ Low and moderate income families have trouble making ends meet
  - ❑ Monthly expenses exceed income most of the year for almost 30% LMI
  - ❑ PDL users twice as likely to have phones disconnected or utilities cut off as other low to moderate income consumers (DAS)
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# Contd.

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- LMI consumers get payday loans to pay routine bills (DAS)
    - 60% use PDLs for everyday expenses
    - Pick payday loans for convenience, easy approval, and need to pay a bill
  - Consumers who go to check cashers/payday lenders similar to utility customers who pay bills in person (ACE and PG&E)
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# In Person Bill Payments

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- ❑ 1 in 4 utility bill payments made in person
  - ❑ 1.1 billion transactions in 2006, expected to reach 1.3 billion by 2010
  - ❑ Demand strongest from low-income, minority and female customers
  - ❑ Pay in cash, avoid stamp, offline
  - ❑ Fast posting to avoid disconnect
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# Utilities Use Payday Lenders as Authorized Bill Payment Centers

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- NCLC reports 650 payday lenders listed by 21 large utility chains as authorized pay centers
    - BellSouth lists 206 PDLs in 7 states
    - Dominion Virginia Power uses 35 PDLs
    - AEP lists 53 PDLs in 4 states
    - All 9 of Tucson Electric Power sites PDLs
    - 71 of PG&E sites in CA
    - Ohio Edison uses 29 payday loan stores
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# Utilities Should Not Partner with Payday Lenders

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- ❑ Reputational risk
  - ❑ Appearance of conflict of interest
  - ❑ Impair customers' future capacity to pay utility bills
  - ❑ Customers prefer in-person bill payment at grocery stores, pharmacies, other retailers. Only 7% selected check cashers (PG&E survey)
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# What PDLs like about utility bill payments

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- ❑ Increases foot traffic into stores
  - ❑ Bills may be large amounts, strain on scarce resources
  - ❑ Potential borrowers may be in panic or worried about disconnection
  - ❑ Utilities want “convenient” customer payment locations and PDLs cluster in low to moderate income areas
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# How to Help Your Customers

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- ❑ Terminate bill payment arrangements with any payday loan outlet
  - ❑ Warn about unauthorized payment centers
  - ❑ Keep utility and neutral sites open
  - ❑ Avoid tactics that drive consumers to crisis lenders
  - ❑ Train customer service staff to help consumers avoid debt traps
  - ❑ Inform customers about utility options to cope with bills
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