

Payday Lenders Strike a Defensive Pose Voluntary Limits on Advertising, New Repayment Options Aim To Ward Off Fresh Regulations

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WASHINGTON -- The payday-lending industry, on the defensive in state legislatures and Congress, is trying to head off more regulation by voluntarily limiting advertising and offering a once-a-year break to borrowers who don't pay back loans quickly.

Payday lenders are so named because they provide short-term cash advances that are often due when borrowers receive their next paycheck. A typical borrower takes out a two-week loan and pays around \$15 for every \$100 he borrows, or the equivalent of a 390% annual interest rate. Lenders say this structure is necessary to cover costs, offset higher default rates and still turn a profit. Critics say the rates are exorbitant and often trap financially strapped borrowers in a cycle of paying additional "rollover" fees to renew the same amount of principal.

About 13 states have effectively banned payday lending; the other 37 regulate the practice to varying degrees. But demand for small, short-term loans appears to be soaring, and just about every state is debating whether the accessibility and comparative ease of payday loans outweigh the risk for consumers of falling further into debt. The industry, which generates roughly \$40 billion in loans each year, is regulated at the state level.

The National Conference of State Legislatures said at least 52 payday-loan bills have been introduced this year at the state level. Congress last year passed a law capping at 36% the annual interest rate charged on loans to members of the military, a demographic targeted by many payday lenders. That would prevent lenders from charging more than \$1.38 in interest and fees for every two-week, \$100 loan.

Against this backdrop, the Community Financial Services Association of America, an Alexandria, Va., trade group that represents about 60% of the country's payday lenders, today plans to announce several voluntary changes to its members' business practices. These include a ban on advertising loans for "frivolous" purposes such as gambling, entertainment or vacations, and the addition of language to all marketing materials warning borrowers that "payday advances should be used for short-term financial needs only, not as long-term financial solutions."

The biggest change CFSA member lenders will adopt is offering all customers who are unable to pay off a loan the option of entering into an extended payment plan, or EPP. An EPP could be invoked once a year and would give borrowers between two and four

additional months to repay a loan without incurring more interest or fees. The industry plans to launch a \$10 million advertising campaign today to spotlight the changes, with television ads on ESPN and Fox News as well as other outlets targeted at Latino and African-American audiences, such as Telemundo, Univision and BET.

Darrin Andersen, president of CFSA, said the changes are meant to help the 5% to 10% of payday borrowers who don't pay off their loans on time. "My hope is these reforms really do solve a problem for the small percentage of our customers who have trouble meeting their obligations to us," said Mr. Andersen, who also serves as president of QC Holdings Inc., an Overland Park, Kan., payday lender.

In Washington state, borrowers already have the right to enter into an EPP after four successive loans with a company. The state's Department of Financial Institutions said 16,412 payday customers, or 5% of payday borrowers, wound up in payment plans in 2005. Pending legislation in New Mexico also contains an EPP requirement.

The typical payday customer in the U.S. takes out seven loans each year, according to industry figures. Consumer advocates said they are skeptical the industry's modifications will make much difference to regular borrowers who routinely roll over multiple loans. "They just want to offer you a once-a-year, get-out-of-jail card in the hope that legislatures think that looks like reform," said Jean Ann Fox, consumer-protection director at the Consumer Federation of America.

The industry's proposed adjustments have won some support in Congress, where 49 Democratic lawmakers sent Rep. Barney Frank, the Massachusetts Democrat who heads the House Committee on Financial Services, a letter asking him to support "an unprecedented proposal that we believe will have far-reaching benefits to consumers and protect borrowers from the cycle-of-debt trap that is the hallmark of unscrupulous lenders."

More immediate battles are afoot in the states. Lawmakers in New Mexico recently approved the state's first, significant curbs on payday lenders, limiting total loan amounts to 25% of a customer's monthly income and capping fees at \$15.50 for every \$100 borrowed. A law set to take effect in Oregon this year caps fees at a one-time \$10 per \$100 borrowed, plus 36% annual interest, and forbids more than two rollovers, or renewals, of a loan. Georgia is considering a bill that would open the door to payday lenders, and the industry is pushing for a victory in Texas, too.

The payday-lending industry hatched from check-cashing outlets in the early 1990s and has exploded in recent years as demand for short-term loans has risen. Lenders post about \$6 billion in annual revenue, and the number of storefronts has more than doubled since 2000, to roughly 25,000 nationwide, according to the CFSA's Mr. Andersen. The typical customer earns between \$25,000 and \$50,000 a year, the organization said.

The industry is fragmented, with myriad small operations jostling in a market with publicly traded companies like Advance America Cash Advance Centers Inc., of

Spartanburg, S.C., and Mr. Andersen's QC Holdings, which saw a 46%, year-over-year increase in net income in 2006.

Consumer advocates and industry officials paint starkly differing views of payday lending. Consumer groups cite studies by the Center for Responsible Lending, a North Carolina nonprofit advocacy organization, which concluded in January that "the industry relies almost entirely on revenue from borrowers caught in a debt trap." Lenders cite a January study by Donald Morgan, an economist at the Federal Reserve Bank of New York, which concluded that "payday lending represents a legitimate increase in the supply of credit, not a contrived increase in credit demand."

Asked recently about the prospect of additional federal legislation on payday lending, Connecticut Sen. Christopher Dodd, chairman of the Senate Banking Committee, said, "striking that balance [between ensuring loan options and protecting borrowers] is easier said than done."

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