



**BETTER CHOICE FOR
PENNSYLVANIA BORROWERS**

PAYDAY LOANS

- Payday loans
 - Low-dollar
 - Short-term loans
 - Meet borrowing needs of low-income working families
- Phenomenal growth by payday lenders
 - 23,000 lenders nationwide
 - Numbers of outlets roughly tripled in 3-year period
 - 2005: \$40 billion in loan value and \$6 billion in finance charges



TYPICAL PAYDAY LOAN

- ▶ Up to \$500, upon proof of regular paycheck
- ▶ \$15-25 fee per \$100 borrowed
- ▶ \pm 18% annual interest rate
- ▶ Two-week term
- ▶ Lump sum repayment required
- ▶ Secured by borrower's post-dated check or authorized deduction



PAYDAY LENDING DEBT TRAP

- Many users borrow full amount of paycheck
- Two weeks later, cannot turn entire paycheck over for payday debt and support family
- Payday lenders “helpful service”: pay fee again to flip original loan for two more weeks



PAYDAY LENDING DEBT TRAP (cont).

- ▶ Average borrower pays almost \$800 to borrow \$325
- ▶ In 2005, 90% of payday loans went to borrowers with 5 or more transactions per year.
- ▶ In 2005, 62% went to borrowers with 12 or more annual transactions.
- ▶ Average of 9 transactions per year for payday borrowers
- ▶ Estimated that 90% of lenders' revenue comes from fees from trapped borrowers.



BETTER CHOICE PARTNERSHIP

- ▶ Pennsylvania Credit Union Association
- ▶ Pennsylvania Treasury Department
- ▶ Wide footprint to provide convenience



BETTER CHOICE PROGRAM

- Designed to prevent borrowers from falling into debt trap and to develop savings habits
- Up to \$500, maximum fee of \$25
- 18% annual rate
- Term up to 90 days
- Installment payments permitted
- No flipping or rolling over
- Financial counseling available
- Automatic savings component



BETTER CHOICE EARLY RESULTS

- ▶ Program started early this year, with additional credit unions beginning to offer loans following commencement
- ▶ Currently, offered by more than 50 separate credit unions at over 160 separate locations in PA
- ▶ Through June 30 more than 1600 loans written
- ▶ Estimated savings of \$800,000 to consumers compared to typical payday loans of comparable amount and length

