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
- ± 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