NCLC®
NATIONAL CONSUMER LAW CENTER®

FOR IMMEDIATE RELEASE: January 30, 2014

Contacts:
Lauren Saunders, lsaunders@nclc.org or 202.595.7845;
Jan Kruse, jkruse@nclc.org, 617.542.8010

BANK PAYDAY GONE! WHAT'S NEXT FOR SMALL DOLLAR LOANS?

(WASHINGTON) The seven banks that have exited the payday loan business this month have an opportunity to show leadership in developing affordable small dollar credit options for consumers with less than pristine credit, according to advocates at the National Consumer Law Center (NCLC). "Banks have thankfully exited the payday loan business," said Lauren Saunders, managing attorney of the National Consumer Law Center in Washington. "I am confident that banks that were making 300% so-called deposit advance products can develop better small dollar credit options and non-credit options, even for consumers who do not qualify for prime lines of credit."

In the past week, in response to regulatory pressure and public outrage, Wells Fargo, U.S. Bank, Fifth Third Bank, Regions Bank, Bank of Oklahoma and its affiliates, and Guaranty Bank all announced that they were halting their deposit advance programs that made short term loans at rates near or above 300% APR. Many of the banks said they are working on other products.

Saunders urged banks to develop affordable, responsible small dollar loan options based on the principles set forth in the FDIC's Small Dollar Loan Guidelines , and NCLC's 2010 report, *Stopping the Payday Loan Trap: Alternatives that Work and Ones that Don't.* Those criteria (explained in more detail in a new NCLC issue brief) are:

- Underwriting for ability to pay, not for ability to collect.
- No more than 36% annual percentage rate (APR), including fees.
- Amortizing installment payments instead of balloon payments.
- At least 90 days to repay the loan.
- No check holding or required (or coerced) automated repayment.

"The foundation of every responsible loan, whether it is a mortgage or a $300 loan, is ensuring that the consumer has the ability to repay the loan while meeting other expenses without reborrowing or entering into a cycle of debt," Saunders said. She also stressed the importance of an interest rate cap of no more than 36% APR: "Although 36% is already a very high interest rate and is inappropriate for larger loans, it strikes a balance between affordability for the consumer and return for the lender on a small loan."

NCLC's 2013 report and issue brief, *Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap*, explains that the 36% rate:

- has a long and well-recognized history in the United States dating back more than 100 years;
- has been endorsed repeatedly at the state and federal level;

- results in payments that consumers may realistically be able to pay; and
- gives lenders an incentive to offer longer term loans with a more affordable structure and to avoid making loans that put borrowers into a cycle of debt.

Links to materials

- FDIC's Small Dollar Loan Guidelines: http://www.fdic.gov/smalldollarloans
- NCLC issue brief (January 2014) Guidelines for Affordable Small Dollar Loans: http://tinyurl.com/lrlpfkb
- NCLC press release (Aug. 2011) re: 300% Bank Payday Loans Spreading: http://www.nclc.org/images/pdf/banking_and_payment_systems/ib_bank_payday_spreading.pdf
- NCLC 2010 Report *Stopping the Payday Loan Trap: Alternatives that Work and Ones that Don't*: http://www.nclc.org/issues/stopping-the-payday-loan-trap.html
- NCLC materials on payday and other high-cost small dollar loans: http://www.nclc.org/issues/payday-loans.html
- NCLC 2013 report and issue brief re: *Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap*:
  Report: http://www.nclc.org/images/pdf/pr-reports/why36pct.pdf
  Issue brief: http://www.nclc.org/images/pdf/pr-reports/ib-why36pct.pdf

###

Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitative practices, help financially stressed families build and retain wealth, and advance economic fairness. **www.nclc.org**