PUT YOUR MONEY WHERE THE SHARK'S MOUTH ISN'T

LOAN OPTIONS FOR MISSISSIPPI BORROWERS THAT ARE BETTER THAN PAYDAY LOANS

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THE PROBLEMS WITH PAYDAY LOANS

Payday loans are short-term, high-cost loans of relatively small dollar amounts that create a debt trap. Borrowers are required to repay the entire loan principal, plus exorbitant fees, in one lump sum on their next payday, which is typically two weeks or less from the time they take out the loan. In Mississippi, a two-week payday loan for $250 has an Annual Percentage Rate ("APR") of 572%.[1]

In addition, when they take out the loan, borrowers must give lenders a post-dated check or electronic equivalent for the entire amount due. If the borrower does not repay the loan in full on the due date, the lender can cash the check or debit the account.

Such predatory loan terms place borrowers in an impossible situation: if they were short of cash when they got the loan, they are unlikely to have acquired enough funds to repay the loan in full—plus keep up with their other necessary expenses—by the time the loan comes due. But because lenders are sitting on their post-dated checks or electronic debit authorization, borrowers risk having repayment taken from their account, even if they cannot afford it. In a desperate attempt to stay afloat, borro wers take out one payday loan after another, only to find themselves caught in the jaws of predatory lending and saddled with unaffordable, unsustainable debt.

WHAT MAKES A GOOD ALTERNATIVE

Many financial institutions in Mississippi offer small dollar loans. Some of these are specifically marketed as alternatives to payday loans. A lot of these small dollar loan products provide borrowers with much better options than payday loans because they offer features such as lower costs and longer repayment terms than payday loans. All of the products on the chart of alternatives below are better for consumers than payday loans.

Not all small dollar loan products, however, are good alternatives to predatory payday loans. To be truly safe and affordable, alternatives to payday loans must meet the following criteria:[2]

- Have an APR, including fees, of 36% or less;
- Have a term of at least 90 days, or one month per $100 borrowed;
- Require multiple installment payments, not a single lump sum repayment; and
- Not require that the borrower turn over a post-dated check or electronic access to a bank account.

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[1] *See* National Consumer Law Center, Consumer Federation of America, and Consumers Union, Small Dollar Loan Products Scorecard—Updated 17 (May 2010), *available at* http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/cu-small-dollar-scorecard-2010.pdf.

[2] For more details about these criteria, please see National Consumer Law Center, Stopping the Payday Loan Trap: Alternatives That Work, Ones That Don't 8-18 (June 2010), *available at* http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-stopping-payday-trap.pdf.

BETTER LOAN OPTIONS THAN PAYDAY LOANS AVAILABLE IN MISSISSIPPI

Products are arranged in order of lowest APR with fees to highest APR with fees. These products meet or come close to meeting the criteria set forth above for good alternatives to payday loans.

Lender & Name of Loan	APR with Fees*	Interest	Fee(s)	Term	90+ Days	Installment Payments
Bank Plus, Credit Plus	5%	5%	none	12 or 24 months	x	x
Members Exchange Credit Union, Member Savings Loan	7%	7%	none	12–36 months	x	x
EPA Credit Union, Personal Loan	11%	8.5–10.5%	none	1 month–5 years (depends on length of employment with organization credit union represents).		x
Mississippi Highway Safety Patrol Federal Credit Union, Emergency Personal Loan	18%	8.75–18%	none	36 months	x	x
USM Federal Credit Union, Signature Starter Loan	18%	18%	none	9–12 months	x	x
Meridian Mutual Federal Credit Union, Signature Loan	25%	8–18%	$10 application fee for each loan.	12–36 months	x	x
Greenville Educational Credit Union, Personal Loan	32%	8–21%	$15 loan fee each time.	6–36 months	x	x
Mississippi Highway Safety Patrol Federal Credit Union, Non-Qualifying Loan	44%	18%	$35 processing fee.	6 months	x	x
Credit Union South, No Qualifying Loan Special	52%	21%	$25 processing fee, paid up front for each loan.	6 months	x	x
Members Exchange Credit Union, Line of Credit	73%	9.99–21%	$35 one-time application fee, covers all future loans.	Open end; $75 minimum monthly payment.	x	x

*Rounded to nearest whole number: up if greater than X.5% and down if X.5% or below.

This analysis uses an "APR with fees" to evaluate these loan products. The "APR with fees" is not identical to the APR that lenders are required to disclose pursuant to the federal Truth In Lending Act ("TILA"). The complicated regulations that detail how to calculate the TILA APR have gaps that can exclude several common types of fees, such as application fees, as well as annual, monthly, or other "participation" fees. Lenders can use these fees to drive up the cost of loans to consumers beyond what consumers expect to pay based on the TILA APR.[3] Indeed, regulators have proposed

[3] Note that the APR disclosures required by TILA for open-end forms of credit without a set repayment period do not include fees and can be very misleading.

BETTER LOAN OPTIONS THAN PAYDAY LOANS AVAILABLE IN MISSISSIPPI

(continued)

No Required Security/ Electronic Payment	Special Features	Comments
x	Must take financial literacy course.	Calculation based on $500 amount financed for 12 months.
	Entire loan principal deposited into savings account; used as security for loan. Difference between loan and share balance available for withdrawal.	Calculation based on $500 amount financed for 12 months.
x		Calculation based on $500 amount financed for 4 months.
x	Applicant must explain and provide evidence of emergency.	Calculation based on $300 amount financed for 36 months. Typical minimum is $500, but smaller loans are made on case-by-case basis.
x		Calculation based on $300 amount financed for 9 months.
x		Calculation based on borrowing $310 for 12 months, with amount financed of $300 due to fee.
x		Calculation based on borrowing $500 for 6 months, with amount financed of $485 due to fee.
		Calculation based on borrowing $500 for 6 months, with amount financed of $465 due to fee.
	Offered June and December.	Calculation based on borrowing $300 for 6 months, with amount financed of $275 due to fee.
x	Might require security if borrower identified as risky.	Calculation based on borrowing $335 for 4 months, with amount financed of $300 due to fee. Typically loans should be paid off in roughly 15 months. Loans of less than $1,000 initially done as open-end, but line then closed for future advances.

to improve the APR in the mortgage context by including all fees.[4] With that same correction for the small dollar loans we are analyzing, the "APR with fees" is a uniform method for evaluating the costs of various types of small-dollar loans.

Remember that loans are not the only safety net for consumers caught in a jam. An emergency savings account containing $500 or more is a safe, reliable way to prepare for unexpected expenses. Consumers can also see if their employer offers pay advances, if their church or synagogue offers emergency loans, or if a relative or friend could help. Even charging goods or services to a regular credit card is generally safer for consumers than taking out a payday loan.

[4] Federal Reserve System, Proposed Rules, 74 Fed. Reg. 43232, 43241-6 (Aug. 26, 2009).

This list of alternatives demonstrates the range of good small-dollar loan options currently available to borrowers in Mississippi. It does not constitute a comprehensive list of all such products available across the state. Others are likely being offered as well, and additional decent alternatives should enter the market if the Check Cashers Act is permitted to sunset as scheduled on July 1, 2012.[5] Experiences in other states show that the supply of good alternatives is likely to increase if the bad ones are driven out. For example, in North Carolina, the volume of consumer finance lending increased after the state passed laws eliminating triple-digit APR payday loans.[6] Payday lending is an irresponsible business, offering quick and easy loans. Elimination of this "fast cash" option will increase both the supply of and the demand for loans offered by responsible lenders.

Notes on Calculation Method:[7] In order to compare available alternatives consistently, we generally figured the cost of a loan that nets the borrower $300 over approximately four months. If the loan had a minimum six or twelve-month term, we used that time period. (If it offered more than one choice as the term of the loan, we used the term closest to four months.)

The amount of the loan ($300) was selected because it is typical of the amount borrowed from payday lenders. The term (four months) was selected because it reflects the typical amount of time the average payday loan is renewed.

The APRs with fees listed above are approximations. It was necessary to make several assumptions about how loans operated in order to provide rough consistency in calculations and to create an APR without knowing exactly how charges and payment schedules were treated for every loan. The APRs may not reflect precisely how the loans operate in practice.

For loans that were payable on the next payday, we assumed that the borrower was paid semi-monthly and that the loan was taken out on the first day of the pay cycle so that the borrower had use of the money for the full half month. For loans with installment payments due each payday, we assumed that the borrower was paid semi-monthly, unless the lender explicitly limited installment options to bi-weekly or monthly, in which case we assumed bi-weekly.

In general, for a loan with an annual, monthly or application fee and an interest rate, we assumed that the borrower took out a loan that would net her $300 cash, and we then figured the cost of that loan as a percentage of a $300 loan. For example, if a four-month loan had a $30 application fee and 18% interest, we calculated the cost of a $330 loan but then used $300 as the amount financed to calculate the APR. But if the lender only made loans in specific amounts, such as $250, we deducted the fee from that amount and used the net cash to the borrower as the amount financed.

For loans that had a range of rates, we used the highest rate, except that we generally gave the borrower the benefit of any discount for direct deposit, which many of the loans required.

For open-end loans, we assumed that borrowers would make minimum payments each month and then pay off the remaining balance at the end of the fourth month.

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[5] Miss. Code Ann. § 75-67-539.

[6] *See* Center for Responsible Lending, NC Consumer Finance Company Lending Reports 2003-2006 (summary on file with NCLC) (documenting that from 2003-2006, the total number of loans made of $1,000 or less went up 39%).

[7] For more information about calculating the APR with fees and the rationale for comparing loans with these characteristics, please see National Consumer Law Center, Stopping the Payday Loan Trap: Alternatives That Work, Ones That Don't 12-13 & Appx. B (June 2010), *available at* http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-stopping-payday-trap.pdf.

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