



## BEST PRACTICES for Payday Lending

The California Financial Service Providers Association (CFSP) has a uniform code of ethical business practices. All regular CFSP members are encouraged to follow these Best Practices. CFSP publishes these Best Practices as part of our leadership efforts in self-governance of the payday advance industry in California and to assure customers they will be treated fairly and ethically.

**Encourage consumer responsibility.** A member will, in its written promotional materials, inform consumers of the intended use of deferred deposit loans, including notifying consumers that this type of loan is a short-term cash tool not designed as a solution for longer term financing.

**Full disclosure.** A member will comply with all applicable state and federal disclosure requirements. A contract between a member and the customer must fully outline the material terms of the transaction, including disclosure of the cost of the service fee both as a dollar amount and as an annual percentage rate (APR).

**Compliance.** A member will comply with all applicable state and federal laws governing money services businesses and those offering financial products, as well as all local ordinances including signage ordinances. A member will not charge a fee nor engage in any practice that has the effect of imposing a fee when such fee is not authorized by state law.

**Right to rescind.** A member will give its customers the right to rescind, at no cost, a deferred deposit loan on or before the close of the following business day.

**Prohibit "roll-overs".** A member will require customers to repay a deferred deposit loan in full prior to making another loan to the same customer.

**No criminal action.** A member will not threaten or pursue criminal actions against a customer as a result of a default on a deferred deposit loan.

**No treble damages.** A member will not collect treble damages for a returned deferred deposit loan check in compliance with state law.

**Repayment arrangements.** A member will accept and enter into reasonable repayment arrangements with customers in default. Upon acceptance of a repayment arrangement negotiated through a third party credit counselor, a member will honor the terms of the repayment arrangement.



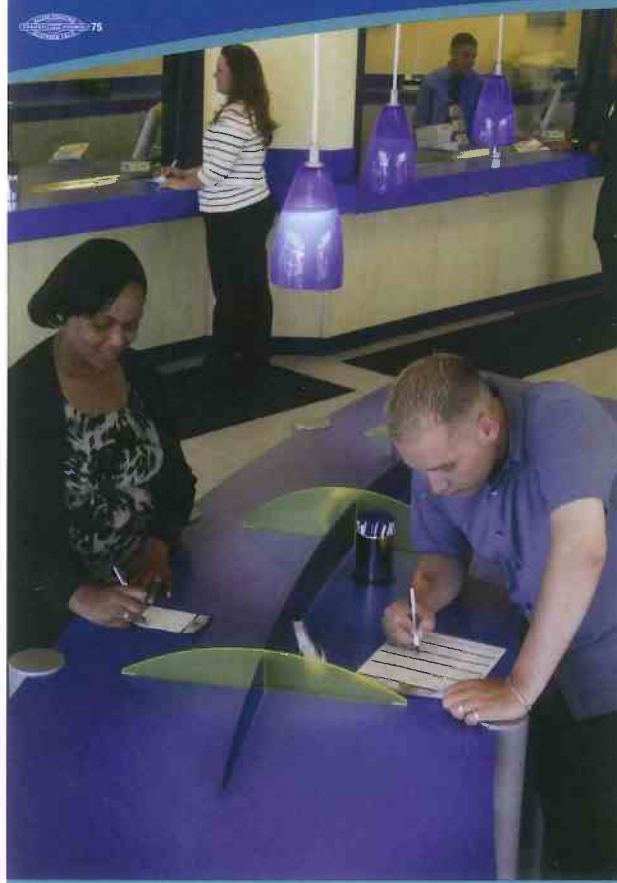
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# PAYDAY LOANS



## in California

### A COMPETITIVE SHORT-TERM CREDIT OPTION



**A payday loan is a fully transparent, competitive, state-regulated, short-term credit option for consumers who have a checking account and regular income. It is a simple and convenient advance until the consumer's next paycheck.**

## The One-Time Fee for a Payday Loan

## Payday Loans in California: The Facts

## Payday Loans Often Cost LESS Than Other Short-Term Credit Options

A detailed list of fees must be posted by California payday lenders in a prominent location.

### SAMPLE FEE SCHEDULE

Amount Provided (Amount Financed)	Fee (Finance Charge)	Amount of Check (Total of Payments)	14 Day APR*	30 Day APR*
\$100	\$17.65	\$117.65	460.16%	214.74%
\$150	\$26.47	\$176.47	460.07%	214.70%
\$200	\$35.30	\$235.30	460.16%	214.74%
\$255	\$45.00	\$300.00	460.08%	214.71%

**APR:** The APR is the cost of your loan expressed as a yearly rate. The APRs are based on sample loan terms with one payment (the total amount shown above) due in 14 and 30 days.

**Terms of Repayment:** A single payment for the total amount is due at the end of the term. The term varies, and can be a maximum of 31 days. A loan must be paid in full before a subsequent loan can be made. Proceeds of a new deferred deposit transaction may not be used to pay off an existing deferred deposit transaction from the same licensee.

**Advertising:** In all advertising, licensees must disclose that they are licensed by the Department of Corporations.

**Returned Item Fee:** A single fee not to exceed \$15 may be charged for a returned check. No additional interest or fees may be added for late payments or returned checks.

**Collection Terms:** A customer cannot be criminally prosecuted or threatened with criminal prosecution to collect a delinquent account. No person shall be required to pay treble damages if the check does not clear. The customer may not be required to pay court costs or filing fees as a result of a licensee's collection activities. Licensees are subject to the California Fair Debt Collection Practices Act.

\*Annual Percentage Rate

### Payday loan customers MUST have:

- A checking account.
- A steady source of income.

### Payday loans are often less expensive than other short-term credit or real-life alternatives like:

- Fees and interest for bounced checks or overdraft protection.
- Skipped bills with interest, late charges and reconnect fees.
- Missed days of work because of, for example, needed auto repairs.

### The only cost for a payday loan is the fixed, up-front fee.

- Interest or late charges are not allowed by law.
- The fee is capped at \$45 and loans are limited to \$255.
- Payday loans are regulated by the California Department of Corporations.
- Customers cannot take a new loan if one is outstanding from the same lender.

### The process is straightforward and transparent.

The customer:

1. Fills out application and is shown the terms.
2. Writes a check for up to \$300, which will be held uncashed.
3. Receives the loan – the check amount less the one-time fee.
4. Pays back the loan on their next payday or the check is cashed.

### Consumers are protected if a payback problem arises.

- There is no collateral at risk.
- The law limits collection measures and damages.
- Payment plans, without additional cost, are widely available for customers who cannot pay back their loan on time.

*Payday loans are never an appropriate long-term credit solution.*

### Compare the cost of a \$100 loan for 15 days:

	FEE	APR <sup>1</sup>
Average Overdraft Protection (ODP) & Non Sufficient Funds (NSF)	\$28.95 <sup>2</sup>	704.45%
Median Overdraft Protection (ODP)	\$27.00 <sup>3</sup>	657.00%
Credit Card Late Fee 1st Time Late	\$25.00 <sup>4</sup>	608.33%
Credit Card Late Fee 2nd Time Late	\$35.00 <sup>5</sup>	851.67%
Utility Late/Reconnect Fee	\$46.00	1119.33%
<b>California Payday Loan</b>	<b>\$17.65</b>	<b>429.48%</b>

<sup>1</sup>Annual Percentage Rate

<sup>2</sup>2008 Fee Analysis of Bank and Credit Union Non-Sufficient Funds and Overdraft Protection Programs Bankrate.com

<sup>3</sup>2008 FDIC Study of Bank Overdraft Programs

<sup>4</sup>CARD Act - Truth in Lending Act - safe harbor, first late payment

<sup>5</sup>CARD Act - Truth in Lending Act - safe harbor, more than one late payment in 6 months



## Payday Loans in the State of California

- To Get A Payday Advance You Must Have The Following:
  - A checking account (proof of your checking account)
  - Two valid forms of identification (generally a drivers' license or ID and an utility bill)
  - A job or steady income (with two recent paystubs)
  
- A payday loan is a flat fee per transaction product.
  - **California law mandates:**
    - Stores can charge NO more than 15% of the face amount of the check. The maximum loan of \$255 plus the \$45 fee equals a total of \$300.
    - There are NO accruing interest charges and NO late fees.
    - It is illegal to charge any more than the initial fee.
  
- How are payday loans regulated?
  - Payday loan companies are regulated by the Department of Corporations (DOC) and are subject to audits.
  - Every payday loan store is individually licensed and must abide by federal, state, county and city laws.
  - State law governs payday loan terms, fees, and consumer protection.
  
- In the State of California ...
  - The vast majority of customers pay back their loan, on time, in two weeks.
  - The average customer earns approximately \$55,000/year and more than half own a home.
  - It is illegal to 'rollover' a loan - a customer cannot take out a new loan to pay off an existing one.
  - Payday loan companies are regulated by the Department of Corporations (DOC) and are subject to auditors by the DOC every two years
  
- APR vs. Fee-based Product: (*Federal Truth and Lending Guidelines*) The industry is mandated by the federal government to display Annual Percentage Rate (APR).
  - Though this is only a two-week loan, if amortized (one took out this loan every two weeks for an entire year), it would amount to 391 percent.
  - Under California law, payday lenders are only allowed to charge a one-time upfront fee for a transaction. Compounding interest or late fees are NOT allowed.
  
- Payday advance compares favorably to many consumer alternatives, even when expressed as annual percentage rates for two-week terms:
  - \$100 payday advance with \$15 fee is 391% APR.;
  - \$100 bounced check with \$54.87 NSF/merchant fee is 1431% APR;
  - \$100 credit card balance with \$37 late fee is 965% APR;
  - \$100 utility bill with \$46.16 late/reconnect fees is 1203% APR;
  - \$100 off-shore Internet payday advance with \$25 fee is 651.79% APR;
  - \$29 overdraft fee on \$100 is 755%.
  
- How Do Payday Lenders Compare As Employers?
  - The entry-level employee makes between \$10-15/hour - offering employees full medical insurance and 401k options.