



The Nuts and Bolts of Internet Lending

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Demand for Internet Short-Term Credit

- Strong demand for payday loans and other forms of small dollar, short-term credit
- The past decade has seen a rapid increase in online business models (single-state/multi-state)
- Online payday loan volume is estimated to be \$6B of a nearly \$50B market
- Installment loans
- Credit Service Organizations

Pros and Cons of Internet Loan Business

- Pros
 - Expanded product channel for storefront lenders
 - Larger customer base
 - Access and convenience
 - Customer retention
 - Centralized operations/Cost savings
- Cons
 - Complex regulatory compliance
 - Technology costs
 - Remote state examinations
 - Collections!
 - Lead Gen Costs

Internet Lending Business Models

- State-by-State License (e.g., PayDay One, CashNetUSA, others)
 - Some states don't recognize Internet model or require a physical location
 - NE, IA, SC, NV, IN, OH new law +
 - Financial commitment in all states to get license
 - Separate legal entity by state/product?
- Single-State License
 - UT, DE (losing MN and PA)
- Offshore

Internet Lending Business Models

- CSO Model
 - TX,
 - FL Experience
 - MD
 - Others?
- Installment Loans
 - NM, IL, Bank loans
- Federally recognized Native American tribes
 - assert they are immune from suit by states under the legal doctrine of “tribal sovereign immunity”

Choice of Law

- Choice of Law in Contract
- Jurisdictional issues
 - Where is the loan made? Contacts in state?
- Most states require licensing

Regulatory Environment & Enforcement Actions

- FTC
 - 3 Internet lenders settled with FTC
 - APR not disclosed accurately
- FL
 - Ongoing EZ Money litigation
 - CSO model/Instate Location
- WV, KS, CO, IL, DC, MA +
 - Single state model
- PA
 - Open End Credit