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FOR IMMEDIATE RELEASE

Ernst & Young National Study Confirms Pricing of Payday Loans is Fair and Reasonable

Based on the study findings, it is clear that attempts to impose artificial rate caps will result in the elimination of a product used responsibly by millions of Americans to address small dollar, short-term credit needs

(Hackensack, NJ) - In order to address unsubstantiated claims regarding the cost of small, short-term loans, also known as payday advances or loans, Financial Service Centers of America, Inc. (FiSCA) engaged the firm of Ernst & Young LLP to perform an economic survey analysis of the cost to provide consumers with this form of credit through stores that offer many other financial products as well (also known as multi-line operators). The data obtained through this nationwide survey of FiSCA members clearly illustrates that payday loans are priced fairly and reasonably for consumers seeking small dollar, short-term loans to address unexpected financial shortfalls.

Further, based on the study's findings, it is reasonable to conclude that imposition of arbitrary fee caps will cripple an industry that operates responsibly under a variety of federal and state regulations to provide this form of credit to millions of cost-conscious Americans.

Among the findings of the Ernst & Young study:

- The average revenue for multi-line payday advance lenders for every $100 loaned is $15.26. At the same time, the store-weighted average cost to lenders equaled $13.89 for every $100 loaned.

- On a pre-tax and pre-interest basis, multi-line payday advance lenders earn an average profit of $1.37 per $100 of loan principal issued – that represents a modest margin of 9.1%, ***before*** taxes.

- There are no collateral requirements for a payday loan, so lenders in this industry face a much greater risk than lenders offering loans requiring some form of collateral. According to the Ernst & Young report, the store-weighted average bad debt costs equaled $3.74 per $100 loaned, or 26.9% of the total cost of each loan issued.

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"Based on the Ernst & Young survey findings, it is reasonable to assume that reducing the fees charged by multi-line payday advance lenders, such as through rate caps, would have a significantly adverse financial impact on the industry," said Joseph Coleman, Chairman of FiSCA. "If multi-line providers are currently only earning $1.37 in pre-tax profit for every $100 loaned, then it stands to reason that significantly reducing the fees that can be charged for offering such products, such as proposed in various pieces of legislation pending in Congress and in some state legislatures, will have a significant impact on the multi-line payday loan industry, which includes an estimated 10,000 locations nationwide."

The typical payday loan is for a duration of approximately two-weeks. The average cost of $15.26 in fees per $100 borrowed on such a loan equates to an annual percentage rate (APR) of 397%, a cost disclosure that is required by the federal Truth in Lending Act and Regulation Z, but which is an inefficient and inappropriate tool when applied to payday advances or any other small dollar, short-term credit product. Proposals in Congress and in various state capitals call for reducing the rate to an APR of 36%. If enacted into law, such a fee cap would render payday advances unprofitable, forcing all lenders to cease offering the product and creating a void in the marketplace.

Another aspect of payday loans often overlooked is the high fixed costs associated with offering the product. The following chart breaks down these costs and illustrates them in relation to the revenue and pre-tax profit generated from the typical payday loan.

Revenue, cost and pre-tax profit for the average payday advance of the E&Y survey

Payday advance revenue, cost and profit (pre-tax basis)	
	Store-Weighted Average Per $100 Loan
Revenue	**$15.26**
- Operating Cost	$9.41
- Cost of Loan Capital	$0.07
- Cost of Supplementary Capital	$0.67
- Bad Debt Cost	$3.74
Loan Cost	**$13.89**
Profit (pre-tax)	**$1.37**

The survey of FiSCA members offering PDA loans was conducted during the summer of 2009. In total, information from 2,687 stores, approximately 27% of the multi-line locations in the United States, was included in the survey. The survey can be found by visiting www.fisca.org.

About FiSCA

FiSCA, founded in 1987, is the national trade association for more than 7,000 individual financial service centers across the United States. FiSCA members provide a wide variety of financial services and products to their communities, including check cashing, money orders, money transfers, and electronic bill payment services, automatic teller machine access, government benefit and payroll payments, small dollar short-term loans, electronic tax preparation, prepaid debit cards, deposit acceptance services, public transportation fare and token sales, motor vehicle license plate and title distribution, postage stamp sales and numerous other services. For more information, please visit www.fisca.org.

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