



## **FINANCIAL SERVICE CENTERS OF AMERICA**

### **Fact Sheet: Payday Advance Loans**

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*Payday Advance Loans offer consumers a more desirable alternative to other credit options*

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Payday advance loans are small, short-term cash advances, which are a popular source of credit for Americans. Payday advances help customers, who often are living paycheck to paycheck, bridge the need for small dollar, short-term credit when other options are limited, too expensive or unavailable.

To date, 35 states have enacted laws permitting these loans. Industry analysts estimate that there are more than 22,000 locations nationwide, extending approximately 150 million payday advance loans with a value of \$50 billion annually in small dollar, short-term credit to between 15 and 20 million American households. FISCA members offering payday advances adhere to a rigorous Code of Conduct, which can be viewed by visiting [www.fisca.org](http://www.fisca.org).

#### **The Cost of a Payday Advance Loan**

- The payday advance application process is simple, convenient and transparent.
  - The typical fee for a payday advance is \$15 per \$100 borrowed.
- Before entering into a transaction, the fees and terms of a payday advance are fully disclosed and posted in every store and included in every contract.

#### **Who uses payday advance loans?**

- Payday lending customers are a diverse group of Americans who are educated, banked and have a steady source of income.
  - Two-thirds of customers have household incomes of more than \$25,000
  - Approximately three-quarters of customers are under 54 years of age.
  - Nearly 94% of customers have a high school diploma or better and 56% have gone on to college.

#### **An Illustration of How Payday Advances Are a Better Alternative**

- The vast majority of customers have at least one other option that offers them quick access to money: incurring late fees on credit card or bill payments, bouncing a check, utilizing overdraft protection, or obtaining a credit card advance.
- Pursuant to federal law, payday advance customers receive two price disclosures – the finance charge and “annual percentage rate” (APR);
  - However, payday advances are typically offered over a two-week period, not over a year. As a result, the APR disclosure is an inefficient and inappropriate tool for calculating the cost of a payday advance.
- Even when expressed as an APR, payday advance fees are lower than many alternatives, including, overdraft fees.
- The FDIC conducted a study of fees and customer usage of bank overdraft programs, which illustrated the following:
  - The median overdraft fee, per transaction, was \$27, with fees ranging between \$10 and \$38.
  - Overdrafts have APRs ranging from 1,067% to 3,520%

- The majority of banks batched processed overdraft transactions by size, from largest to smallest, to increase the number of overdrafts.
- Customers who incur NSF fees pay between \$64 (1 to 4 transactions) and \$1,610 (20 or more transactions) annually, depending on the amount of usage.
- As illustrated in the table below, payday advances are often a more desirable alternative than the other available credit options.

<b>Credit Option</b>	<b>\$100 Payday Advance (2 wk loan)</b>	<b>\$100 Overdraft Protection</b>	<b>Credit Card Late Fee on \$100 Bill</b>	<b>Late/Disconnect Fee on \$100 Utility Bill</b>	<b>\$100 Bounced Check NSF/Merchant</b>
<b>Fee</b>	\$15.00	\$27.00 <sup>1</sup>	\$25.00 <sup>2</sup>	\$46.00 <sup>3</sup>	\$56.00 <sup>4</sup>
<b>APR</b>	391%	703%	642%	1,203%	1,445%

<sup>1</sup> FDIC Study of Bank Overdraft Programs (November 2008).

<sup>2</sup> As a result of the Credit Card Act of 2009 credit card late fees are capped at \$25.

<sup>3</sup> 2006 CFSA Fee Survey.

<sup>4</sup> Average NSF fee \$28.95 (Bankrate.com, 2008 Checking Study), based on average first NSF charge. Average merchant return check fee \$26.64 (2006 CFSA Fee survey.)