



# Georgians *for* Cash Advance

## Cash Advance: An Overview

**Service (1):** A small, unsecured, short-term cash advance until payday

**Requirements:** Steady income and personal checking account

**Customer Benefits:** Cover small, unexpected/unplanned expenses that come up between paydays; avoid more costly bounced check fees or late payment penalties; solve temporary cash flow problems without asking family for money or pledging personal possessions for collateral-based loans.

**Customer Need:** Cash advance is often a convenient, less costly short-term credit option. Fills a need not met by traditional financial institutions. (Banks can't make these loans under traditional cost structure. The Federal Reserve Banks 1999 Commercial Bank National Average Report says the cost for a small bank to originate & maintain a loan for one month is \$174.)

**Customers understand the cost of the service:** 96% are aware of the finance charge; 78% recalled the fee being disclosed as an APR.

### Demographics-Heart of the Working Middle Class

|                      |  |
|----------------------|--|
| Middle-Income        | Majority between \$25,000 and \$50,000   |
| Middle-Educated      | 94% have high school diploma or better<br>56% have some college or degree        |
| Young Families       | 68% under 45 years old<br>Majority are married<br>64% have children in household |
| Stable Working Class | 42% own homes<br>100% have steady incomes<br>100% have checking accounts         |

**Source:** The Credit Research Center, McDonough School of Business, Georgetown University, Elliehausen and Lawrence. Payday Advance Credit in America: An Analysis of Customer Demand. April 2001.

**Customer Motivation & Product Use:** 70% choose cash advance for convenience (only 6% choose it because there's no other alternative)

**Most customers use the service responsibly:** 66% use a cash advance to cover unexpected expenses or a temporary reduction in income; 34% use it for planned expenses or other discretionary uses

Customers overwhelmingly appreciate cash advance: 92% believe cash advance is a useful service; more than 75% were satisfied with most recent transaction and only 12% were dissatisfied

State regulators receive very few complaints out of millions of transactions: NC Commissioner of Banks reported 27 in 2000; WI Department of Financial Institutions reported 10 from 1995 to 2001; WA Department of Financial Institutions reported 3 in 2001 out of 2.2 millions of transactions; IA Division of Banking Superintendent said his office took no complaints in 2001 and only one in 2002; Commissioner of the UT Department of Financial Institutions, estimates fewer than 10 a year; Director of the NM Financial Institutions, estimates a dozen or fewer annually.

Market Alternatives: Bounced check or overdraft "courtesy" fees; late payment penalties (landlords, utility and credit card companies); pawn or title loans or other collateral-based short-term loans; friends and family.

Cash advance fees are lower than many of customers' alternatives: Bank NSF and merchant fees on a bounced check typically cost more than three times that of a \$100 cash advance; if held to the same standards, many financial alternatives would have comparable, if not higher, APRs.

We believe strongly that APRs should be disclosed-and we do; but disproportionate attention to APR can be misleading on this very short-term transaction. As shown below, cash advance APRs are often lower than customers' alternatives, even on the same two-week term.

|  |        |
|--|--------|
| 14-Day Term  |        |
| \$100 cash advance with \$15 fee (2)                 | 391%   |
| \$100 check with \$35 overdraft protection fee (3)   | 913%   |
| \$100 credit card balance with \$27 late fee (4)     | 704%   |
| \$100 check with \$26 NSF and \$25 merchant fees (5) | 1,329% |
| \$100 utility bill with \$50 late/reconnect fees     | 1,303% |
| 1-Day Term   |        |
| \$100 ATM withdrawal with \$1.49 fee (6)             | 544%   |

Size of the Industry: A 1999 PricewaterhouseCoopers survey of over half the industry reported \$5 billion in advances at 5,299 locations nationwide (representing only 0.03 percent of the total revolving debt outstanding in the U.S.). Today, industry analysts estimate as many as 22,000 cash advance locations across America extending up to \$40 billion in short-term credit to working families.

Regulatory Framework: 37 states and the District of Columbia regulate the industry through specific cash advance laws or small loan laws.

- (1) In some states, the cash advance provider serves as an agent, marketing and servicing cash advance loans for a federally insured financial institution. In those states, the bank decides whether or not to make the advance, sets the terms and conditions and funds the advance.
- (2) Typical cash advance fee.
- (3) Alex Berenson, New York Times, "Banks Encourage Overdrafts, Reaping Profit," January 22, 2003.
- (4) Consumer Action News, "Annual Credit Card Survey 2003" [www.consumer-action.org](http://www.consumer-action.org)
- (5) Average fees according to an industry survey conducted in 2003 of 2,243 banks in 858 cities and 2,282 major merchants in 814 cities. 1,110 utility company locations were surveyed across 537 cities. Of the utilities surveyed, 622 charge an average 4% in late fees in lieu of a flat fee.
- (6) Bankrate.com, "Checking Study, Spring 2003", posted March 27, 2003, [www.bankrate.com](http://www.bankrate.com)