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Payday Loans: A Necessary Product, Delivered Responsibly, To Reasonable People

Recent independent studies show that:

- By extending credit where there would otherwise be none – payday loans are not predatory but instead actually HELP the households they serve.*
- Stricter regulation of payday lending has the adverse and unintended consequence of reducing credit options for those who may have few alternatives.**
- Policymakers should encourage competition in the small loan market, as competition controls prices.**

* **“Defining and Detecting Predatory Lending,”** by Federal Reserve Bank of New York Research Officer Donald P. Morgan, January 2007, located at:
http://www.newyorkfed.org/research/staff_reports/sr273.pdf

** **“Payday Lending and Public Policy: What Elected Officials Should Know,”** by Tom Lehman, Ph.D., adjunct scholar of the Indiana Policy Review Foundation and professor of economics at Indiana Wesleyan University, located at:
http://www.inpolicy.org/index.php?option=com_content&task=view&id=211&Itemid=26

FACTS ABOUT PAYDAY LENDING

Consumer Demand for Payday Loans is Strong & Rational

- Most Americans and Missourians have accumulated little savings or assets
- Banks and Credit Unions do not offer short-term, small-dollar loans
 - Bounced check fees and overdraft “protection” are highly profitable

- Many aren't comfortable borrowing from family or friends, pawning or bouncing a check
- Responsible payday lenders have helped millions of American families make ends meet when facing unexpected expenses such as auto repairs, medical expenses or unusually exorbitant bills.

The Three Biggest Myths about Payday Lending

Myth #1: Payday Loan Companies Take Advantage of the Poor

- **Reality:** Our Customers are the heart of America's Working Middle Class
 - All have bank accounts and jobs or steady sources of income
 - Majority make between \$25,000 and \$50,000 a year
 - Average income is about \$42,000 annually
 - About 20% make MORE than \$50,000 a year
 - Majority have credit cards, are married and have children
 - 42% are homeowners
 - 94% have a high school diploma

Myth # 2: Payday Loan Customers are Trapped in a So-Called "Cycle-of-Debt"

- **Reality:** Our customers understand our fees, and the vast majority of them meet their loan obligations without financial difficulty. (And we provide solutions for those who do find themselves in financial difficulty.)
 - Vast majority of customers – more than 90% -- use our products responsibly and pay their loans off according to loan terms
 - For the small minority who – for whatever reasons – find themselves unable to meet their loan obligations, the new CFSA Extended Payment Plan provides a safety valve for any customer, at any time, for no charge.
 - Individual payday loan companies have always worked with their customers to create extended payment plans
 - The small minority unable to meet their loan obligations typically have deeper financial management issues unrelated to payday lending
 - For those people, we suggest credit counseling and financial literacy programs

Myth #3: Outrageous Payday Loan Fees Generate Exorbitant Profits

- **Reality #3: Payday Loan Fees -- and Profits -- are Average and Often Lower than Banks & Credit Unions**

APRs are irrelevant to short-term loan products

- Industry critics regularly confuse “APR” with “interest”
 - \$17 fee for a \$100 loan = 17% interest
- **APRs for Competitive Credit Products**
 - \$100 payday advance with a \$15 fee = 391% APR
 - \$100 bounced check with \$54 NSF/merchant fees = 1,409% APR
 - \$100 credit card balance with a \$37 late fee = 965% APR
 - \$100 utility bill with \$46 late/reconnect fees = 1,203% APR

No payday loan customer would ever experience such exorbitant APRs

- To do so, one would have to roll the loan over every two weeks for a year
 - Not only is that impossible to do, it is against Missouri state laws and CFSA Best Practices, which limit all customers to 4 rollovers

Payday loan industry profit margins are comparable to – and in many cases less than – those of other industries.

- Payday loan industry profits are average: 6.6% net income as a percentage of revenue
- Ironically, the payday lending industry’s profit – or net income for every \$1 of revenue received – is lower than other financial services companies, including our chief critic – credit unions
- Banking industry profit margins can be four times as high as the payday loan industry average (US Bank, 36%; Bank of America, 30%, Wachovia, 26%)

Payday Loans: The Product & The Process

Payday loans are a convenient, short-term financial solution

- Customers are overwhelmingly satisfied with their payday loan product and experience
- Customers appreciate having the credit option and fully understand and accept the associated fees
 - No hidden fees such as those associated with debit card overdrafts, ATM fees and others

Loan cost is a fee, not interest

- Customers consider our fees to be about \$15 per \$100 loaned for two weeks

- Reasonable for customers facing higher fees associated with bounced checks, insufficient fund “protection” fees or fees associated with overdrawn debit cards and late bill payments.

CFSA’s New Customer Pledge

- A \$10 million Public Education and Awareness campaign, designed to encourage consumers to use payday loans responsibly, launched in February 2007
- A \$2 million pledge to support financial literacy campaigns includes partnerships with minority and community-based organizations
- Revised “Best Practices” that include advertising requirements and restrictions and – most importantly – an Extended Payment Plan that gives any customer, at any time – for any reason – more time to pay off their loan.

Revised “Best Practices”

- Customer Notice on all advertising emphasizing the short-term nature of the product
- Restrictions on advertising for “frivolous” uses such as gambling and vacations
- **Extended Payment Plan: any customer, at any time, for any reason can get more time to pay off their loan at NO EXTRA COST**
 - Eliminates the so-called “cycle-of-debt” issue by enabling payday loan customers to pay off their loans without taking another loan

Recent Research Supports a Vibrant, Competitive Payday Lending Industry

Federal Reserve Bank of New York (January 2007)

- Payday loans are NOT predatory
- By providing a source of credit where otherwise there would be none, payday loans actually ENHANCE the welfare of customer households
- In their rush to put stricter regulations on payday lending, legislators often rush to label payday loans as “predatory” without having defined what “predatory” means

Indiana Policy Review

- Increasingly restrictive payday lending regulation has the adverse and unintended consequence of reducing credit options for those who may have few alternatives
- Policymakers should encourage competition in the small loan market, as competition controls prices

Wall Street Journal, April 2 editorial

- "...crackdowns on payday lending) looks like another illustration of how to hurt working Americans in the name of helping them."
- "Payday loans offer a valuable service to moderate income workers."
- "Payday loans are cheaper than most alternatives for those facing short-term financial distress."
- The effect of a ban on payday lending in Georgia "has been to increase consumer credit costs and inconvenience for Georgia consumers."
- "Banning payday loans might please competing banks, credit unions and so-called consumer advocates, but it's hard to see how actual consumers would benefit."