IN THE UNITED STATES DISTRICT COURT
FOR THE STATE OF DELAWARE

LACEY TOWNSEND, on behalf of himself and all others similarly situated,	)	
Plaintiffs,	)	C.A. No.
v.	)	
EASTERN SPECIALTY FINANCE, INC, d/b/a CHECK 'N GO	)	CLASS ACTION
Defendant.	)	

VERIFIED CLASS ACTION COMPLAINT

Plaintiff LACEY TOWNSEND, on behalf of himself and all others similarly situated, alleges as follows:

Nature of Action

1. This is an action seeking temporary, preliminary and permanent injunctive relief, recovery of compensatory, consequential, and punitive damages, reasonable attorneys' fees and costs, and other relief arising from defendant's wrongful and unconscionable conduct, including breaches of the duty of good faith and fair dealing, and violations of 6 Del. C. § 2513 (the "Delaware Consumer Fraud Act") by EASTERN SPECIALTY FINANCE, INC. d/b/a CHECK 'N GO ("Defendant").

2. Plaintiff is a borrower who took a loan from Defendant under unconscionable terms and conditions. Defendant advertises and markets these loans as a "short term solution and not as a source of ongoing help" and "a good alternative to … credit card debt." In reality, however, Defendant preys on poor and unsophisticated borrowers, who do not understand the financial or legal implications of these loans, and who can never repay the loan in a short period. Further, Defendant never has the intention of making a

short-term loan. Rather than providing a quick "solution," Defendant intends to burden borrowers with expensive, long-term debt, enforced by unconscionable terms and conditions, which they know borrowers will have little or no ability to understand or repay. As a result, Plaintiff, and thousands of similarly situated borrowers, suffers injury, harm, loss and damage.

3. As an example, on May 28, 2013, Plaintiff borrowed $3,000.00 from Defendant. Under the terms of the agreement, Plaintiff was obligated to repay $8,058.02 representing the principal of $3,000.00 together with interest of $5,058.02. The annual interest rate of this loan: 357.91%.

4. Additionally, Defendant forced Plaintiff to grant it authorization for Defendant to make automatic withdrawals from his bank account, and release important rights of due process, including the right to a jury trial, or judicially monitored discovery.

5. Defendant is employed and earns approximately $1,100 every two weeks. Under the terms of the loan, Defendant takes automatic withdrawals from Plaintiff's bank account of $474.01 every two weeks – more than 40% of Plaintiff's pay – for the next eight months.

6. To date, Plaintiff has paid Defendant an amount <u>not less than</u> $2,370.05, a financial burden that is harming Plaintiff's ability to pay rent, purchase food, and otherwise cover basic living expenses.

<u>The Parties</u>

7. Plaintiff LACEY TOWNSEND, a natural person residing at 124 Creekside Court, Newark, Delaware 19702, incurred a loan from EASTERN SPECIALTY FINANCE, INC. d/b/a CHECK 'N GO, on or about May 28, 2013.

8. Defendant EASTERN SPECIALTY FINANCE, INC. d/b/a CHECK 'N GO is an Ohio corporation – whose registered agent in Delaware is The Corporation Trust Company, with an address of 1209 Orange Street, Wilmington, Delaware 19801. EASTERN SPECIALTY FINANCE, INC. does business in Delaware as CHECK 'N GO whose places of business are located at: 1504 Beaver Brook Plaza, New Castle, Delaware 19720, 27 Chestnut Hill Plaza, Newark, Delaware 19713, 800 West 4th Street, Suite 401, Wilmington, Delaware 19801, 283 North Dupont Highway, Suite B, Dover, Delaware 19901, and 599 Jimmy Drive #14, Smyrna, Delaware 19977. Defendant also regularly operates online at www.checkngo.com.

Jurisdiction and Venue

9. This Court has exclusive jurisdiction over this civil action pursuant to 28 U.S.C. § 1332(d)(2) because the controversy exceeds the sum of $5,000,000, exclusive of interest and costs, and the Plaintiff is a citizen of a State different than Defendant, and Plaintiff believes there are more than 100 class members.

10. Venue is proper in this judicial district pursuant to 28 U.S.C. § 1391(b)(2) as a substantial part of the events giving rise to Plaintiff's claims occurred in this judicial district.

Background

11. Defendant is engaged in the business of marketing, advertising, and making "payday loans," and "installment loans" and regularly make such loans within and without the State of Delaware.

12. Plaintiff borrowed $3,000 from Defendant. As was the case with Plaintiff, Defendant's loans are paid through electronic access to the borrower's bank account.

13. Defendant's loans are advertised and marketed as "occasional, short-term solution and not as a source of ongoing help." Furthermore, Defendant advertises that the loan is "a good alternative to late fees, credit card debt, and damaged credit scores." However, the loans are not short-term. Defendant regularly and repeatedly entices borrowers, including Plaintiff, to refinance their existing balance into new, ongoing loans and the interest rates and other terms are onerous.

14. Prominent organizations such as the Pew Charitable Trusts and the Insight Center for Community Economic Development have studied the effects of payday lending, and published findings concluding that the practice has a harmful effect not only on borrowers' finances and credit, but on the broader economy. An in-depth study published by the Pew Charitable Trusts in 2012 discussed the payday loan industry and the effects of such loans on borrowers and society. The study found that, while payday loan companies market their products as "payday," or short-term loans, the average initial loan is rolled over again and again, and remains open for five months of the year. Researchers found that payday lenders build their business models on the premise that borrowers cannot repay the loans in a two-week period, and that the loans become extremely profitable (to the lender) when it becomes a long-term debt. Researchers at the Federal Reserve Bank of Kansas City concluded that, "the profitability of payday lenders depends on repeat borrowing." A copy of the Pew Charitable Trusts report is attached hereto as Exhibit A. A second report was issued in 2013. A copy is attached as Exhibit B.

15. Costly debt terms drain borrowers' limited cash needed to cover basic living expenses such as rent and food. Costly debt also impairs a borrower's ability to save,

invest or otherwise spend on worthwhile consumer goods. Onerous debt terms also increase the chances that a borrower will file for personal bankruptcy. Indeed, at least fifteen states have banned payday lending, and Congress has prohibited payday lenders from targeting members of the military.

Defendant's Practices

16. For years, Defendant has marketed, advertised and made loans to residents inside and outside of Delaware, including Plaintiff.

17. Defendant aggressively markets and advertises these loans as short-term credit solutions and not as a source of ongoing help. Defendant advertises that its loans are a "good alternative to … credit card debt." Defendant advertises them as a "quick, hassle-free solution when you need to cover unexpected or emergency expenses." (See Exhibit C hereto.)

18. For years, Defendant has derived substantial revenues and profits from the sale of such loans in Delaware and elsewhere. These loans are only profitable to the lender when the short-term loan becomes a long-term obligation. In the case of Plaintiff, the Defendant would invite Plaintiff to refinance his existing loan to continue the cycle of debt. (See Exhibit D hereto.) Plaintiff would then refinance each loan as it came close to conclusion. (See Exhibits E, F and G hereto.) This is direct evidence that while Defendant markets and advertises the loans as short-term credit, their actual business model and intent is to induce the borrower to extend the initial loan into a long-term, and unduly expensive loan. As a result of the policies and practices of Defendant, borrowers are routinely trapped in products that cause harm, including financial loss, hardship, and damage to personal credit.

19. Defendant intends to induce borrowers to enter into short-term loans, knowing that borrowers will likely extend the terms of the loans. As the 2013 Pew report notes, lenders such as Defendant "rely on borrowers to use the loans for an extended period of time . . . in order to be profitable. . . ." (Exhibit B at 19.)

20. Defendant's representations and statements about the easy and quick access and the short-term nature of the loans are intended to induce borrowers, including Plaintiff, to enter into a loan agreement with Defendant.

21. Instead of disclosing that borrowers, including Plaintiff, would likely need extended terms to make his repayment obligations, Defendant remains silent, and induces borrowers, including Plaintiff, to borrow under expensive, onerous, and unconscionable terms.

22. Defendant conceals its true business model from borrowers, deceptively marketing their loans as short-term solutions even though Defendant makes such loans with the expectation that borrowers will become saddled with a longer-term debt, structured in such as way as to make repayment all but impossible.

23. Defendant hides the fact that Defendant intends, and expects borrowers, including Plaintiff, to repay the loan on extended payment terms and pay exorbitant interest rates, sometimes exceeding 350% of the principal amount of the loan.

24. There is no limit to the amount that a borrower will pay unless and until the borrower repays the loan in full, including interest and any and all other fees pursuant to the terms of the loan document. Initial short-term obligations stretch into never ending cycle of inescapable debt.

25. Defendant entered into an agreement with Plaintiff knowing that the overwhelming majority of Defendant's borrowers are unable to pay loans in a short-term and at substantial and undue cost to borrowers.

26. Defendant entered into an agreement with Plaintiff remaining silent on its expectation that Plaintiff would repay the loan together with onerous, expensive and unconscionable interest.

27. Defendant preys on borrowers who can be induced, like Plaintiff, to enter into an unconscionable loan, knowing that the borrowers are at a significant disadvantage to negotiate fair terms.

28. Defendant knowingly uses its significant leverage to induce borrowers, including Plaintiff, to enter into loans with excessive, onerous and unconscionable terms. Indeed, the interest and penalties of borrowers' loans, including Plaintiff's loan, dwarf the principal amount of the loans.

29. On a "take-it-or-leave-it basis," Defendant uses its significant leverage to cause borrowers, including Plaintiff, to accept the onerous, outrageous and unconscionable boilerplate terms, including terms that significantly, if not wholly, impaired Plaintiff's rights to due process under law. For instance, this includes:

a. Small font size;

b. Boilerplate forms;

c. Interest rates typically exceeding 350%;

d. Hard to understand contract language;

e. ACH authorizations that allow Defendant to automatically withdraw varying amounts from the borrower's bank account without warning;

f. Waiver of a jury trial;

g. Late charges / delinquency charges;

h. Arbitration clauses;

i. Class action waivers.

The meaning of these terms and the implication of agreeing to these terms are incomprehensible to a layperson, and particularly borrowers who typically use "payday loans." Plaintiff never understood the implication of these terms.

30. Defendant knowingly exploits its sophistication and their counterparty's equal lack of sophistication, lack of understanding and lack of bargaining ability, to impose unconscionable loan terms and unconscionable purported waivers of due process rights.

Defendant's Contract is Unconscionable

31. Plaintiff's loan documents evidence on their face a gross imbalance in the parties' respective rights and obligations, and an exploitation of an underprivileged, unsophisticated borrower.

32. The Delaware Chancery Court, in the context of reviewing a contract under the uniform commercial code, has considered ten factors as an aid to determine whether a contract is unconscionable and unenforceable:

> 1. The use of printed form or boilerplate contracts drawn skillfully by the party in the strongest economic position, which establish industry wide standards offered on a take it or leave it basis to the party in a weaker economic position.
>
> 2. A significant cost-price disparity or excessive price.
>
> 3. A denial of basic rights and remedies to a buyer of consumer goods.
>
> 4. The inclusion of penalty clauses.

5. The circumstances surrounding the execution of the contract, including its commercial setting, its purpose and actual effect.

6. The hiding of clauses which are disadvantageous to one party in a mass of fine print trivia or in places which are inconspicuous to the party signing the contract.

7. Phrasing clauses in language that is incomprehensible to a layman or that divert his attention from the problems raised by them or the rights given up through them.

8. An overall imbalance in the obligations and rights imposed by the bargain.

9. Exploitation of the underprivileged, unsophisticated, uneducated and the illiterate.

10. Inequality of bargaining or economic power.

Fritz v. Nationwide Mutual Ins. Co., 1990 WL 186448 at * 4-5 (Del. Ch. 1990)

33. The Delaware Supreme Court has held that a contract is unconscionable if it is "such as no man in his senses and not under delusion would make on the one hand, and as no honest or fair man would accept, on the other" or "whether the provision amounts to taking of an unfair advantage by one party over the other." See Tulowitzki v. Atlantic Richfield Co., 396 A.2d 956, 960 (Del. 1978); see also, Fritz v. Nationwide Mutual Ins. Co., 1990 WL 186448, *4-5 (Del. Ch. 1990).

34. While not all of the factors are necessary to find unconscionability, all of the above factors are present with respect to the payday loans at issue in this case.

Allegations Specific To
Plaintiff LACEY TOWNSEND

35. Plaintiff incorporates by reference the foregoing paragraphs as if fully set forth herein.

36. Plaintiff LACEY TOWNSEND entered into a loan agreement with Defendant EASTERN SPECIALTY FINANCE, INC. d/b/a CHECK 'N GO on or about May 28, 2013. A true and correct copy of the loan agreement is attached hereto as Exhibit H. This loan was the last in a series that Plaintiff entered with Defendant as part of a cycle of long-term debt on what was advertised as a short-term solution.

37. Plaintiff borrowed $3,000. At the time he borrowed the principal, he did not understand fully the financial or legal terms of his loan document, contained in a 3-page, single-spaced document written in what appears to be 7-point font. He did not understand that he had a right of rescission, or a right to decline ACH authorization. He did not understand that he was committing to arbitration unless he opted out. He did not understand how to opt out of the arbitration clause. He had no knowledge of his legal rights, or the statutory obligations of the Defendant. He has paid Defendant an amount not less than $2,370.05 on this latest loan, but has no idea how much he must pay Defendant before the loan is satisfied.

38. The loan has become a financial burden that is harming Plaintiff's ability to pay rent, purchase food, and otherwise cover basic living expenses. Loan payments account for 40% of his pay.

39. Plaintiff is now locked into a long-term obligation with exorbitant interest rates, penalties and terms.

<u>Class Certification Allegations</u>

40. This action is brought and may properly be maintained as a class action pursuant to Fed. Civ. P. R. 23. Plaintiff is typical of members of the Class (hereinafter, the "<u>Class</u>"), Plaintiff brings this action on behalf of himself and all others similarly

situated, as representative of a proposed Class, because the proposed Class is so numerous that the individual joinder of all its members is impracticable, common questions of law and fact exist as to all members of the proposed Class, and Plaintiff's claims are typical of the claims of the members of the proposed Class.[1]

41. Plaintiff anticipates seeking class certification for a class containing all of those persons who entered into loans with Defendant that contain unconscionable terms as described in this complaint, including paragraph 29 of this complaint.

Irreparable Harm to Plaintiff

42. Plaintiff incorporates by reference the foregoing averments as if fully set forth herein.

43. Without immediate injunctive relief, Plaintiff will be irreparably harmed by the unconscionable terms and conditions of Defendant's loan.

44. If Defendant is permitted to continue to enforce its unconscionable terms, which include automatically withdrawing no less than $474.01 every two weeks from Plaintiff's bank account, Plaintiff will face grave financial harm, including possible default on financial obligations such as rent, food and other important costs of living.

45. While the compensatory damages (for excessive interest, penalties) are possible to quantify, consequential damages resulting from Defendant's continued imposition of unconscionable interest and penalties, and Defendant's continued draw on Plaintiff's bank account, are impossible to quantify with any reasonable degree of certainty, and could not necessarily be remedied by a monetary judgment.

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[1] Plaintiff's allegations for class certification do not constitute a motion for class certification, and Plaintiffs reserve the right to file a motion for class certification at the appropriate time.

46. Further, the balance of hardships is in Plaintiff's favor. As of August 9, 2013, Plaintiff's records show he has paid Defendant an amount not less than $2,370.05 on his latest loan (and thousands more on previous loans, and well in excess than the principal of all of the loans). On the contrary, Plaintiff faces ongoing financial hardship described above.

47. Plaintiff respectfully submits that the contract is unconscionable. Defendant ais taking unfair advantage of Plaintiff and all others similarly situated.

48. The public interest is served if the Court enjoins enforcement of an unconscionable loan agreement. Further, enjoining Defendant from enforcing an unconscionable agreement will prevent imminent and real financial harm to Plaintiff, and allow Plaintiff to focus his limited financial resources on daily living expenses like rent and food. Finally, the Plaintiff is typical of the Class and those who borrow from Defendant in that he is the very type of unsophisticated borrower who does not understand fully the financial implications of the loan agreement and the predatory practices of the Defendant. Enjoining the Defendant from enforcing an unconscionable agreement serves the public interest because it protects Plaintiff and the Class from Defendant's predatory and unconscionable lending practices.

COUNT I
Temporary Restraining Order (TRO), Preliminary and Permanent Injunction

49. Plaintiff incorporates by reference the foregoing averments as if fully set forth herein.

50. Defendant's loan documents evidence on their face a gross imbalance in the parties' respective rights and obligations, and the exploitation of an underprivileged, unsophisticated borrower, and the existence of an unconscionable agreement. The

principal amount of Defendant's loan to Plaintiff is $3,000. The yearly interest rate is 357.91%. Late payments are subject to a delinquency charge of 5% of the unpaid amount. Defendant had Plaintiff grant Defendant authorization to take continued automatic withdrawals from Plaintiff's bank account.

51. Defendant has received payments from Plaintiff totaling an amount not less than $2,370.05. Given that this is the last in a series of loans and that Defendant has received well more than the principal amounts borrowed by Plaintiff, Defendant will suffer little, if any, harm if forced to cease taking money for actions described in this complaint.

52. Plaintiff requests that the Court enter a temporary restraining order, preliminary injunction, and permanent injunction that enjoins Defendant from collecting anything more on unconscionable contracts with Plaintiff and all other Class members.

COUNT II
Breach of the Duty of Fair Dealing

53. Plaintiff, on behalf of himself, and the Class, repeats and incorporates by reference the averments set forth above as if fully set forth herein.

54. Defendant has failed and refused to deal fairly with Plaintiff, and with all others similarly situated, in connection with Defendant's business practices and imposing the unconscionable terms of the loan agreements.

55. As a direct result of Defendant's breaches of its duty of fair dealing, Plaintiff, and the Class, have suffered and will suffer injury as heretofore alleged.

COUNT III
Violation of the Delaware Consumer Fraud Act

56. Plaintiff, on behalf of himself, and the Class, incorporates by reference the averments set forth above as if fully set forth herein.

57. Defendant's conduct, as alleged above, is in violation of 6 Del. C. § 2513.

58. Specifically, as set forth herein, Defendant has engaged in deception, fraud, false pretense, false promise, misrepresentation, concealment, suppression or omission of material facts with its customers, with the intent that their customers rely on such conduct in connection with the sale or advertisement of its products.

59. As a direct result of Defendant's violations of 6 Del. C. § 2513, Plaintiff, and the Class have suffered and will suffer injury as heretofore alleged.

WHEREFORE, Plaintiff, on behalf of himself, and the Class, respectfully requests that this Court enter judgment as follows:

a. Granting a temporary restraining order and preliminary injunction barring Defendant from taking funds from Plaintiff's account;

b. Granting a permanent injunction barring Defendant from taking funds from Plaintiff's account and the account's of the Class;

c. Entering an Order certifying the plaintiff Class, appointing Plaintiff as representative of that Class, and appointing undersigned counsel to represent that Class, all pursuant to Fed. R. Civ. P. 23;

d. Awarding to Plaintiff, and the Class, damages, including compensatory damages, consequential and incidental damages, for Defendant's violation of the duty of good faith and fair dealing, Defendant's violation of 6 Del. C. § 2513;

e. Voiding Plaintiff's loan and the loans to the Class, and awarding Plaintiff and the Class all amounts Plaintiff and the Class borrowed from, and paid to, Defendant pursuant to their loan agreement with Defendant;

f. Awarding to Plaintiff, and the Class, punitive damages for Defendant's willful bad faith conduct;

g. Awarding to Plaintiff, and the Class, pre- and post-judgment interest;

h. Awarding to Plaintiff, and the Class, all costs of this action, including reasonable attorney fees;

i. Awarding such other and further relief as this Court deems just and appropriate.

Dated: August 9, 2013

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Exhibit A

THE PEW CHARITABLE TRUSTS

PAYDAY LENDING
IN AMERICA:

Who Borrows, Where They Borrow, and Why

This report series, *Payday Lending in America*, presents original research findings from the Pew Safe Small-Dollar Loans Research Project on how to create a safe and transparent marketplace for those who borrow small sums of money.

www.pewtrusts.org/small-loans

JULY 2012

The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

The Safe Small-Dollar Loans Research Project focuses on small-dollar credit products such as payday and automobile title loans, as well as emerging alternatives. The project works to find safe and transparent solutions to meet consumers' immediate financial needs.

PEW CHARITABLE TRUSTS
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The report benefited from the insights and expertise of an external reviewer, Alan M. White, professor of law at Valparaiso University. Additionally, survey research expert Mike Mokrzycki provided us with valuable feedback in designing our survey and methodology. Although they have reviewed the report, neither they nor their organizations necessarily endorse its findings or conclusions.

For additional information, visit www.pewtrusts.org/small-loans

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Contents

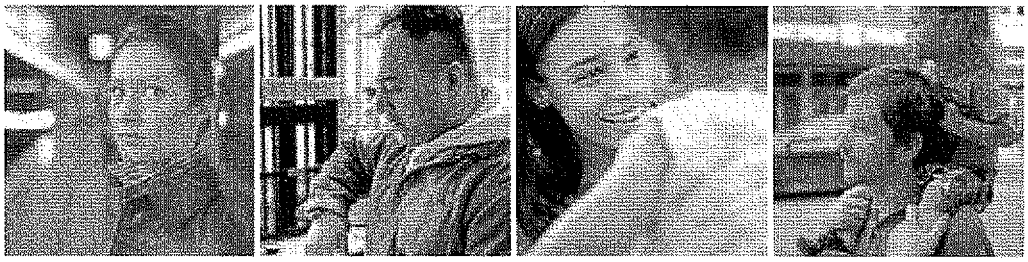
Executive Summary

Payday loan borrowers spend approximately $7.4 billion[1] annually at 20,000 storefronts and hundreds of websites, plus additional sums at a growing number of banks. The loans are a highly controversial form of credit, as borrowers find fast relief but often struggle for months to repay obligations marketed as lasting only weeks.[2] While proponents argue that payday lending is a vital way to help underserved people solve temporary cash-flow problems, opponents claim that the practice preys on overburdened people with expensive debt that is usually impossible to retire on the borrower's next payday.

Many state officials have acted to curb payday lending. However, there has been little opportunity for federal policy on payday lending until now. Resolving the debate over the ways in which payday loans and lender practices may help or harm borrowers will fall to the Consumer Financial Protection Bureau (CFPB), which Congress recently created and charged with regulating payday lending. Other federal agencies, such as the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Federal Trade Commission (FTC), also will have important roles to play as banks and online providers continue to enter the payday loan field.[3]

Existing data show that, in at least two significant respects, the payday lending market does not function as advertised. First, payday loans are sold as two-week credit products that provide fast cash, but borrowers actually are indebted for an average of five months per year. Second, despite its promise of "short-term" credit, the conventional payday loan business model requires heavy usage to be profitable—often, renewals by borrowers who are unable to repay upon their next payday. These discrepancies raise serious concerns about the current market's ability to provide clear information that enables consumers to make informed decisions.

This report, *Who Borrows, Where They Borrow, and Why*, is the first in Pew's *Payday Lending in America* series. The findings provide policy makers with research to address concerns about small-dollar loans and to promote a safe and transparent marketplace. In addition to discussing Pew's focus groups, the report presents selected results from a first-ever nationally representative telephone survey of payday borrowers. The report answers six major questions: Who are borrowers, demographically? How many people are borrowing? How much do they spend? Why do they use payday loans? What other options do they have? And do state regulations reduce payday borrowing or simply drive borrowers online instead?



Key Findings

1 Who Uses Payday Loans? Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of $375 each per year and spends $520 on interest.

Pew's survey found 5.5 percent of adults nationwide have used a payday loan in the past five years, with three-quarters of borrowers using storefront lenders and almost one-quarter borrowing online. State regulatory data show that borrowers take out eight payday loans a year, spending about $520 on interest with an average loan size of $375. Overall, 12 million Americans used a storefront or online payday loan in 2010, the most recent year for which substantial data are available.

Most payday loan borrowers are white, female, and are 25 to 44 years old. However, after controlling for other characteristics, there are five groups that have higher odds of having used a payday loan: those without a four-year college degree; home renters; African Americans; those earning below $40,000 annually; and those who are separated or divorced. It is notable that, while lower income is associated with a higher likelihood of payday loan usage, other factors can be more predictive of payday borrowing than income. For example, low-income homeowners are less prone to usage than higher-income renters: 8 percent of renters earning $40,000 to $100,000 have used payday loans, compared with 6 percent of homeowners earning $15,000 up to $40,000.

2 Why Do Borrowers Use Payday Loans? Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

Payday loans are often characterized as short-term solutions for unexpected expenses, like a car repair or emergency medical need. However, an average borrower uses eight loans lasting 18 days each, and thus has a payday loan out for five months of the year. Moreover, survey respondents from across the demographic spectrum clearly indicate that they are using the loans to deal with regular, ongoing living expenses. The first time people took out a payday loan:

- 69 percent used it to cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food;
- 16 percent dealt with an unexpected expense, such as a car repair or emergency medical expense.

3 What Would Borrowers Do Without Payday Loans? If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.

When presented with a hypothetical situation in which payday loans were unavailable, storefront borrowers would utilize a variety of other options. Eighty-one percent of those who have used a storefront payday loan would cut back on expenses such as food and clothing. Majorities also would delay paying bills, borrow from family or friends, or sell or pawn possessions. The options selected the most often are those that do not involve a financial institution. Forty-four percent report they would take a loan from a bank or credit union, and even fewer would use a credit card (37 percent) or borrow from an employer (17 percent).

4 Does Payday Lending Regulation Affect Usage? In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

In states with the most stringent regulations, 2.9 percent of adults report payday loan usage in the past five years (including storefronts, online, or other sources). By comparison, overall payday loan usage is 6.3 percent in more moderately regulated states and 6.6 percent in states with the least regulation. Further, payday borrowing from online lenders and other sources varies only slightly among states that have payday lending stores and those that have none. In states where there are no stores, just five out of every 100 would-be borrowers choose to borrow payday loans online or from alternative sources such as employers or banks, while 95 choose not to use them.

Introduction

Deborah is a young mother who works full time as a teacher and is studying for a graduate degree. She has struggled to make ends meet. "It just seems like one thing after another," she said; "I can't seem to catch up." A few years ago, Deborah needed money when she could not afford both her monthly bills and her daughter's routine vaccinations. Deborah said that she has used student loans, bank loans, and credit cards when she was short on money. When she needed more, she thought she could get help from family or friends, but "I didn't want to ask somebody for it." Instead, Deborah borrowed a couple hundred dollars from a payday lender. "I was scared when I went in there, but I needed the money, and I knew it was a fast fix," she said. Deborah's loan was due in full on her next payday, but she could not come up with enough extra cash to pay the lump sum and meet her other expenses. So she renewed the loan, paying fees to push the due date to her next payday but receiving no reduction in the principal owed. It took nearly six months of renewals before she had enough money for a payment large enough to eliminate her payday loan debt. "Once my taxes came in, I just paid it off and walked away," said Deborah. "I was like 'I'm done.'"[4]

Like Deborah, a former payday loan borrower in one of Pew's focus groups, millions have turned to payday lenders when finances are tight, finding fast relief but struggling for months to repay loans that, according to marketing, are supposed to last only weeks. Payday loans are small-dollar credit products that typically range from $100 to $500, though may be larger depending on state law; the average loan is about $375.[5] Lenders usually charge about $15 per $100 borrowed per two weeks (391 percent Annual Percentage Rate or APR).[6] The loans are secured by a claim to the borrower's bank account with a post-dated check or electronic debit authorization.

Payday loans are due in full on the borrower's next payday; yet if the borrower cannot pay off the full loan plus interest, she pays a fee to extend the due date, or pays back the loan but quickly takes out a new one to cover other expenses. The loans do not amortize, so this payment does not reduce the loan principal owed. For example, a person who borrows $400 for a $60 fee for two weeks would have paid approximately $480 in fees after renewing the loan for four months, but would still owe the original $400. Most payday loans come from storefront providers with specialized state lending licenses, but similar types of small-dollar loan products are available elsewhere, including from online lenders and banks that offer "deposit advance" loans.[7]

Existing data show there are two clear problems in this market. First, payday loans are sold as two-week credit products that provide fast cash for emergencies in exchange for a fee. But the lump-sum repayment model appears to make it difficult for borrowers to avoid renewal. Pew's analysis of state and industry data indicates that borrowers are indebted for an average of about five months of the year.[8] According to one study, 76 percent of these loans, including renewals, are borrowed within two weeks following an existing payday loan's due date, meaning the borrower could not pay back the loan and make it to the next payday without another loan.[9] In addition, Pew's analysis of data from Oklahoma finds that more borrowers use at least 17 loans in a year than use just one.[10]

Second, the conventional[11] payday loan business model depends upon heavy usage—often, renewals by borrowers who are unable to repay upon their next payday—for its profitability.[12] Researchers at the Federal Reserve Bank of Kansas City concluded that, "the profitability of payday lenders depends on repeat borrowing."[13] According to industry analysts, "In a state with a $15 per $100 rate, an operator ... will need a new customer to take out 4 to 5 loans before that customer becomes profitable."[14] For example, an analysis of North Carolina data found that 73 percent of lender revenue came from borrowers using seven or more loans per year.[15] Despite these realities, payday loans continue to be packaged as short-term or temporary products.

Pew's research seeks to explore these discrepancies between packaging and reality, and to demonstrate borrower experiences and outcomes. The survey discussed in this report is a first-ever nationally representative telephone poll of payday loan borrowers about their usage, conducted in two parts. Demographic data derive from 33,576 responses, representative of all adult Americans, while information about why borrowers used payday loans and what alternatives they have come from 451 interviews representative of all storefront payday loan borrowers.

PROFILE

Borrower A: Female, white, married, non-parent, disabled, homeowner, high school, age 39, $28,000

A slight majority of payday loan borrowers are female, and a slight majority of borrowers are also white. Those who are unable to work because of a disability have used a payday loan at higher rates than those who are employed, unemployed, homemakers, students, or retired.

1 Who Uses Payday Loans?

Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of $375 each per year and spends $520 on interest.

The Pew survey found that 5.5 percent[16] of American adults report having used a payday loan in the past five years.[17] In addition, using the most recent available data,[18] we calculate approximately 12 million[19] Americans used a storefront or online payday loan in 2010, a figure that is consistent with the 5.5 percent finding.

Although Pew's survey reveals that borrowing is concentrated among younger, low-to-moderate-income individuals, people of most ages and incomes use payday loans. Importantly, while these findings indicate which individuals are most likely to borrow, they do not imply that a given characteristic *causes* people to use payday loans.

Pew's survey found that borrowers are 52 percent women and 55 percent white; 58 percent rent their homes; 85 percent do not have a four-year college degree; 72 percent have a household income of less than $40,000; and 52 percent fall in the 25 to 44 age category. (See Appendix A for a complete demographic breakdown of payday loan borrowers.) However, these figures do not necessarily reflect the likelihood of payday loan usage among different demographic groups. For example, while slightly more women use payday loans than men, gender is not a significant predictor of payday loan usage. Similarly, like the general population, most payday loan borrowers are white, but white respondents are less likely to have used a payday loan than people of other races or ethnicities. The results presented in this section are largely consistent with prior research.[20]

WHAT DO BORROWERS SPEND?

Lenders sell payday loans as a temporary bridge to the next payday, though in reality most borrowers are indebted for much longer than one pay cycle. Payday loan consumers take out an average of eight payday loans a year,[21] often renewing an existing loan or taking out a new loan within days of repaying the previous one. Data from Florida indicate that borrowers who take at least 12 loans in a year use 63 percent of all payday loans.[22] The average loan is about $375.[23] Three-quarters of payday loans come from storefronts, with an average fee of $55 per loan, and roughly one-quarter originate online, with an average fee of $95. Using these figures, we calculate that the average borrower spends about $520 on interest each year.[24]

How much borrowers spend on loans depends heavily on the fees permitted by their state. The same $500 storefront loan would generally cost about $55 in Florida, $75 in Nebraska, $87.50 in Alabama, and $100 in Texas, even if it were provided by the same national company in all of those states. Previous research has found that lenders tend to charge the maximum permitted in a state.[25]

For an analysis of how borrowers in each demographic group obtain their loans (i.e., from storefronts versus online), see Exhibit 13 on page 28. For more information on the findings regarding these groups, see our website at www.pewtrusts.org/small-loans.

Which demographic traits best predict loan usage, after controlling for other factors?

Pew researchers developed a logistic regression model to evaluate how certain characteristics relate to usage, while controlling for other factors. Among these characteristics, the odds of payday loan usage are:

57 percent higher for renters than for homeowners;

62 percent higher for those earning less than $40,000 annually than for those earning more;

82 percent higher for those with some college education or less than for those with a four-year degree or more;

103 percent higher for those who are separated or divorced than for those of all other marital statuses (single, living with a partner, married, or widowed); and

105 percent higher for African Americans than for other races/ethnicities.

For more on the model and the characteristics tested, see Appendix B.

EXHIBIT 1:

PAYDAY LOAN USAGE BY DEMOGRAPHIC

Percentage of Each Subgroup Reporting Payday Loan Usage

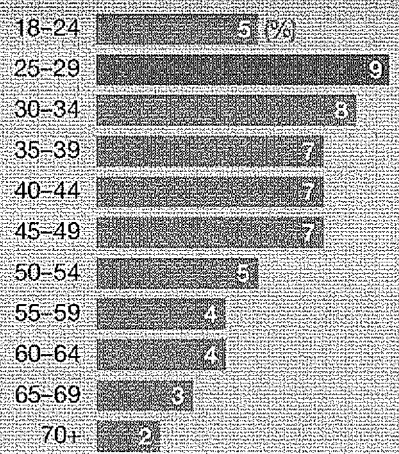
Certain demographic groups are more likely than others to have used a payday loan in the past five years.

OVERALL

5.5 percent of all adult Americans have used a payday loan.

AGE

9 percent of adults aged 25-29 have used a payday loan.



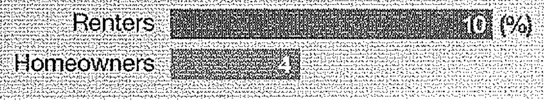
People ages 25 to 49 have used payday loans at a higher rate than the general population. By contrast, loan use is below average among 18-to-24-year-olds and those age 50 or older. There is relatively little usage by senior citizens, with just 2 percent of those 70 and older having used payday loans.

NOTE: Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

RENTERS VS. HOMEOWNERS

10 percent of renters have used a payday loan.



Renters have used payday loans at more than double the rate of homeowners. This sharp difference in usage between homeowners and renters persists in every age cohort. While payday loan usage is largely concentrated among those ages 25 to 49, among 50-to-69-year-old renters, fully one in 10 has used a payday loan, more than triple the rate for 50-to-69-year-old homeowners. Furthermore, renters' usage of payday loans is far higher than that of homeowners across the income distribution. For example, 8 percent of renters earning $40,000 to $100,000 have used payday loans, compared with 6 percent of homeowners earning $15,000 up to $40,000.

INCOME

11 percent of those earning $15,000 up to $25,000 have used a payday loan.

Respondents with household incomes less than $40,000 are almost three times as likely to have used payday loans as respondents with household incomes of $50,000 or more. Respondents from every income group report using payday loans, with loan usage the highest (11 percent) for those earning $15,000 up to 25,000 and lowest (1 percent) for those earning over $100,000. Except for those earning under $15,000, the relationship between income and payday loan usage is an inverse one, with borrowing decreasing as income increases.

EXHIBIT 1:

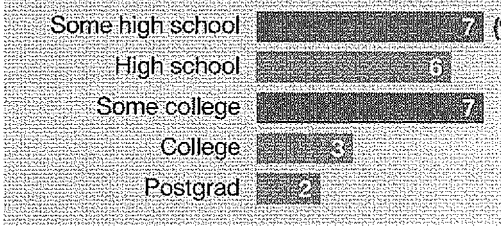
PAYDAY LOAN USAGE BY DEMOGRAPHIC

Percentage of Each Subgroup Reporting Payday Loan Usage

(CONTINUED)

EDUCATION STATUS

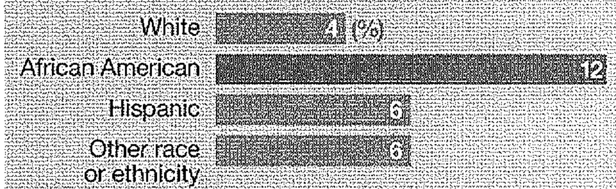
7 percent of those with some high school or some college have used a payday loan.



Those without a four-year college degree are much more likely to have used payday loans than those who have a degree. But among those without a four-year degree, further differences in education level do not correspond with significant differences in payday loan usage.

RACE AND ETHNICITY

12 percent of African Americans have used a payday loan.



African American respondents are more than twice as likely as others to have used a payday loan but make up less than a quarter of all payday borrowers, as compared with whites who comprise 55 percent of all borrowers.

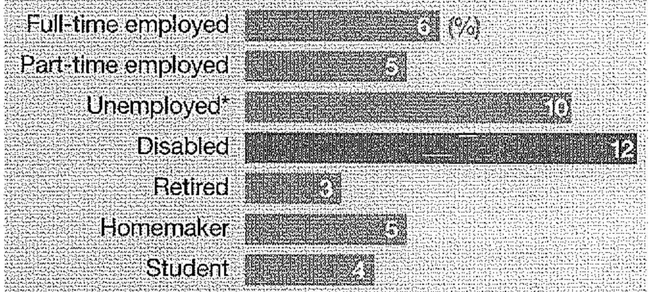
PARENTAL STATUS

8 percent of parents have used a payday loan.

Parents are more likely to have used payday loans than those who are not parents, especially among those earning less than $50,000. Twelve percent of parents earning less than $50,000 have used a payday loan, compared with just 4 percent of parents earning $50,000 or more.

EMPLOYMENT STATUS

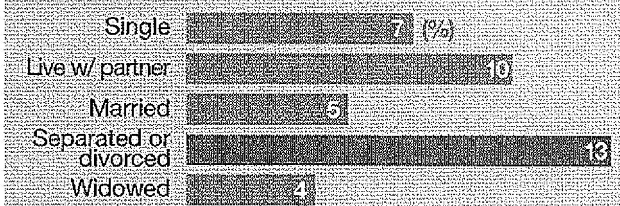
12 percent of those who are disabled have used a payday loan.



Those who are currently disabled or unemployed have used payday loans at the highest rates in the past five years, although it is possible that they were employed at the time they borrowed. However, those who are employed make up a majority of all payday borrowers, and an income stream is a requirement for obtaining a payday loan.

MARITAL STATUS

13 percent of those who are separated or divorced have used a payday loan.



Those who are separated or divorced are most likely to have borrowed. Thirteen percent of separated or divorced individuals report payday loan usage, a rate twice that of all other respondents.

*Payday lenders generally will lend only to someone with an income stream. It is possible that unemployed people were employed at the time of their last payday loan, or they are receiving a loan based on some other form of income, such as a benefits check.

NOTE: Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

PAYDAY LOAN USAGE BY GEOGRAPHY

Pew's survey revealed that payday loan usage is highest in parts of the South and Midwest Census regions (e.g., 13 percent of adults have borrowed in Oklahoma and 11 percent in Missouri, two of the leading payday loan states) and is significantly higher in urban areas as compared with the suburbs. A major factor causing the significant variation in payday loan usage by Census region and division is the difference in how states regulate payday loans, detailed on page 20.

EXHIBIT 2:

PAYDAY LOAN BORROWING MORE COMMON IN CITIES

7 percent of those living in cities have used a payday loan.

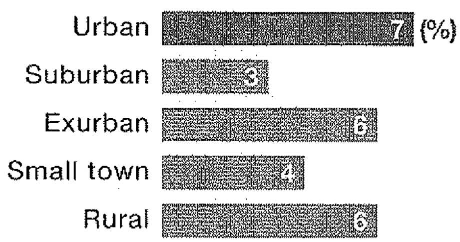
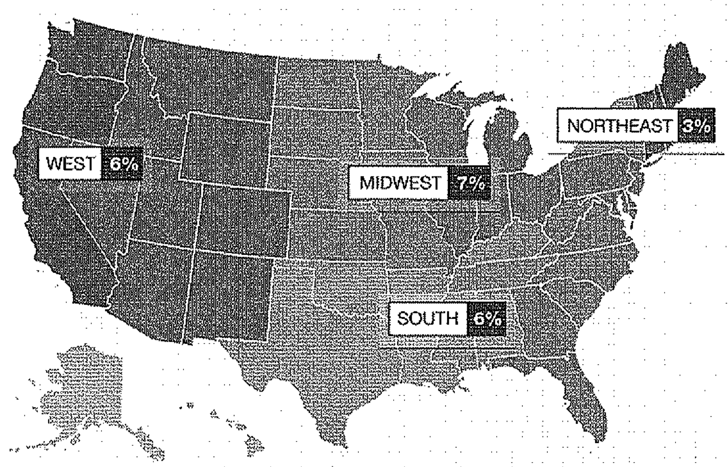
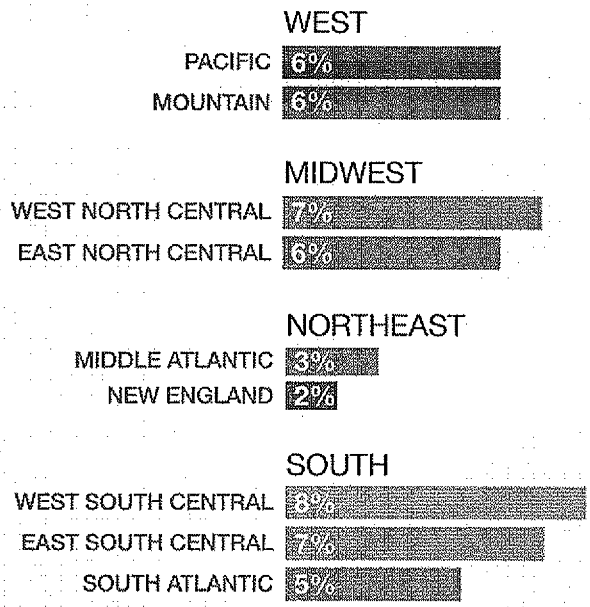


EXHIBIT 3:

PAYDAY LOAN USAGE BY GEOGRAPHIC GROUPING





NOTES: Exhibit 2: **Exurban** (inside a Suburban County of the MSA); **Small town** (In an MSA that has no Center City); **Rural** (Not in an MSA), **Urban** (In the Center City of an MSA), **Suburban** (Outside the Center City of an MSA, but inside the county containing the Center City). The Office of Management and Budget classifies geographic areas into Metropolitan and Micropolitan Statistical Areas (MSA), and these groupings are used by the U.S. Census Bureau. The higher usage in cities is consistent with previous research demonstrating that, historically, payday lending has been tied to relatively densely populated areas, as described in Robert Mayer's *Quick Cash*. This rate is significantly higher than the 3 percent of suburban-area residents who report having used payday loans. Data represent payday loan usage by geographic area in the contiguous United States.

Exhibit 3: Regions and divisions are those used by the U.S. Census Bureau. Data represent payday loan usage by geographic area in the contiguous United States. For state-level data, see www.pewtrusts.org/small-loans.

No surveys were conducted in AK and HI.

Results from Exhibits 3 and 4 are based on 33,576 interviews conducted from August to December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

2 Why Do Borrowers Use Payday Loans?

Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

Pew's survey asked borrowers why they first took out a payday loan. As illustrated in Exhibit 4, borrowers' initial reasons stem from an ongoing need for income, rather than a short-term need to cover an unexpected expense.[26] Four times more storefront borrowers used their first payday loans for a recurring expense (69 percent) than for an unexpected expense (16 percent).

These findings provide a sharp contrast with the conventional image of payday loans, which are advertised as short-term, small-dollar credit intended for emergency or special use. Industry, advocates, and regulators all suggest that using payday loans for recurring expenses is not an effective use of high-cost credit and that, rather, such credit should be used to cover unexpected expenses for a short period of time.[27] Yet, previous research, as well as discussions with industry leaders, and state-level reports, all make clear that a typical borrower uses payday loans many times per year,[28] and much of this borrowing comes in relatively quick succession once someone begins using payday loans.[29] Pew's analysis of existing data found that an average borrower is in payday loan debt for five months per year, using eight loans that last 18 days each.[30]

PROFILE

Borrower B: Male, Hispanic, divorced, non-parent, full-time employed, renter, associate's degree, age 44, $17,000

Divorced or separated men are more likely to have used a payday loan than their female counterparts. Renters are three times more likely to have used a payday loan than homeowners, while those earning $15,000-$25,000 are the most likely to have used a payday loan.

Regular, Ongoing Expenses

Female borrower, Chicago:
"I was behind on my mortgage and cable bill."

Male borrower, Chicago:
"Just need to get to the next paycheck. And I need, you know, either pay the bill to keep the lights on, or need some food, or whatever it is."

Female borrower, San Francisco:
"If I have bills to pay, or say I need food on the table, I am going."

Male borrower, San Francisco:
"Well, I was a little short and was thinking I could use some more money and I was at the ATM actually, and it was there, offering me a direct deposit advance. So, I thought I would try it."

Unexpected Emergency/Expense

Male borrower, New York:
"I got mine because my son got in a car accident."

Male borrower, New York:
"I had to get money for my car to get fixed."

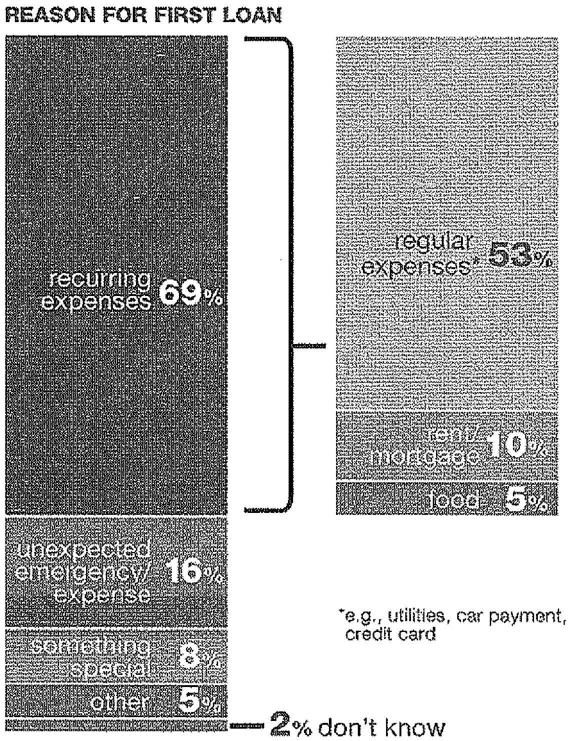
Something Special

Female borrower, San Francisco:
"It was the holidays and I just needed some extra cash to get gifts and help out with Christmas dinner and do my part."

Male borrower, San Francisco:
"It was a frivolous expense. Some friends wanted us to accompany them on an out-of-town trip… and I thought, 'why not?'"

EXHIBIT 4:

MOST BORROWERS USE PAYDAY LOANS FOR RECURRING EXPENSES



NOTES: Data represent percentage of borrowers who reported the reason for using their first payday loan based on 451 interviews, December 2011 - March 2012. Sampling error for the full-length survey of storefront payday loan borrowers is +/- 4.6 percentage points.

Survey participants were asked: Thinking back now to (that FIRST/the) time you took out a (online payday loan/payday loan/auto title loan), which of the following best describes what specifically you needed the money for?

1 To pay rent or a mortgage
2 To pay for food and groceries
3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs
4 To pay an unexpected expense, such as a car repair or emergency medical expense
5 To pay for something special, such as a vacation, entertainment, or gifts
6 (Do not read) Other (specify)

The combined results for "Recurring Expenses" include Regular Expense (53 percent), Rent or Mortgage (10 percent), and Food (5 percent) and add to 69 rather than the expected 68 because of rounding decimals. The response options were randomized in this and other survey questions, so the order in which the respondent heard them varied to eliminate order bias.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

PAYDAY LOAN MARKETING VS. PRACTICE

Payday loans are frequently described as short-term credit for unexpected expenses, and marketing materials sometimes inform borrowers that payday loans are not intended for long-term use.[31] The industry advertises this small-dollar form of credit as a product that offers borrowers "access to a financial option intended to cover small, often unexpected, expenses," but states that a payday loan "is not meant to be a long-term solution."[32] A large payday lender warns in its direct mail advertisements: "Short-term loans are not intended to be long-term financial solutions."[33] Another warns: "Payday advances should be used for short-term financial needs only, not as a long-term financial solution."[34]

Despite these warnings, repeat borrowing is the norm. Prior research indicates that borrowers are indebted for an average of five to seven months of the year.[35] As a report by the Federal Reserve Bank of Kansas City Economic Research Department concluded, "The profitability of payday lenders depends on repeat borrowing."[36]

The dependence on repeat borrowing is illustrated by the reaction of payday lenders to a recent Washington State law limiting borrowers to eight loans per year. The largest storefront lender in the United States "decided to close an additional 30 centers in the State of Washington where changes in the law there have greatly affected our ability to operate profitably in that state."[37] Similarly, according to industry analysts, "In a state with a $15 per $100 rate, an operator ... will need a new customer to take out 4 to 5 loans before that customer becomes profitable."[38]

The industry's stated best practices include limiting rollovers to four per person (or the state maximum) and providing extended repayment plans to borrowers who are unable to repay their loan within the original term.[39] Despite the promotion of these standards, marketing practices differ greatly. One key area of inconsistency is the practice among lenders of offering incentives to encourage habitual loan usage, such as discounts for repeat borrowing and referral bonuses.[40] As an example, one of the largest online payday lenders, which is affiliated with the largest storefront lender, offers a "Preferred Member Bonus" (Silver Status after five payday loans, Gold Status after 10 payday loans, and Platinum Status after 15 payday loans).[41]

PROFILE

Borrower C: Female, African American, married, parent, part-time employed, renter, some college, age 28, $32,000

African Americans are more likely than people of other races to have used a payday loan. People ages 25-29 are more likely to have used payday loans than those in any other age group. Parents are much more likely than non-parents to have used a payday loan, regardless of marital status.

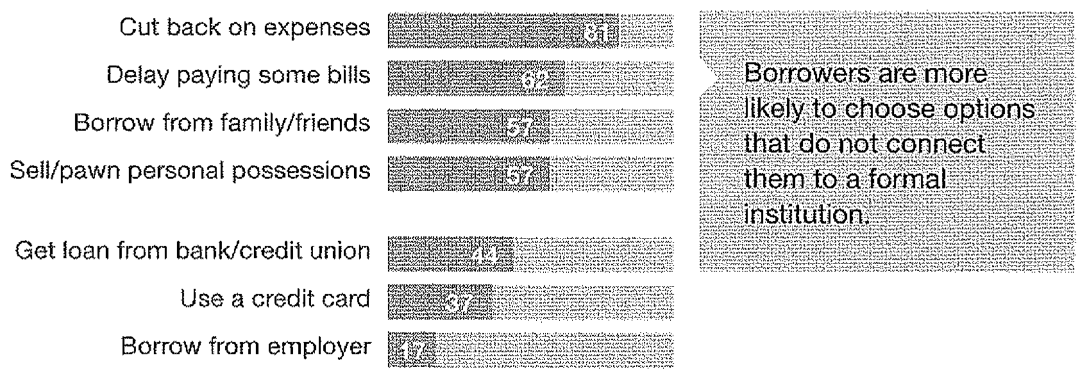
3 What Would Borrowers Do Without Payday Loans?

If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.

Even though most borrowers use payday loans for recurring expenses, rather than for emergencies, survey respondents indicated they would use a variety of options to deal with those needs if payday loans were no longer available. In general, borrowers are more likely to choose options—such as adjusting their budgets, delaying bills, selling or pawning personal items, or borrowing from family or friends—that do not connect them to a formal institution. Eighty-one percent of payday borrowers say they would cut back on expenses if payday loans were unavailable.

EXHIBIT 5:

ALTERNATIVES IF PAYDAY LOANS WERE UNAVAILABLE



NOTES: Data represent percentage of borrowers who would use each of these strategies if payday loans were unavailable, based on 451 interviews, December 2011 to March 2012.

Survey participants were asked: "I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash and short-term loans of any kind no longer existed. How about (method)? Would you use this option or not?" The "borrow from employer" item was only asked of employed respondents.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

These survey findings are consistent with tactics described by former payday loan borrowers in a focus group Pew conducted in late 2011 near Manchester, New Hampshire, to find out what residents are doing now that there are no longer storefront payday lenders there. In that group, payday loan borrowers discussed various strategies they use in place of payday loans, such as re-budgeting, prioritizing bills, pawning or selling belongings, borrowing from family members, or, as one borrower stated, working out "payment plans with utility companies." Another borrower discussed prioritizing money: "I budget. I do my best, but the main thing that has to get paid is that mortgage . . . I pay that mortgage, I pay my car, I pay my insurance, and whatever is left over, that's what everything else gets paid with."

While a majority of surveyed borrowers said they would not take out a loan from a bank or credit union, many focus group participants throughout the country expressed that they would rather borrow from a bank or a credit union than from a payday lender if that option were available to them. The fact that a majority of survey respondents failed to list banks or credit unions as options may reflect an expectation, demonstrated among many focus group members, that they would not be approved for a loan.

Similarly, the fact that most survey respondents would not use credit cards may reflect a sentiment that those products are not available to them. Most, though not all, focus group participants nationwide indicated that they had maxed out their credit cards or believed they would not qualify. The reluctance to view credit cards as an alternative also may stem from confusion among some borrowers about whether the interest rate on a credit card is higher or lower than the interest rate on a payday loan. On several occasions, borrowers in focus groups equated the simple interest rate (e.g., 15 percent for a loan with a $15 per $100 fee for two weeks) with the Annual Percentage Rate disclosed for a credit card (which might be 15 percent on an annual basis). For example, a borrower from Alabama stated: "Because the interest on . . . some credit cards [is] 23.99 percent. So if you go charge $300, and then you don't pay that $300 off at the end of the month . . . they're going to tack that 23.99 percent on to it, so you're going to still be paying more than you would if you had to [get a payday loan]."

Previous surveys have found similar results to Pew's findings about payday loan alternatives. A study of former storefront payday loan borrowers in North Carolina found households have other ways to cope with cash shortfalls. For example, borrowers who experienced a shortfall within the previous three years chose instead to delay expenses (52 percent), use savings (44 percent), or borrow from family or friends (42 percent).[42] A study of

California payday loan borrowers found that of those who decided not to take out a payday loan explicitly because of the interest rate or fee, 47 percent chose to borrow from family or friends and 26 percent elected to wait until payday. In addition, for borrowers who were unable to obtain the full amount they needed from a payday lender, most chose to borrow the additional amount from family or friends.[43] Another survey of low- to moderate-income people in parts of Texas revealed that while 23 percent had used a payday loan, far more (60 percent) had borrowed from family or friends. Among payday loan borrowers in that study, 45 percent indicated they also borrowed from family or friends.[44]

PROFILE

Borrower D: Male, white, separated, parent, full-time employed, renter, associate's degree, age 32, $41,000

Separated people are far more likely to have used a payday loan than those of any other marital status. People who do not have a four-year college degree are much more likely to have used a payday loan than college graduates.

4 Does Payday Lending Regulation Affect Usage?

In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

Modern payday loans owe their existence to efforts, mostly in the 1990s, to create custom exemptions to state laws that otherwise would prohibit such small-dollar loans or apply usury interest rate caps. Since then, the wisdom of allowing payday lending has been a hotly contested issue among state policy makers and stakeholders. States have deployed a variety of strategies designed to prohibit, control, or enable this form of small-dollar credit.

EXAMPLES OF STATE LAW TYPES

MISSOURI (PERMISSIVE)

Missouri permits single-repayment payday loans with finance charges and interest not to exceed 75 percent of the borrowed principal. The 2011 payday lending report from Missouri's Division of Finance cites a fee of $52.45 for a 14-day loan of $307.56 (444.61 percent APR).[45] Payday loans are available for up to $500.
Incidence: 9.7 percent storefront, 1.5 percent online

FLORIDA (HYBRID)

Florida permits single-repayment payday loans with fees of 10 percent of the borrowed principal, along with a $5 fee for borrower verification with a state database of payday loan users. Payday loans are available for up to $500 and each borrower may have out only one payday loan at any given time.
Incidence: 6.6 percent storefront, 0.6 percent online

GEORGIA (RESTRICTIVE)

Georgia state statute prohibits payday lending in most forms. As in other jurisdictions, many banks and credit unions are exempt from the restriction on payday lending in the state.
Incidence: 1.9 percent storefront, 0.5 percent online

In the past decade, some states—most recently including Arizona, Arkansas, Montana, and New Hampshire—have revived consumer protections and rolled back laws that authorized payday loans. These states have reimposed usury interest rate caps or discontinued payday lenders' exemptions from these usury limits. Other states have limited the number of high-cost loans or renewals that a lender may offer to an individual, in an attempt to enhance borrowers' ability to repay debts in a timely fashion.[46]

Following a thorough review, Pew identified three categories of state payday loan regulation. (See Exhibit 6 for a complete breakdown of the states. See www.pewtrusts.org/small-loans for a compilation of relevant laws by state and a short history of payday lending law.)

- **Permissive states are the least regulated and allow initial fees of 15 percent of the borrowed principal or higher.** Most of these states have some regulations, but allow for payday loans due in full on a borrower's next payday with Annual Percentage Rates (APRs) usually in the range of 391 to 521 percent ($15 to $20 per $100 borrowed per two weeks). Payday loan storefronts are readily available to borrowers located in these states.[47] Most Americans—55 percent—live in the 28 Permissive states.

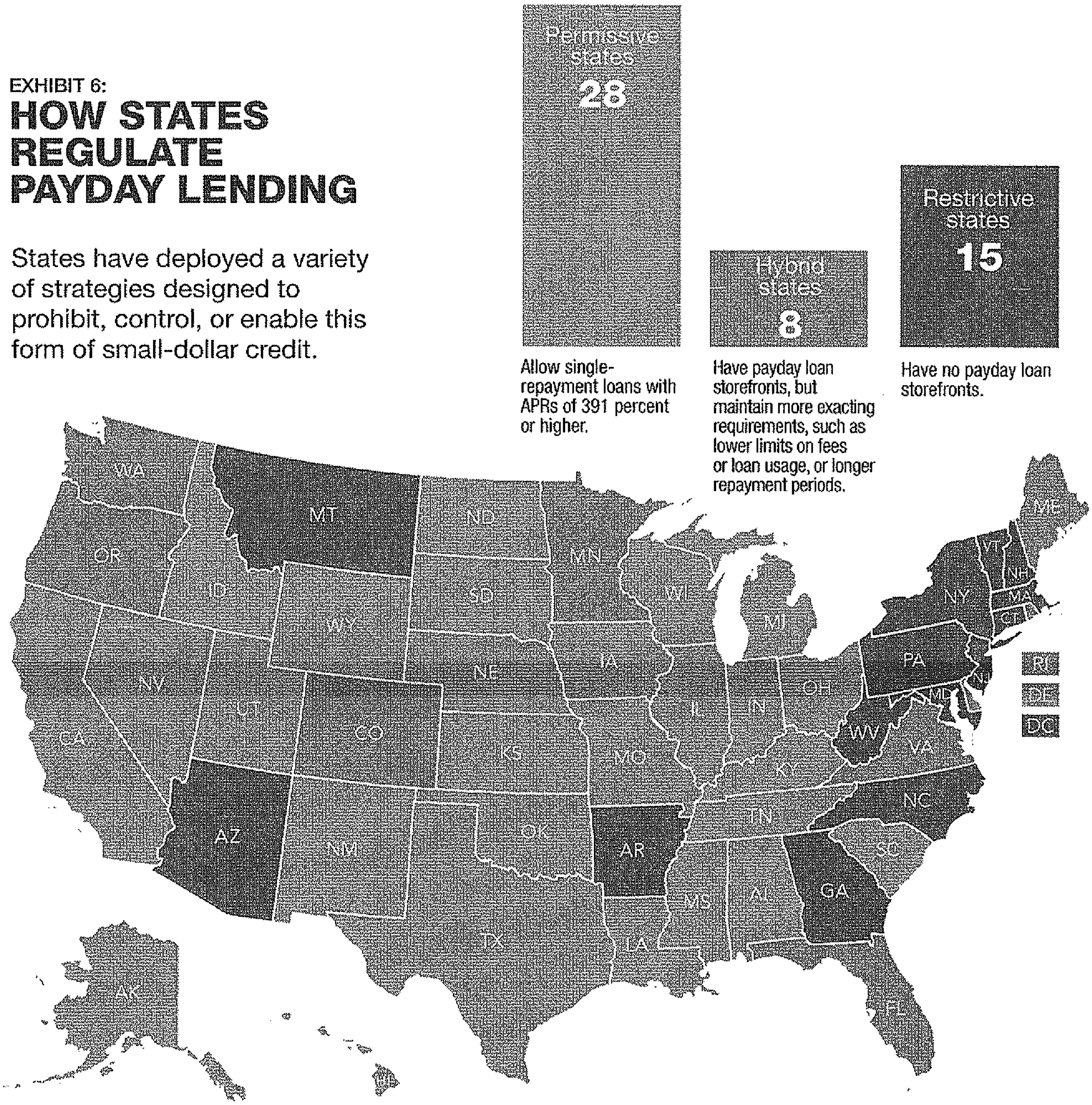
- **Hybrid states have relatively more exacting requirements than Permissive states,** with at least one of the following three forms of regulation: (1) rate caps, usually around 10 percent of the borrowed principal, which are lower than most states but still permit loans to be issued with triple-digit APRs; (2) restrictions on the number of loans per borrower, such as a maximum of eight loans per borrower per year; or (3) allowing borrowers multiple pay periods to repay loans. Storefronts that offer payday loans exist in substantial numbers in these states,[48] though the market may be more consolidated and per-store loan volume may be higher here than in less restrictive states.[49] Sixteen percent of Americans live in the eight Hybrid states.

- **Restrictive states either do not permit payday lending or have price caps low enough to eliminate payday lending in the state.** This rate cap often is 36 percent APR. Generally, payday loan storefronts are not found in these states. This category includes states where deferred presentment transactions (post-dated checks) are not authorized, are not specifically exempted from general state laws on usury, or are explicitly prohibited by state statute. Twenty-nine percent of Americans live in the 14 states and the District of Columbia that have a Restrictive payday loan regulatory structure.

EXHIBIT 6:

HOW STATES REGULATE PAYDAY LENDING

States have deployed a variety of strategies designed to prohibit, control, or enable this form of small-dollar credit.



SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Payday Lending Regulation Not Leading to Increased Online Borrowing

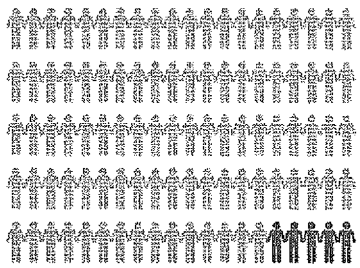
A key issue being discussed in state legislatures is whether restricting storefront payday lenders will lead borrowers to obtain loans from the Internet or other sources instead.[50] Consumer advocates[51] and some storefront lenders[52] have warned that other forms of lending, particularly online payday lending, could harm borrowers because they often occur outside the reach of state regulators. (Pew has seen evidence of fraud, abuse, and other problems with online payday lending, and will explore these later in this report series.)

However, Pew found that in Restrictive states, payday loan usage from all sources combined is far lower as compared with other states (see Exhibit 8).[53] Storefront payday loan usage is 75 percent lower in Restrictive than in Permissive states,[54] while online and other payday loan usage is only slightly higher (this difference is not statistically significant). Thus, the vast majority of would-be storefront borrowers in Restrictive states are not going online or to other providers to obtain payday loans instead.

Our data show that, in states that enact strong legal protections, the result is a large net decrease in payday loan usage (see page 23).

EXHIBIT 7:

In states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere.



SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

- Restrictive payday loan laws lead to 393 fewer storefront borrowers per 10,000 people;
- Of these, just 21 (5 percent) go online or elsewhere to get a payday loan; and
- The remaining 372 (95 percent) do not use payday loans.

In other words, in states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere.

PAYDAY BORROWING FAR LOWER IN RESTRICTIVE STATES THAN IN PERMISSIVE STATES

There is significantly less payday loan usage in states with strong legal protections because most people are not getting payday loans from the Internet or other sources instead. Although online payday lending and other sources may continue to experience substantial growth in coming years, these data give no indication that regulation of payday loan storefronts would fuel this growth. While online borrowing often is discussed as a problem in states without storefronts, it is nearly as prevalent in states with payday loan stores. In Permissive states, fully one-third of online borrowers also have borrowed from stores, choosing both methods rather than one or the other.

EXHIBIT 8:

NUMBER OF BORROWERS PER 10,000 POPULATION

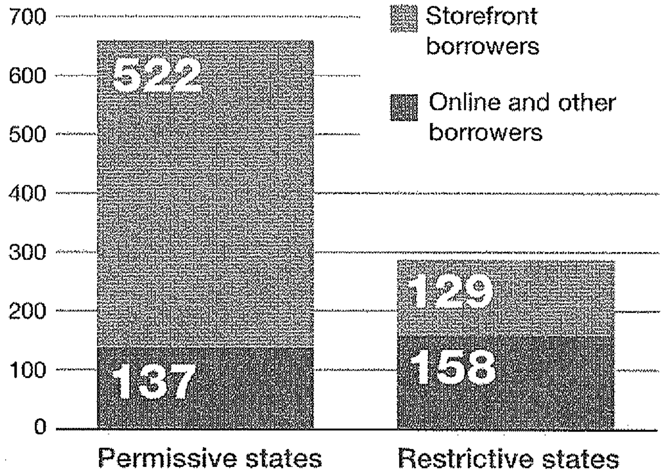


EXHIBIT 9:

METHOD OF ACQUIRING PAYDAY LOANS BY STATE LAW TYPE

Percentage of adults reporting payday loan usage in the past five years

	BORROW FROM STOREFRONT ONLY	BORROW FROM ONLINE OR OTHER*	NUMBER OF INTERVIEWS
National	4.01%	1.48%	33,576
Permissive states	5.22%	1.37%	17,881
Hybrid states	5.06%	1.28%	5,565
Restrictive states	1.29%	1.58%	10,130

NOTES: *Online or other represents all borrowers who have indicated online usage (including those who have borrowed both online *and* from a storefront), plus usage from other lenders that may include banks, credit unions, or employers, among others. Results are reported to two decimal places, but this reporting is not intended to imply such a detailed level of precision. Rather, two decimal places are used in order to avoid inaccurate calculations between groupings that could be caused by rounding. Because of sampling error, it is possible that the true level of usage in any of these groupings is slightly higher or lower.

Restrictive states are those that have no payday loan storefronts. Permissive states allow single-repayment loans with APRs of 391 percent or higher. Hybrid states have payday loan storefronts, but maintain more exacting requirements, such as lower limits on fees or loan usage, or longer repayment periods.

Data represent percentage of adults in each category who report having used a payday loan in the past five years. Results are based on 33,576 interviews conducted from August 2011 through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

This analysis makes an evidence-based assumption backed by strong empirical data that inherent demand for payday loans is similar in Restrictive and Permissive states. Store counts from 2006 in the four states that have most recently adopted a Restrictive regulatory strategy after previously being Permissive—Arkansas, Arizona, Montana, and New Hampshire—show a similar number of stores per capita as in the other then-Permissive states: 5.5 percent fewer stores (0.64 fewer stores) per 100,000 residents in 2006 than their counterparts that remain Permissive (see Exhibit 10).[55] This fairly small difference in payday lenders per capita suggests there is not large variation between these two state groupings in demand for payday loans.[56] Other Restrictive states, such as North Carolina and Georgia, that were previously Permissive, also had heavy payday loan activity before changing their laws.[57]

EXHIBIT 10:

PAYDAY LOAN STOREFRONTS

STATE LAW TYPE	STOREFRONTS PER 100,000 RESIDENTS IN 2006
PERMISSIVE IN 2012 (WERE PERMISSIVE IN 2006)	11.57
RESTRICTIVE IN 2012 (WERE PERMISSIVE IN 2006)	10.93

NOTES: These figures are based on our analysis of state-by-state storefront data from Steven Graves and Christopher Peterson. Restrictive states are those that have no payday loan storefronts. Permissive states allow single-repayment loans with APRs of 391 percent or higher.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; Graves and Peterson (2008).

Pew also conducted a logistic regression analysis to examine the effect of state law type on the odds of payday borrowing, controlling for borrower demographic characteristics. The findings are that the odds of payday loan usage for people who live in a Permissive or Hybrid state are 169 percent higher than for those who live in a Restrictive state, meaning a person's state of residence is a highly significant factor in predicting payday loan usage, even after controlling for borrower demographics.

To examine whether these data were considerably impacted by changes in state laws during the period of inquiry in our survey, Pew compared incidence in states that changed their laws during the past five years and those that did not.[58] There was relatively little difference in incidence of payday loan usage between states that had Restrictive regulation prior to 2007 (2.93 percent) and those five states that implemented Restrictive regulation after January 2007 (2.46 percent). Usage rates are similarly close for states with Hybrid regulation prior to 2007 (6.14 percent) and the five states that implemented Hybrid regulation in 2007 or later (6.43 percent).

Prior research has found "no evidence that prohibitions and price caps on one AFS (Alternative Financial Services) product lead consumers to use other AFS products."[59] Our research builds on that finding, revealing that the vast majority of would-be borrowers do not even substitute a new method (using the Internet instead of a storefront) to obtain the same AFS product, which in this case is a payday loan.[60]

Payday Lending Regulation Not Driving Increase in Borrower Complaints

Another issue that state legislators and regulators have considered is whether payday lending restrictions could be driving an increase in borrower complaints.[61]

Consumer advocates also have been concerned that an increase in complaints may be driven by online lenders.[62] Given that online borrowing is nearly as prevalent in Permissive states (1.08 percent) as in Restrictive ones (1.21 percent), the rate of complaints increasing more in one type of state than another seems unlikely.

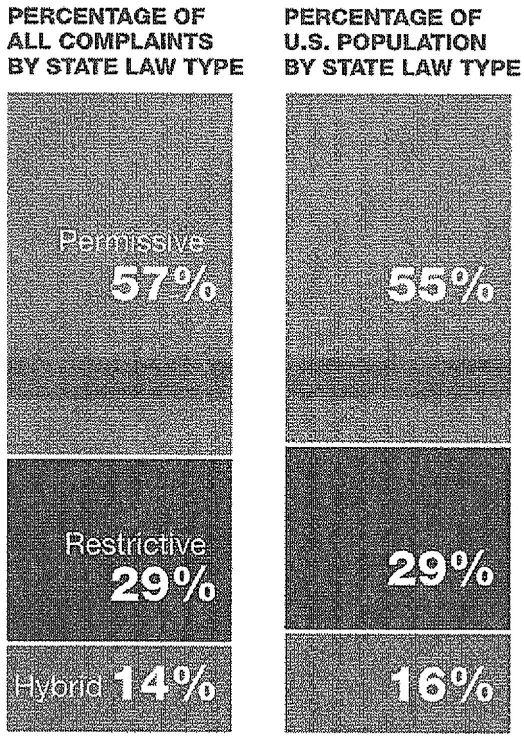
The Better Business Bureau reports that complaints against payday lenders are on the rise.[63] While online borrowing generally may indeed be driving this increase, there is no indication that the increase is attributable to efforts to regulate storefront payday lending. As shown in Exhibit 11, Pew's analysis of the complaints received by the Better Business Bureau in 2011 finds state regulations are not driving complaints against payday lenders. Twenty-nine percent of all complaints against payday lenders were filed by residents of Restrictive states, identical to the 29 percent of Americans who live in those states. Similarly, 55 percent of Americans live in Permissive states, and they filed 57 percent of complaints against payday lenders. Sixteen percent of the population lives in Hybrid states, and they filed 14 percent of payday lending complaints.

More evidence that complaints are not driven by consumer protections

EXHIBIT 11:

STATE LAWS ARE NOT DRIVING PAYDAY LOAN COMPLAINTS

The percentage of complaints against payday lenders received by the Better Business Bureau in each state law grouping closely mirrors the percentage of the population living in those states, suggesting that regulation is not driving complaints.



NOTE: Complaints are those received by the Better Business Bureau about payday lenders in 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; Better Business Bureau.

comes from Washington State, where complaints have been increasing, but the increase does not coincide with the recent change from a Permissive to a Hybrid regulatory model. Complaints increased 76 percent from 2008 to 2009, when there was no change in the law, and 50 percent from 2009 to 2010, when a change in the law took place.[64] Similarly, data Pew collected from state regulators show that from 2009 to 2011, Arkansas (Restrictive) had a 128 percent increase in complaints, Maine (Hybrid) had a 52 percent increase, and Missouri (Permissive) had a 107 percent increase.[65]

FORMER BORROWERS SPEAK ABOUT THE CHOICE BETWEEN STOREFRONT AND ONLINE

During a focus group in New Hampshire, former storefront payday loan borrowers dismissed the online option:

> "I won't leave my information there."
>
> "There's no face-to-face contact ... [I]f my identity was to be stolen, well who stole it?"
>
> "It's too risky, in my opinion."
>
> "With the identity theft the way it is ... who's going to see it?"
>
> "I'm not going to put [my] information out there."

Another former borrower noted that she had used online payday loans in New Hampshire when storefronts were still present, in order to pay off her storefront payday loans:

> "I had to come up with money [when] my husband was out of work, and I actually was up to $900 [in storefront payday loan debt] ... My entire check was gone the next two weeks, so that's when I went to the online ones ... And then after I did the online ones, and got in that loop, and got stuck in there, I went back to the store again, and, yeah, it got bad. And my [checking] account ended up pretty negative. I had to close it out totally."

NOTE: The focus group comprised only those people who had taken payday loans from storefronts before a recent New Hampshire law eliminated storefront payday lending.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

WHERE DO BORROWERS GET PAYDAY LOANS?

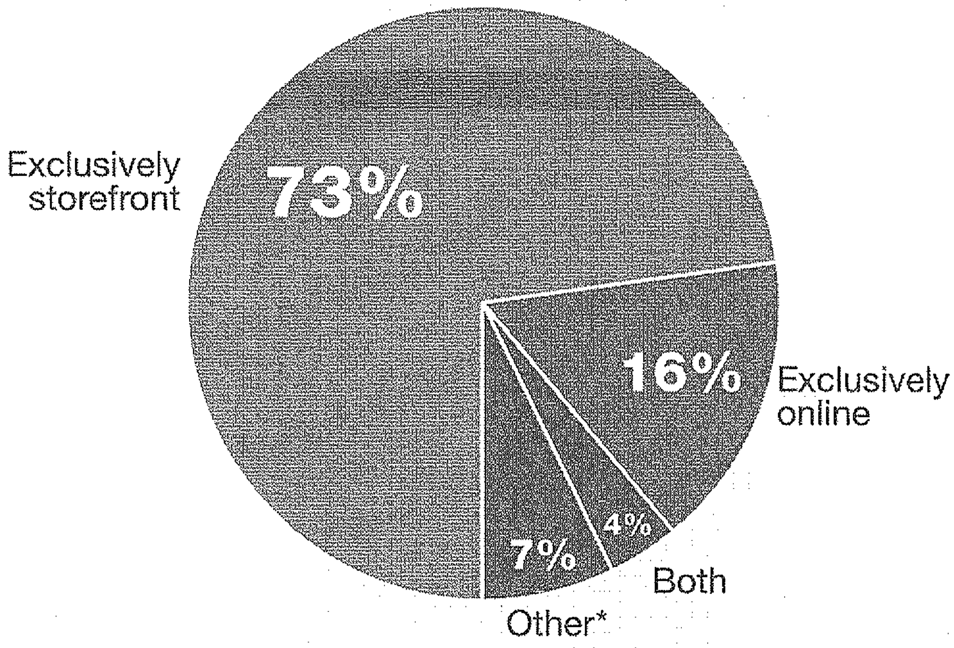
Pew's survey shows that retail storefronts are the exclusive source of payday loans for nearly three out of every four borrowers, while only one in six borrowers reports having used online providers exclusively (see Exhibit 12). About one in 10 borrowers has used both storefront and online providers or other types of providers, which may include banks or employers.[66]

While the overwhelming majority of borrowers use storefronts to get payday loans, certain groups are more likely than others to use online lenders (see Exhibit 13). Those who most often go online for loans tend to be younger, have incomes above $50,000, and have a college degree (for example, 41 percent of payday loan borrowers with a college degree used online lenders, and 66 percent used storefront lenders). These are the groups that use the Internet at higher rates generally throughout the population.[67]

The groups that are heavily skewed toward storefront borrowing are older, do not have a college degree, and have incomes below $50,000. White borrowers are especially likely to borrow from storefront lenders, as are disabled borrowers.

EXHIBIT 12:

HOW PEOPLE OBTAIN PAYDAY LOANS



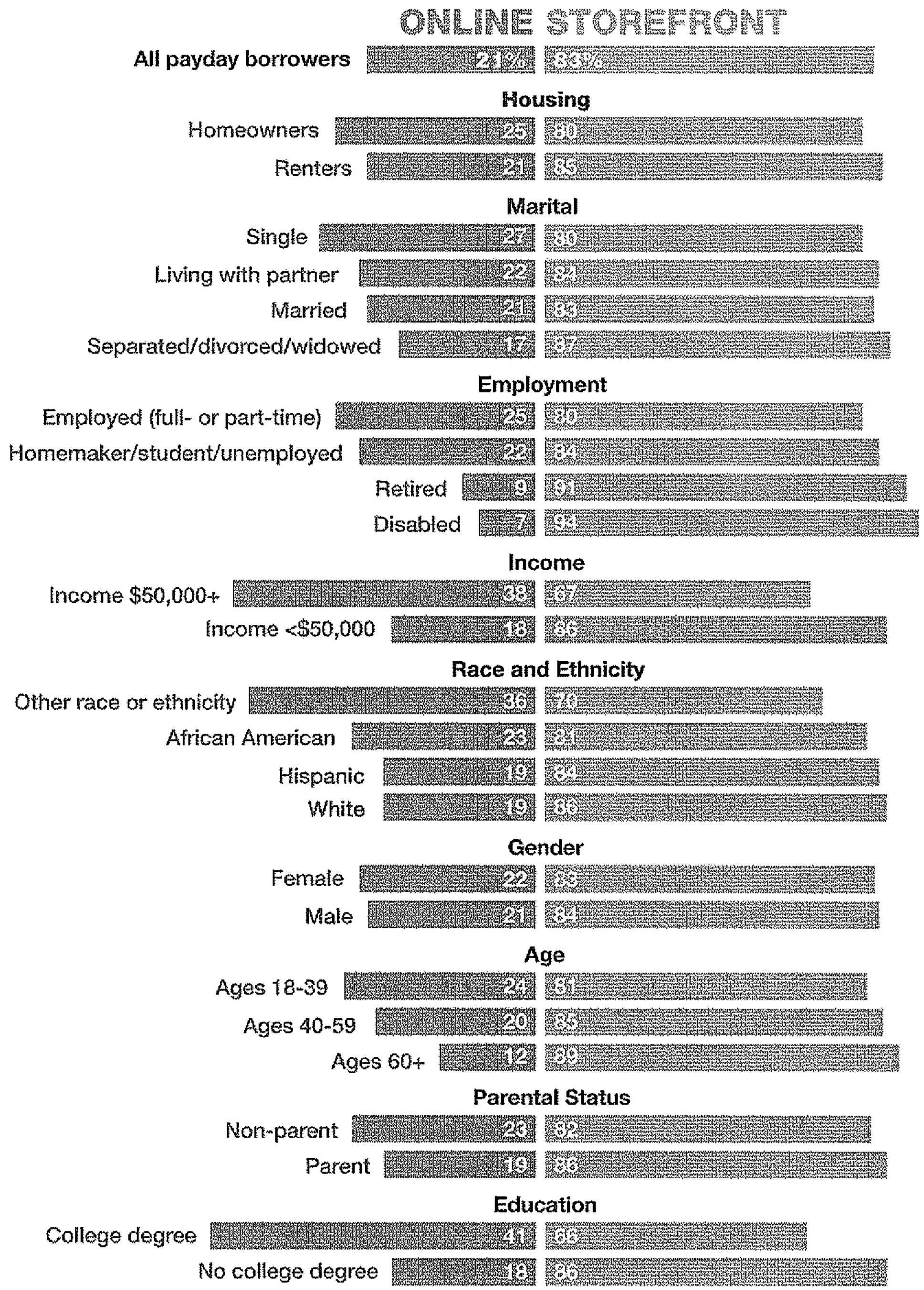
NOTES: In absolute terms, 4.0 percent of all survey respondents have used payday loans exclusively from storefronts, 0.9 percent have used payday loans exclusively from the Internet, 0.2 percent have used payday loans from both storefront locations and the Internet, and 0.4 percent of respondents have used payday loans that were neither storefront-based nor Internet-based. *Other sources may include banks, credit unions, or employers, among others.

Data represent percentage of payday borrowers who have used this type of provider in the past five years. Results are based on 33,576 interviews conducted from August 2011 through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

EXHIBIT 13:

METHOD OF ACQUIRING PAYDAY LOANS BY BORROWER DEMOGRAPHIC GROUP



NOTES: Numbers add to greater than 100 percent because of borrowers who have borrowed both from a storefront and online; they are counted in both columns and exist in greater numbers in some subgroups. The 7 percent of borrowers who have taken a payday loan from another source, such as a bank or employer, are excluded from this section, as are the 1 percent of borrowers who declined to state which method of borrowing they utilized. Results represent the percentage of payday loan borrowers in each category who report having used the specified type of payday loan in the past five years. Results are based on 33,576 interviews conducted from August through December 2011.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Conclusion

Payday loans are marketed as short-term credit products intended for emergency use, and they usually are depicted as a fix for an unexpected expense. However, Pew's first-of-its-kind survey reveals that seven in 10 borrowers use payday loans to deal with recurring expenses, while only one in six uses the loans for unexpected emergencies. Pew's analysis shows that the vast majority of borrowers use the loans on a long-term basis, not a temporary one. Thus it seems that the payday loan industry is selling a product that few people use as designed and that imposes debt that is consistently more costly and longer lasting than advertised. This circumstance is especially troubling because the conventional payday loan business model fundamentally relies on repeat usage—often, renewals by borrowers who are unable to repay the full loan amount upon their next payday—for its profitability.

Pew's research shows that certain demographic groups are more likely to use payday loans, including those without a four-year college degree; African Americans; those who rent rather than own a home; people earning below $40,000 annually; and those who are separated or divorced. However, it also clearly demonstrates that the payday loan is a product that crosses lines of gender, race and ethnicity, income, and education, touching most segments of society.

These findings raise serious concerns about payday lending, including whether a two-week product with an APR typically around 400 percent is a viable solution for people dealing with a chronic cash shortage.

To date, payday loans have been regulated primarily at the state level. Pew's findings show that states that have chosen to implement statutory controls on these products have been successful in realizing policy makers' goal of curbing payday lending, with 95 out of 100 would-be borrowers electing not to use payday loans rather than going online or finding payday loans elsewhere. These findings are particularly important as policy makers discuss what happens to payday borrowers when storefront lenders are not present because of regulatory action.

Moving forward, the recently created Consumer Financial Protection Bureau has the authority to regulate the payday loan market at the federal level. With this ongoing series, *Payday Lending in America*, and other research, Pew will present in-depth findings to help identify the features of a safe and transparent marketplace for such consumer financial services, to inform efforts to protect consumers from harmful practices, and to promote safe and transparent small-dollar credit.

Methodology: Opinion Research

Findings in this report are based on a screening survey to measure incidence and identify payday loan borrowers, a full-length survey of people who answered that they had used a storefront payday loan in the past five years, and a series of 10 focus groups with small-loan borrowers, as described below.

Survey Methodology

Social Science Research Solutions (SSRS) Omnibus Survey

The Pew Safe Small-Dollar Loans Research Project contracted with SSRS to conduct the first-ever nationally representative in-depth telephone survey with payday loan borrowers about their loan usage. To identify and survey a low-incidence population such as payday loan borrowers, SSRS screened 1,000 to 2,000 adults per week on its regular omnibus survey, using random-digit-dialing (RDD) methodology, from August 2011 to April 2012. The term "omnibus" refers to a survey that includes questions on a variety of topics. This survey likely minimized payday loan borrowers' denying their usage of this product, because the omnibus survey included mostly non-financial questions purchased by other clients, and the payday loan questions were asked after other, less sensitive questions, giving interviewers a chance to establish a rapport with respondents.

If during the months of August through mid-December, respondents answered that they had used a payday loan, they were placed in a file to be recontacted later. Once the full-length survey was ready to field, in order to maximize participation, people who had used a payday loan were then given the full-length survey and paid an incentive of $20 for participating. Because of their relative scarcity, online payday loan borrowers were given an incentive of $35 for participating. Respondents were told about the compensation only after having indicated that they had used a payday loan. Further, online payday loan borrowers identified during the early months of screening were sent a letter with a five-dollar bill informing them that they would be recontacted to take the full-length survey. The second phase of the research involved recontacting all respondents who answered that they had used a payday loan, and immediately giving the full-length survey to anyone newly identified in the weekly omnibus survey as a payday loan borrower.

Sample and Interviewing

In the first phase of the survey, The Pew Safe Small-Dollar Loans Research Project purchased time on Social Science Research Solutions' omnibus survey, *EXCEL*, that covers the continental United States. Analysis of the incidence was conducted after 33,576 adults had been screened and answered a question about payday loan usage.

Sampling error for the omnibus survey of borrowers is +/- 0.24 percentage points. In the second phase, another 16,108 adults were screened in order to find a sufficient number of storefront payday loan, online payday loans, and auto title loan borrowers to complete a 20-minute survey about their usage and views. A total of 451 adults completed the full-length storefront payday loan survey, and two questions from that survey were included in this publication. Sampling error for the full-length survey of storefront payday loan borrowers is +/- 4.6 percentage points. In total, 49,684 adults were screened to complete the research.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each *EXCEL* survey consists of a minimum of 1,000 interviews, of which 300 interviews are completed with respondents on their cell phones and at least 30 are conducted in Spanish, ensuring unprecedented representation on an omnibus platform. Completes are representative of the U.S. population of adults 18 and older.

EXCEL uses a fully replicated, stratified, single-stage, RDD sample of telephone households, and randomly generated cell phones. Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing (CATI) system. Within each sample household, a single respondent is randomly selected. Further details about *EXCEL* and its weighting are available at www.pewtrusts.org/small-loans.

Question Wording—Omnibus Survey

The data from the nationally representative omnibus survey of 33,576 adults are based on responses to the following questions. Wording for demographic and other questions is available at www.pewtrusts.org/small-loans.

Screening Phase (measuring incidence and compiling sample for callbacks):

- In the past five years, have you used payday loan or cash advance services, where you borrow money to be repaid out of your next paycheck?
- And was that physically through a store, or on the Internet?

Recontact Phase (calling back respondents who answered affirmatively, and identifying additional borrowers to take the full-length survey immediately):

- In the past five years, have you or has someone in your family used an in-person payday lending store or cash advance service?

Question Wording—Full-Length Survey of Storefront Payday Loan Borrowers

The data from the nationally representative, full-length survey of 451 storefront payday loan borrowers are based on responses to the following questions, which Pew designed with assistance from SSRS and Hart Research Associates. All other questions from this survey are being held for future release. The sample for this telephone survey was derived from the RDD omnibus survey.

Thinking back now to (that FIRST/ the) time you took out a (online payday loan/payday loan/auto title loan), which of the following best describes what specifically you needed the money for? (READ LIST. ACCEPT ONE RESPONSE.)

(IF MORE THAN ONE, ASK:) Well, if you had to choose just one, which best describes what specifically you needed the money for?

1 To pay rent or a mortgage

2 To pay for food and groceries

3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs

4 To pay an unexpected expense, such as a car repair or emergency medical expense

5 To pay for something special, such as a vacation, entertainment, or gifts

7 (DO NOT READ) Other (SPECIFY)________________

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash and short-term loans of any kind no longer existed. How about (INSERT)?

a. Borrow from family or friends

b. Borrow from your employer

c. Sell or pawn personal possessions

d. Delay paying some bills

e. Cut back on expenses such as food and clothing

f. Take out a loan from a bank or credit union

g. Use a credit card

Would you use this option or not?

1 Yes, would use

2 No, would not use

D (DO NOT READ) Don't know

R (DO NOT READ) Refused

Focus Group Methodology

On behalf of the Safe Small-Dollar Loans Research Project, Hart Research Associates and Public Opinion Strategies conducted eight two-hour focus groups, with two groups per location in New York City, New York; Chicago, Illinois; Birmingham, Alabama; and Manchester, New Hampshire. Those groups were conducted during weekday evenings from September 7, 2011 through September 19, 2011. The Safe Small-Dollar Loans Research Project conducted two additional groups in San Francisco, California, on November 16, 2011. All quotations come from these 10 focus groups.

APPENDIX A

EXHIBIT 14:

PAYDAY LOAN BORROWER DEMOGRAPHIC SNAPSHOT

Demographic	Percentage of All Payday Borrowers	Percentage of All American Adults
Renters	58	35
Homeowners	41	65
Single	24	31
Living with partner	14	N/A*
Married	33	50
Separated/divorced	25	13
Widowed	4	6
Full-time employed	49	59**
Part-time employed	13	
Unemployed	14	6
Disabled	8	N/A*
Retired	8	23
Homemaker	5	6
Student	3	5
Income <$15,000	25	13
Income $15,000 to under $25,000	24	11
Income $25,000 to under $30,000	11	
Income $30,000 to under $40,000	13	25**
Income $40,000 to under $50,000	8	
Income $50,000 to under $75,000	10	19
Income $75,000 to under $100,000	5	12
Income $100,000+	1	21
White (non-Hispanic)	55	64
African American (non-Hispanic)	23	12
Hispanic	14	16
Other race/ethnicity	6	8
Ages 18-24	12	13
Ages 25-29	16	9
Ages 30-34	12	9
Ages 35-39	11	9
Ages 40-44	13	9
Ages 45-49	11	10
Ages 50-54	10	10
Ages 55-59	5	8
Ages 60-64	5	7
Ages 65-69	3	5
Ages 70+	3	12
Parent	38	30
Non-parent	62	70
<High school	16	15
High school	38	29
Some college	31	30
College	11	16
Postgrad	3	9
Male	48	49
Female	52	51

This table describes the demographic characteristics of payday loan users overall, based on responses to Pew's survey. For example, 58 percent of all payday loan users rent (as opposed to own) their homes. For more on the survey, see the Methodology.

NOTES: All payday borrower data come from payday borrowers identified through 33,576 interviews conducted from August through December 2011 on behalf of Pew's Safe Small-Dollar Loans Research Project.

All comparative data except for employment status come from the Census Bureau's 2010 Decennial Census, the 2006–2010 American Community Survey 5-Year Estimates, and the 2008–2010 American Community Survey 3-Year Estimates. Employment status data come from a three-month average (March, April, and May 2012) of the NBC News/*Wall Street Journal* Survey, a nationally representative monthly telephone survey.

Data may not equal 100 percent due to rounding or because respondents declined to answer.

Marital status is based on residents 15 years of age and older. Educational attainment is based on adults 25 to 64 years of age. Other data, including Pew's survey data, represent adults 18 years of age and older.

*N/A Certain data were unavailable and/or are not comparable to Pew's survey.

**The Census uses slightly different income and employment categories in its survey.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012; U.S. Census Bureau; NBC News/*Wall Street Journal* Survey.

Modeling the Likelihood of Borrowing by Demographics

To test the relationship between specific demographics and payday loan usage, Pew developed a statistical model to analyze the predictive strength of each demographic while holding all others constant. For example, the model tests whether there is a strong relationship between renting a home and borrowing a payday loan, regardless of a borrower's other characteristics such as income. The following eight demographics were examined and compared with those people who were not in the selected category (e.g., those who have annual household incomes below $40,000 are compared with those who have annual household incomes of $40,000 or higher).

- Ages 25 to 34
- Annual household income below $40,000
- Parents (with minor, financially dependent children)
- Some college education or less
- Renters
- African Americans
- Females
- Marital status is separated or divorced

It is important to reiterate that a limitation of our analysis is the time frame. While the survey recorded current demographics, payday loan borrowers were asked about loans they had taken out in the past five years. We are not implying any causality, and it would be incorrect to assume that certain characteristics are necessarily causing an increase in payday loan usage. Rather, the findings show strong relationships between certain characteristics and payday loan usage, many of which previous studies also have identified.[68]

In interpreting the logistic regression, the analysis focuses especially on the odds ratio, which shows the likelihood of payday loan usage based on the presence of a particular characteristic.

All relationships are significant at the 99 percent confidence level, with the exception of gender. This is not a surprising finding, as differences between males and females in Pew's initial analysis were slight and sometimes decreased when other variables were introduced. Thus, it is likely that the initial difference in usage by gender is being caused by other characteristics that correlate with gender, such as parental status or income.

Again, the baseline for payday loan usage is 5.5 percent across all adults. The figures resulting from this analysis describe only how much more likely it is that one type of person is to have used payday loans relative to another.

EXHIBIT 15:

LOGISTIC REGRESSION ANALYSIS OF LIKELIHOOD OF PAYDAY LOAN USAGE BY SELECT DEMOGRAPHICS

The percentages described in the body of the report as coming from a logistic regression model are derived from the Odds Ratio, and are calculated by subtracting 1 from the Odds Ratio. Thus, those who are Separated or Divorced, with an Odds Ratio of 2.034, are 103.4 percent more likely to have used a payday loan.

	Coefficient ß	S.E. ß	Wald's X^2	Odds Ratio
AfAm	0.717***	0.073	95.322	2.048
SepDiv	0.71***	0.072	96.729	2.034
NonCollege	0.6***	0.088	46.295	1.823
Income<$40k	0.479***	0.071	45.167	1.615
Rent	0.452***	0.066	47.118	1.572
Parent	0.352***	0.065	29.246	1.422
Age25to34	0.349***	0.071	23.786	1.417
Female	-0.122**	0.062	3.928	0.885
Constant	-3.94	0.093	1781.417	0.019

NOTE: * p<.10, ** p <.05, and *** p<.01.

SOURCE: Pew Safe Small-Dollar Loans Research Project, 2012.

Endnotes

1 David Burtzlaff and Brittny Groce. "Payday Loan Industry," (2011). Stephens Inc.

2 Marketers of payday loans routinely characterize the products as short-term solutions that are not meant to be used for long periods of time. For example, the Financial Service Centers of America (FiSCA), an industry trade group, describes a payday advance as a "short-term loan to cover expenses between paydays." "FiSCA Consumer Financial Services Factsheet," available at http://www.fisca.org/Content/NavigationMenu/ConsumerCenter/ConsumerFactSheet/CONSUMERCENTER-ConsumerFactSheet_Final_withlogo.pdf (accessed March 30, 2012).

3 Pew's research shows that the vast majority of borrowers report obtaining their loans from retail storefronts, which are non-bank, state-licensed entities that specialize in this form of lending. However, payday and similar types of loans are available online and from a growing number of banks. A small number of national and regional banks have developed small-dollar loan products that mimic or closely resemble conventional payday loans. These bank products are sometimes called "deposit advance" loans. The acting chairman of the Federal Deposit Insurance Corporation (FDIC) recently expressed "deep concern" about banks engaging in payday lending and announced an intention to investigate this trend. See FDIC letter at www.responsiblelending.org/payday-lending/policy-legislation/regulators/fdic-invests-bank-payday-lending.html.

4 In the fall of 2011, Pew contracted with research firms to hold focus groups of current and former payday loan borrowers. Participants told their stories and discussed a variety of questions related to their use of payday loans and other financial products. Deborah's story and her quotations are taken from one such focus group, which was conducted in New Hampshire (Deborah discussed experiences with storefront payday lenders that occurred prior to 2009, when New Hampshire enacted a 36 percent annual interest rate cap that effectively eliminated storefront payday lending in that state). "Deborah" is not the borrower's real name. We have used a pseudonym to protect the participant's privacy, but all other details are unaltered.

5 In 2011, the average payday loan at the nation's largest payday lender—Advance America—was $375, based on its annual report. Industry analyst Stephens Inc. uses Advance America as a proxy for the payday lending industry. Stephens Inc., "Payday Loan Industry," (2011).

6 Fees from online lenders often are higher, averaging $25 per $100 borrowed per two weeks, or 652 percent APR. Consumer Federation of America, "CFA Survey of Online Payday Loan Websites," (2011). See www.pewtrusts.org/small-loans for more information on state payday lending laws.

7 Although payday loans are not a new form of credit, the modern payday lending industry arose in the 1990s when a number of states modified their consumer lending laws, enacting special exceptions to interest rate caps and other laws that had traditionally regulated credit. See www.pewtrusts.org/small-loans for more information on the history of payday lending laws.

8 This calculation is based on a borrower using eight loans (the average number used annually according to state reports) for 18.2 days (the average duration of a payday loan, according to Advance America's annual (10-K) report). Multiplying these figures indicates an average of 146 days of indebtedness per year.

ENDNOTES

9 Leslie Parrish and Uriah King, "Phantom Demand," (Center for Responsible Lending, June 2009), http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf.

10 Oklahoma probably is not an outlier, as the average number of loans used by borrowers in Oklahoma per year (8.7) is similar to the average from other states, based on state reports. Calculations use data in "Oklahoma Trends in Deferred Deposit Lending, 2010," www.ok.gov/okdocc/documents/2010_10_OK%20Trends_Final_Draft.pdf.

11 Payday and similar types of loans are available online and from a growing number of banks; however, Pew's research shows that the vast majority of borrowers report obtaining their loans from retail storefronts, which are non-bank, state-licensed entities that specialize in this form of lending.

12 A study funded by the payday lending industry found that 78 percent of borrowers take out five or more payday loans each year; Gregory Elliehausen, "An Analysis of Consumers' Use of Payday Loans," *Financial Services Research Program Monograph* No. 41, (George Washington University, 2009). Another study by consumer advocacy group Center for Responsible Lending found that Oklahoma borrowers who use payday loans take out an average of nine loans in their first year of borrowing; Uriah King and Leslie Parrish, "Payday Loans, Inc.: Short on Credit, Long on Debt," (Center for Responsible Lending, 2011). See also: "Report on the Business of Providing Deferred Presentment Service Transactions in Michigan," (2007), www.michigan.gov/documents/cis/OFIS_DPST_REPORT_204749_7.pdf; and "Florida Trends in Deferred Presentment," (2010), www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf.

13 Robert DeYoung and Ronnie J. Phillips. "Payday Loan Pricing," (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

14 Stephens Inc., "Payday Loan Industry," (2011).

15 Michael A. Stegman and Robert Faris, "Payday Lending: A Business Model that Encourages Chronic Borrowing," *Economic Development Quarterly* (2003), www.ccc.unc.edu/abstracts/0203_Payday.php.

16 Our 5.5 percent payday loan usage number closely mirrors the 5 percent number found by the FINRA Foundation in their telephone survey conducted in 2009; Applied Research and Consulting, "Financial Capability in the United States," prepared for the FINRA Investor Education Foundation, (2009). It is somewhat higher than the 3.5 percent of households who reported ever having used payday loans in the 2009 FDIC supplement to the Current Population Survey; "Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services," (2010), www.fdic.gov/householdsurvey/AFS_Addendum.pdf). The number also is higher than the 3.9 percent of households who reported having used a payday loan in the past year in the Federal Reserve Board's Survey of Consumer Finances, although that survey asked just about the past year, whereas our survey asked about the past five years; www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf. Earlier research has found and discussed evidence of known payday loan borrowers denying their usage of these loans in survey research: Gregory Elliehausen and Edward Lawrence, "Payday Advance Credit In America: An Analysis Of Customer Demand," (Monograph #35, 2001); Dean Karlan and Jonathan Zinman, "Lying About Borrowing," *Journal of the European Economic Association Papers and Proceedings* (2007); and Applied Management & Planning Group and Analytic Focus, "2007 Department of Corporations Payday Loan Study," (2008). To minimize underreporting in this survey, borrowers were asked about payday loan usage as part of an omnibus poll that covered mostly non-financial topics. In addition, the questions about payday loans were asked well into the survey, giving the interviewer a chance to establish a rapport with respondents before asking about this relatively sensitive issue.

ENDNOTES

17 The margin of error for payday loan usage in the omnibus survey is +/-0.2 percentage points. Margins of error for subgroups are included on our website at www.pewtrusts.org/small-loans.

18 We calculate the number of unique payday loan borrowers in 2010 using three different methods that all point toward roughly 12 million people having used payday loans that year. Based on our survey data, 18 percent of traditional payday loan borrowers (storefront or online, not other sources such as employers or banks) are borrowing exclusively online. All of these calculations refer to storefront data and then treat that population as 82 percent of the universe of payday loan borrowers, adding in the online-only borrowers afterwards. All of these calculations also utilize the Stephens estimate that there were 19,700 payday lending stores in the U.S. in 2010. Numbers have been rounded to avoid giving the impression that these calculations are precise, because they all involve reliance on data that are either incomplete or from a handful of states. Thus, each of these calculations is likely flawed because of data limitations, but the results cluster around, and average, 12 million borrowers.

Method 1: *Estimating transactions per store, multiplying by the number of stores, and dividing by the number of loans per borrower.*

We used the data from the 2010 published state payday loan reports that include number of transactions and number of storefronts: California, Florida, Oklahoma, and Washington. States that had reports from previous years but not reports based on 2010 data were reviewed but not included, such as Illinois, Michigan, North Dakota, and Virginia. Dividing the number of payday loan transactions by the number of payday loan stores yields 4,236 payday loans per store in 2010. Multiplying that figure by 19,700 yields 83.4 million loans. Dividing this figure by the eight loans per borrower figure, which is the average in the state reports, implies just over 10.4 million borrowers. Adding back in the 18 percent of borrowers who are borrowing only online adds to roughly 12.7 million.

Method 2: *Using the state reports to record or derive the number of unique borrowers in each state, and dividing by the number of stores in those states to create a borrowers per store ratio.* This calculation, based on the three states with published 2010 data on unique borrowers (Florida, Oklahoma, and Washington), yields a figure of approximately 486 unique borrowers per store. We then multiply that ratio by the number of stores in the country to reach roughly 9.6 million. Adding back in the 18 percent of borrowers who are borrowing only online adds to roughly 11.7 million.

Method 3: *Recording the number of unique borrowers in the reported states, dividing that figure by the adult population to determine a usage rate, and then multiplying that figure by the population in all of the states where payday loans are allowed.* Using this method gives us a usage rate of 4.8 percent in the states that publish detailed reports. Seventy-one percent of the population lives in states that have payday loan stores, while 29 percent do not. We multiply the 4.8 percent by the 163 million adults who live in states with stores, and then multiply the other 66 million adults by 1.2 percent, because our survey data show that storefront usage in restrictive states is one-fourth the level that it is in other states. This calculation suggests 8.7 million storefront borrowers, somewhat lower than the other methods. One reason for this disparity may be that most of the highest-usage states do not publish reports, so the 4.8 percent usage figure we derived may be slightly lower than the true usage figure in nonrestrictive states. Adding back in the 18 percent of borrowers who are only online would yield an estimate of 10.6 million borrowers per year.

19 This figure of 12 million borrowers is lower than some earlier estimates of payday loan usage, which may be partially explained by the fact that payday lenders have left some states because of regulations, and by high unemployment (given that a regular income stream is a prerequisite for obtaining a payday loan). Social insurance programs for individuals out of work also may provide an income stream on which a payday loan can be secured. Nonetheless, the high rate of unemployment in recent years and particularly the unprecedented rates of the unemployed who have been out of work for an extended period of time likely have a dampening effect on overall payday loan usage. The estimate of 12 million borrowers refers only to those using payday loans from storefronts or the Internet, not those using payday loans from banks, employers, or other sources.

ENDNOTES

20 Amanda Logan and Christian E. Weller, "Who Borrows from Payday Lenders?" (2009); Gregory Elliehausen, "An Analysis of Consumers' Use of Payday Loans," *Financial Services Research Program*, Monograph #41. (2009).

21 This figure is the average number of loans used based on the 2010 state reports from Florida, Oklahoma, and Washington. It also is consistent with data released by other states that either lack a database or did not publish a 2010 report, such as Michigan's 2007 data, Virginia's 2008 data, and California's data from 2006-2010.

22 "Florida Trends in Deferred Presentment," Program Status Report, (May 2010), www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf.

23 In 2011, the average payday loan at the nation's largest payday lender—Advance America—was $375, based on its annual (10-K) report. Industry analyst Stephens Inc., uses Advance America as a proxy for the payday lending industry. Stephens Inc. "Payday Loan Industry," (2011).

24 This figure is based on using the average loan size ($375 in Advance America's 2011 Annual Report), the average number of times (eight—based on data in state reports) in a year. Three quarters of these are storefront loans, charging an average of $55 per loan, based on the average fee disclosed in Advance America's 2011 Annual Report, and similar fees in the other publicly traded lenders' annual reports. Roughly one-quarter are online loans, charging an average of $95 for an equivalent loan, based on the rates cited by industry analyst Stephens Inc., in its 2011 report. Six fees of $55 and two fees of $95 yield our estimate of $520 spent by each borrower. If all eight loans came from a storefront, this figure would be $440, while if all eight loans were obtained online, the figure would rise to $760. These calculations assume the borrower does not incur any extra fees. The Center for Responsible Lending has made similar calculations in its publications, finding that a typical borrower pays back $793 on a $325 loan, spending $468 on interest. This calculation was based on storefront lending and was made before online lending had expanded to its present level with higher interest rates charged. See Uriah King, Leslie Parrish, and Ozlem Tanik. "Financial Quicksand: Payday Lending Sinks Borrowers in Debt with $4.2 Billion in Predatory Fees Every Year," (November 2006), http://www.responsiblelending.org/payday-lending/research-analysis/financial-quicksand-payday-lending-sinks-borrowers-in-debt-with-4-2-billion-in-predatory-fees-every-year.html.

25 Robert DeYoung and Ronnie J. Phillips, "Payday Loan Pricing," (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

26 Previous surveys also have found that a substantial percentage of borrowers use payday loans to cover regular household expenses and other nonemergency needs. A 2007 study conducted for the California Department of Corporations reports that half of borrowers (50.2 percent) selected "pay other bills" as their reason for using a payday loan (an additional 22.3 percent selected "groceries/necessary household goods"). The "pay other bills" category is separate from groceries/necessary household goods, emergency situations, car repairs, and medical services. While categories differ slightly between each survey, both surveys separate regular expenses from food/groceries, emergencies, car repairs, and other, therefore providing a comparable benchmark for usage; Applied Management Planning Group and Analytic Focus, "2007 Department of Corporations Payday Loan Study," (2008), www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf. Also, the Federal Reserve's 2010 Survey of Consumer Finances (SCF), which asks about the most recent payday loan, found 42.4 percent of borrowers indicated it was for an emergency "and similar urgent needs or a lack of other options." The difference in overall incidence (3.9 percent payday usage in the 2010 survey) between Pew's results and results from the SCF may be explained by differences in time period queried (five-year versus one-year time span). The large difference in reason for usage in the "emergency" category is likely a result of survey wording, or including "a lack of other options" in the SCF question, which makes its emergency category far broader. Pew's survey question was seeking to capture something different than the SCF, to ascertain the purpose of the loan ("emergency"), without attempting to combine that with why the borrower chose a payday loan provider ("lack of other options"). A borrower may have both a regular

ENDNOTES

expense and a lack of other options, or an emergency expense but multiple options, so we did not seek to pair the reason for a loan with the reason for choosing a payday loan provider. SCF data are available at http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf.

27 The industry's largest trade association, Community Financial Services Association of America (CFSA), as well as many payday loan companies, note on their websites and in advertisements that payday loans are an expensive form of credit and intended for short-term or emergency use, and not as long-term solutions. For examples, see websites for CFSA (http://cfsaa.com), QC Holdings (www.QCholdings.com), and Cash America (www.cashamerica.com/loanoptions/cashadvances.aspx). See also: Gregory Elliehausen and Edward C. Lawrence, "Payday Advance Credit in America: An Analysis of Customer Demand," (April 2001), 37, 40; and Gregory Elliehausen, "An Analysis of Consumers' Use of Payday Loans," (January 2009). "While payday loans might rarely if ever make sense for financing household investment directly, payday loans may provide rationed borrowers with a source of emergency funds that allows greater levels of debt-financed investment," as quoted from www.cfsaa.com/portals/0/RelatedContent/Attachments/GWUAnalysis_01-2009.pdf.

28 See endnote 12.

29 Parrish and King, "Phantom Demand," (2009).

30 The exact figure is 18.2 days, and comes from the 2011 Annual Report (10-K) filed with the Securities and Exchange Commission by the largest storefront payday lender, Advance America.

31 For example, the website of Check Into Cash, one of the largest payday lenders, notes that a payday loan "is not intended to be used as a long-term budget solution." Available at: http://checkintocash.com/faq/how-often-do-most-people-use-cash-advance-services/.

32 The industry's largest trade association, Community Financial Services Association of America (CFSA), provides a detailed overview of the industry and product on its website (http://cfsaa.com).

33 Quoted from Advance America direct mail piece "Your Line's Slowed. Your Bills Haven't," (2011).

34 Quoted from QC Holdings website, www.QCholdings.com.

35 These estimates vary somewhat based on the law, and especially the minimum loan term, in the state analyzed, but the most detailed analysis is the Center for Responsible Lending's finding of 212 days of indebtedness for Oklahoma borrowers in *Payday Loans, Inc.*

36 Robert DeYoung and Ronnie J. Phillips, "Payday Loan Pricing," (Federal Reserve Bank of Kansas City Economic Research Department, 2009), www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf.

37 James A. Ovenden, "Quarterly Earnings Call, Advance America," Q2, (2011), http://seekingalpha.com/article/283283-advance-america-cash-advance-centers-ceo-discusses-q2-2011-results-earnings-call-transcript.

38 Stephens Inc., "Payday Loan Industry," (2011).

39 Community Financial Services Association of America (CFSA) Member Best Practices, http://cfsaa.com/cfsa-member-best-practices.aspx.

40 California Department of Corporations "Table 7: Amount of Referral Bonus Offered," www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf.

41 Information from CashNetUSA website, www.cashnetusa.com/rewards.html.

42 UNC Center for Community Capital, "North Carolina Consumers After Payday Lending," (2007), www.ccc.unc.edu/documents/NC_After_Payday.pdf.

43 Applied Management & Planning Group and Analytic Focus, "2007 Department of Corporations Payday Loan Study," (2008), www.corp.ca.gov/Laws/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf.

44 Texas Appleseed, "Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas," (2009), www.appleseednetwork.org/Portals/0/Documents/Publications/Center%20Pubs/TX%20Payday%20Lending.pdf.

45 Missouri Division of Finance. "Report to General Assembly on Survey of Payday Lenders," (2011), http://finance.mo.gov/consumercredit/documents/2011PaydayLenderSurvey.pdf.

ENDNOTES

46 Subsequent to passing legislation authorizing payday lending, Arizona, Arkansas, the District of Columbia, Georgia, Montana, North Carolina, and New Hampshire reimposed double-digit usury caps on deferred presentment transactions, allowed the authorizing legislation to expire, or prohibited the transaction. Colorado, Florida, Maine, Minnesota, Oregon, Rhode Island, Virginia, and Washington have lowered permissible loan fees while retaining triple-digit annual percentage rates, implemented structural requirements to permit borrowers multiple pay periods to repay their loans, or limited to the single digits the number of payday loans per borrower per year. Ohio passed legislation and also passed a ballot initiative restricting interest on payday loans to 28 percent APR, but payday lending has continued with effective loan terms and APRs that often are similar to those before the law change.

47 Stephens Inc., "Payday Loan Industry," (2011).

48 Steven Graves and Christopher Peterson, "Usury Law and the Christian Right: Faith-Based Political Power and the Geography of American Payday Loan Regulation," *Catholic University Law Review*, Vol. 57, 2008: 637.

49 Robert B. Avery and Katherine A. Samolyk, "Payday Loans versus Pawn Shops: The Effects of Loan Fee Limits on Household Use," (preliminary draft, 2011).

50 For example, "House Mulls Reviving Payday Loans," *New Hampshire Business Review*, www.nhbr.com/businessnewsstatenews/935663-257/house-panel-mulls-reviving-payday-loans.html.

51 Consumer Federation of America, "CFA Survey of Online Payday Loan Websites," (2011).

52 "Analysis: U.S. Payday Lenders Point Fingers to Blunt Crackdown," *Reuters*, (January 20, 2012), www.reuters.com/article/2012/01/20/us-financial-regulation-payday-idUSTRE80I04R20120120.

53 This section includes results reported to two decimal places, but this reporting is not intended to suggest a greater level of precision. Rather, two decimal places are used in order to avoid inaccurate calculations between groupings that could be caused by rounding to one decimal place or the nearest integer. Even with these large sample sizes, there is a degree of sampling error. It is possible, therefore, that the actual number of would-be storefront borrowers who are going online is slightly lower or higher, because the results reported are based on survey research, and thus have a margin of error. These figures are fairly consistent with estimates from Stephens Inc., that roughly one-quarter of payday loan volume is online. Our survey data suggest just under one-quarter of traditional (storefront or online, but not "other") payday loan borrowers have borrowed online. Note that the 7 percent "other" finding may include products from banks or employers but should not be taken as a general estimate of bank payday or "deposit advance" lending.

54 This finding that storefront payday borrowing is lower in Restrictive states is consistent with prior research. Examples include: Applied Research & Consulting, "Financial Capability in the United States," (2009); and "Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services," (2010), www.fdic.gov/householdsurvey/AFS_Addendum.pdf.

55 These figures are based on our analysis of state-by-state storefront data from Graves and Peterson, "Usury Law and the Christian Right," (2008). Peterson and Graves' data were used because of the level of detail, recording individual storefronts by ZIP code. The same calculations using Stephens' 2006 data yield similar results, with 10.71 storefronts per 100,000 residents in now-Restrictive states, and 11.50 storefronts per 100,000 residents in now-Permissive states, or 6.9 percent fewer. To calculate storefronts per capita, we obtained population estimates from the 2006 American Community Survey (available at www.factfinder2.census.gov). We selected 2006 because none of these states had begun to change their regulatory structure yet, and detailed data on storefronts by state were available. Restrictive states either cap payday loan interest rates at double-digit APRs or prohibit deferred presentment transactions. Permissive states either do not cap interest rates or tend to cap them at 391 percent APR or higher, and generally allow the entire loan to be due on a borrower's next payday. Alaska and Hawaii are included in this example and in all exercises that do not rely on the survey data.

ENDNOTES

56 Similarly, there is little difference in Internet access between Restrictive and Permissive states. Data from the U.S. Census Bureau's 2012 Statistical Abstract (Table 1156) show that at least 70 percent of people in every state report having Internet access. In both the average Permissive state and average Restrictive state, exactly 80 percent of residents report having Internet access either inside or outside the home. If this calculation is limited to in-home access, in the average Restrictive state 72 percent of residents have Internet access, compared with 71 percent in the average Permissive state. Data available at www.census.gov/compendia/statab/cats/information_communications/internet_publishing_and_broadcasting_and_internet_usage.html.

57 For example, the North Carolina Commissioner of Banks report using 1999 data notes more than 2.9 million payday loan transactions were made in the state, www.nccob.gov/Public/docs/News/Pub%20And%20Research/Check%20Cashers%20Report%20to%20Gen%20Assembly.pdf. Or for a discussion of payday lending in North Carolina and Georgia, including figures on stores in those states operated by major national lenders, see Donald P. Morgan and Michael R. Strain, "Payday Holiday: How Households Fare after Payday Credit Bans," (2007).

58 During the period of inquiry in our survey, the five years prior to the survey being administered, or roughly late 2006 to early 2012, 10 states implemented substantial changes to the laws regulating payday lending in their state. Five jurisdictions—Arizona, Arkansas, the District of Columbia, Montana, and New Hampshire—became newly Restrictive between January 2008 and January 2011. In Arizona, the legislation authorizing payday lending in the state expired; the other four jurisdictions implemented double-digit APR rate caps. Five additional states moved into the Hybrid category in recent years. Colorado and Virginia implemented longer minimum loan terms, among other regulations, and Rhode Island lowered the fees that may be charged for a payday loan. Washington State capped at eight the number of loans borrowers may take out each year. Oregon reduced allowable fees and now requires a 31-day minimum loan term.

59 Signe-Mary McKernan, Caroline Ratcliffe, and Daniel Kuehn. "Prohibitions, Price Caps, and Disclosures: A Look at State Policies and Alternative Financial Product Use" Urban Institute, (November 2010).

60 This publication does not present data related to the issue of whether borrowers could be substituting other forms of credit for storefront payday loans.

61 For example, "House Mulls Reviving Payday Loans," *New Hampshire Business Review*, www.nhbr.com/businessnewsstatenews/935663-257/house-panel-mulls-reviving-payday-loans.html.

62 For example, Alexandra Alper, "Complaints vs. Banks Drop, Payday Lenders Rise," *Reuters*, (March 1, 2012), www.reuters.com/article/2012/03/01/financialregulation-bbb-idUSL2E8E1FMB20120301.

63 The Better Business Bureau reports that complaints against payday lenders increased 159 percent from 2010 to 2011. Figure available at: http://tulsa.bbb.org/article/Complaints-Down-But-Huge-Jump-in-Inquiries-Means-Shoppers-Are-Doing-Their-Homework-33509.

64 "Washington State Department of Financial Institutions, 2010 Payday Lending Report," www.dfi.wa.gov/cs/pdf/2010-payday-lending-report.pdf.

65 Data obtained by Pew in telephone calls and e-mails with state regulators.

66 These figures are fairly consistent with estimates from Stephens Inc., that roughly one-quarter of payday loan volume is online. Our survey data suggest just under one-quarter of traditional (storefront or online, but not "other") payday loan borrowers have borrowed online. Note that the 7 percent "other" finding may include products from banks or employers but should not be taken as a general estimate of bank payday or "deposit advance" lending.

67 "Digital Differences," Pew Internet & American Life Project, (2012), www.pewinternet.org/~/media//Files/Reports/2012/PIP_Digital_differences_041312.pdf.

68 McKernan, Ratcliffe, and Kuehn. "Prohibitions, Price Caps, and Disclosures," (2010).

The Safe Small-Dollar Loans Research Project focuses on small-dollar credit products such as payday and automobile title loans, as well as emerging alternatives. The project works to find safe and transparent solutions to meet consumers' immediate financial needs.

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PAYDAY LENDING
IN AMERICA:
REPORT 2

How Borrowers Choose and Repay Payday Loans

February 2013

This is the second report in a series, *Payday Lending in America*, that presents original research findings from Pew's safe small-dollar loans research project on how to create a safe and transparent marketplace for those who borrow small sums of money.

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SAFE SMALL-DOLLAR LOANS RESEARCH PROJECT

FEBRUARY 2013

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The report benefited from the insights and expertise of an external reviewer, Alan M. White, professor of law at the City University of New York. Additionally, survey research expert Mike Mokrzycki reviewed the report and provided valuable feedback in the design of our survey and methodology. These experts have found the report's approach and methodology to be sound; neither they nor their organizations necessarily endorse its conclusions.

For additional information, please visit www.pewtrusts.org/small-loans.

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Contents

Introduction

Twelve million Americans take out payday loans each year when they are in difficult financial situations. As they weigh choices for addressing a cash shortfall, payday borrowers consider both formal credit and informal options, including cutting back on expenses, borrowing from family or friends, delaying bills, or selling or pawning items, as described in Pew's first payday lending report.[1] Borrowers mostly describe themselves as trying to keep up with their expenses, often by using noncredit alternatives rather than explicitly comparing credit options. They are very familiar with debt and are not eager to take on more.

In deciding whether to borrow from a payday lender, more than 3 in 4 borrowers rely on lenders to provide accurate information about the product, and lenders describe loans as "safe,"[2] "a sensible financial choice,"[3] and "the best alternative to meet their current needs"[4] for a "one-time fixed fee."[5] The product's stated two-week duration appeals to the borrower's desire for a quick cash infusion as well as the conflicting desire not to be in ongoing debt. In reality, both desires cannot be met. But a payday loan's unrealistically short repayment period suggests otherwise by enabling people in difficult situations to think that the loan can solve their problem at an affordable fixed cost so they can avoid asking for help, cutting back further, or creating another ongoing bill.

The ultimate cost and duration of the loans are highly unpredictable and bear little resemblance to their two-week packaging. Average borrowers end up indebted for five months, paying $520 in finance charges for loans averaging $375,[6] largely because they see their only choices as making a lump-sum repayment retiring their entire debt, which they cannot afford, or paying fees to continuously pay back and re-borrow the loan, which they can afford but which does not reduce what they owe. Once they have borrowed, neither choice is viable, leaving them indebted far beyond their next payday. This experience leaves borrowers torn—grateful to have received respectful customer service and credit when they sought it, but feeling taken advantage of by the loan's cost and frustrated by the difficulty of repayment.

This report, "How Borrowers Choose and Repay Payday Loans," the second in Pew's *Payday Lending in America* series, answers several important questions: If payday loans are unaffordable, why do people choose them? How can they eventually pay them back at all? And what are the consequences of using a loan that is so difficult to repay?

This report looks at individuals' decision processes to see why they borrow instead of cutting back expenses or choosing other options, and how they fare using the loans. The results indicate that the choice to use a payday loan often leaves borrowers needing to use these other alternatives to ultimately pay off the loan. Many payday borrowers find themselves overdrafting their checking accounts, indebted for the long term, or borrowing from family and friends anyway to repay their loan—options that were available to them instead of a payday loan in the first place.

The findings will demonstrate to policymakers and other readers the significant failures in the small-dollar loan marketplace, where millions of cash-strapped individuals are using payday loans that they cannot afford to repay in full by the nominal due date. Yet the loans continue to be marketed as a fixed-price, short-term solution. The Consumer Financial Protection Bureau has the authority to regulate payday lending at the federal level, along with prudential bank regulators such as the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. As these regulators are aware, some banks are also participating in the small-dollar lending market through their deposit advance loan products. At the state level, policymakers have several options. Some have chosen to eliminate payday lending stores, and these policies have been effective at reducing payday loan usage without driving an increase in online or other forms of payday lending. In other states, policymakers have sought to mitigate the potential harm of high-interest credit by capping rates below the industry average, limiting usage, or requiring that borrowers be allowed more than two weeks to repay the loan. But in a majority of states, none of these protections are in place.

Key Findings of this Report

1 Fifty-eight percent of payday loan borrowers have trouble meeting monthly expenses at least half the time. These borrowers are dealing with persistent cash shortfalls rather than temporary emergencies.

2 Only 14 percent of borrowers can afford enough out of their monthly budgets to repay an average payday loan. The average borrower can afford to pay $50 per two weeks to a payday lender—similar to the fee for renewing a typical payday or bank deposit advance loan—but only 14 percent can afford the more than $400 needed to pay off the full amount of these non-amortizing loans. These data help explain why most borrowers renew or re-borrow rather than repay their loans in full, and why administrative data show that 76 percent of loans are renewals or quick re-borrows while loan loss rates are only 3 percent.

3 The choice to use payday loans is largely driven by unrealistic expectations and by desperation. Borrowers perceive the loans to be a reasonable short-term choice but express surprise and frustration at how long it takes to pay them back. Seventy-eight percent of borrowers rely on lenders for accurate information, but the stated price tag for an average $375, two-week loan bears little resemblance to the actual cost of more than $500 over the five months of debt that the average user experiences. Desperation also influences the choice of 37 percent of borrowers who say they have been in such a difficult financial situation that they would take a payday loan on any terms offered.

4 Payday loans do not eliminate overdraft risk, and for 27 percent of borrowers, they directly cause checking account overdrafts. More than half of payday loan borrowers have overdrafted in the past year. In addition, more than a quarter report that overdrafts occurred as a result of a payday lender making a withdrawal from their account. Although payday loans are often presented as an alternative to overdrafts, most payday borrowers end up paying fees for both.

5 Forty-one percent of borrowers have needed a cash infusion to pay off a payday loan. Many of these borrowers ultimately turn to the same options they could have used instead of payday loans to finally pay off the loans, including getting help from friends or family, selling or pawning personal possessions, or taking out another type of loan. One in six has used a tax refund to eliminate payday loan debt.

6 A majority of borrowers say payday loans take advantage of them, and a majority also say they provide relief. The appreciation for urgently needed cash and friendly service conflicts with borrowers' feelings of dismay about high costs and frustration with lengthy indebtedness.

7 By almost a 3-to-1 margin, borrowers favor more regulation of payday loans. In addition, two out of three borrowers say there should be changes to how payday loans work. Despite these concerns, a majority would use the loans again. In a state where payday storefronts recently stopped operating, former borrowers are relieved that payday loans are gone and have not sought them elsewhere.

Summary of Report 1—Who Borrows, Where They Borrow, and Why (2012)

Although payday loans are characterized as a short-term solution for unexpected expenses, most borrowers use them for everyday bills. The average borrower is in debt for five months during the year, spending $520 on interest.

1 Who Uses Payday Loans? Twelve million American adults use payday loans annually. Pew's survey found that most payday loan borrowers are white, most are female, and most are 25 to 44 years old. However, after controlling for other characteristics, there are five groups that have higher odds of having used a payday loan: home renters, those earning below $40,000 annually, those without a four-year college degree, those who are separated or divorced, and African Americans.

2 Why Do Borrowers Use Payday Loans? Sixty-nine percent of first-time payday borrowers used the loan to cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food, while 16 percent dealt with an unexpected expense, such as a car repair or emergency medical expense.

3 What Would Borrowers Do Without Payday Loans? If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses such as food and clothing. Majorities also would delay paying bills, borrow from family or friends, or sell or pawn possessions.

4 Does Payday Lending Regulation Affect Usage? In states that enact strong legal protections, the result is a large net decrease in payday loan usage (overall usage is 2.9 percent in the most stringently regulated states, compared with 6.6 percent in states with the least regulation). Borrowers are not driven to seek payday loans online or from other sources as a result of state regulation. In states with no stores, just 5 out of every 100 would-be borrowers choose to obtain payday loans online or from alternative sources, while 95 choose not to use them.

Report 1 findings were based largely on 33,576 interviews from an omnibus survey, 451 follow-up interviews with storefront payday loan borrowers, and state regulatory and industry data. For more information and a copy of Report 1, see www.pewtrusts.org/small-loans.

1 Payday Borrowers Routinely Struggle to Meet Expenses

"I'm like everybody else, living paycheck to paycheck, still not having enough to come through at the end."

—Online borrower, Manchester, NH

Most payday borrowers are dealing with persistent cash shortfalls. The Pew survey found that 58 percent of payday loan borrowers have trouble meeting their regular bills at least half the time, including more than one-third who say they have trouble meeting their bills most of the time. Just 1 in 7 never have trouble meeting their regular monthly bills and expenses.

These findings reinforce those of Pew's first paper in the *Payday Lending in America* series: Although payday loans are frequently described as intended for unexpected expenses, keeping up with regular bills is the primary reason that borrowers use payday loans.[7] That study found that 69 percent of storefront borrowers reported using their first payday loan to meet a recurring expense, and just 16 percent said it was for an unexpected expense. Pew's survey data specifically covering online borrowers show similar results, at 73 percent and 16 percent, respectively.

"For instance, like today is what, sixth, seventh? The rent is due on the first. I didn't pay it. I will in the next few days, but it seems like I'm always struggling to catch up in order to stay afloat."

—Online borrower, New York

"It seems like you never catch up, and it, it's just check-to-check, and something breaks down, and the house needs work, kids have school; just never catch up." [And how long have you felt that way?] "Twenty years."

—Storefront borrower, Chicago

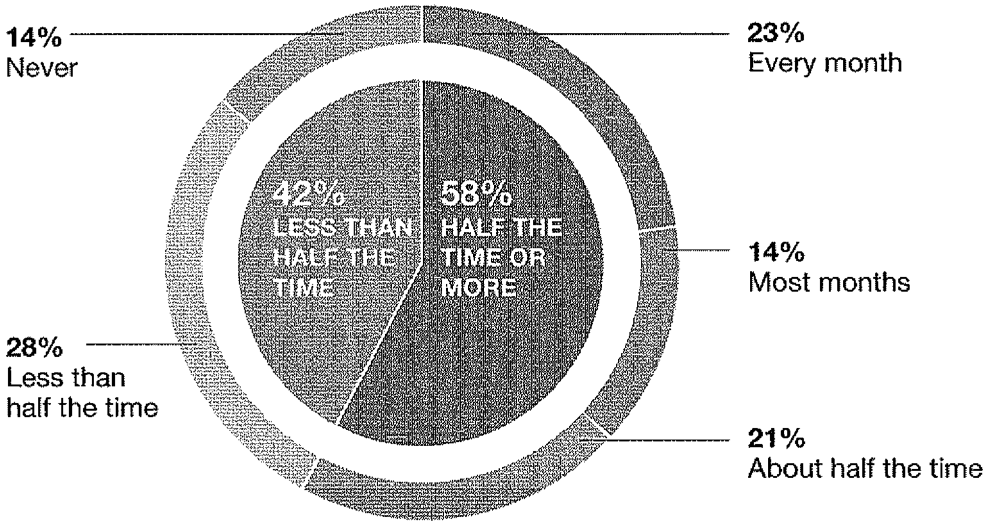
Borrowers Split on How They Rate Their Own Economic Situation

Half of payday borrowers describe their economic situation as "good," and half describe it as "bad," based largely on how often they can keep up with their bills. In focus groups, very few borrowers

EXHIBIT 1:

MAJORITY OF PAYDAY BORROWERS HAVE TROUBLE MEETING BILLS AT LEAST HALF THE TIME

FREQUENCY OF TROUBLE MEETING BILLS:



NOTE: Data represent percentage of payday borrowers who gave the listed answer. Respondents were asked: "How often, if ever, do you have trouble meeting your regular monthly bills and expenses?" Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

described themselves as having savings or a financial cushion, and many felt that in their current economic situation, it was not possible to "catch up" or save for the future.

Among employed payday loan borrowers, 20 percent have multiple jobs, and in focus groups, several borrowers explained that a second job was critical to allow them to meet basic expenses. Others with one job were dependent on the income of another household member and said the loss of a second household income would leave them unable to pay regular bills. Previous research has found that 25 percent of small-dollar loan borrowers reported a loss of income, such as a job loss or reduction in hours, as a reason for a shortage of funds.[8]

"I work a couple jobs, and I have my teenagers that I put through Catholic high schools and colleges. … And then the bills just keep coming, too, just constant bills."

—Storefront borrower, Chicago

"I don't want to look anybody in the eye and admit that I can't even break even."

—Online borrower, Manchester, NH

"My husband has been unemployed for the last two years, and it's been a struggle to make it. I hope that he gets a job any day so we don't have to be quite so tight on the budget. And my son is leaving to go into the Air Force."

—Storefront borrower, Birmingham, AL

"[I have a] full-time job at the sheriff's office [where] I'm taking a 20 percent pay cut, but I have a security job on the side."

—Storefront borrower, Birmingham, AL

"I've had a part-time job like for the last four years after my divorce, [but] the finances aren't like they were. … I got a second job."

—Storefront borrower, Birmingham, AL

"[The] only light bulbs in my house are in the kitchen, the bathroom, and … none in the bedroom. No bill in there is going to be over $100, no bill at all."

—Storefront borrower, Chicago

WHAT IS A BANK DEPOSIT ADVANCE LOAN?

A deposit advance loan is a payday loan for up to $500 that some banks offer to customers who have direct deposit. The structure mimics a conventional payday loan, with the entire loan plus interest due on the borrower's next payday. The cost—$7.50 to $10 per $100 per pay period, resulting in annual percentage rates (APRs) of 196 to 261 percent for a 14-day loan—is somewhat lower than that of a typical storefront loan ($10 to $20 per $100 per pay period, or 261 to 521 percent APR). The loans are secured by the customer's next direct deposit, and the bank repays itself immediately when that deposit is received. Depending on the bank, the loans may be advertised in branches, by direct mail, through email, at ATMs, or on a bank's website.

Previous research indicates that although bank deposit advances are advertised as two-week products, average customers end up indebted for nearly half the year, similar to the experience of payday loan customers borrowing from storefronts.[i] In Pew's focus groups, bank deposit advance borrowers explained that, once the bank has withdrawn the full amount plus interest, they frequently cannot meet their expenses and, like store-front and online payday borrowers, must re-borrow the loan amount.

EXHIBIT 2:

BANK DEPOSIT ADVANCE LOANS MIMIC PAYDAY LOAN MODEL

	CONVENTIONAL PAYDAY LOAN	BANK DEPOSIT ADVANCE LOAN
Advertised term	One pay period with lump-sum repayment (about two weeks)	One pay period with lump-sum repayment (about two weeks)
Amount loaned	Usually up to $500	Usually up to $500
Most common advertised price	$15 per $100 per pay period	$10 per $100 per pay period
Annualized interest rate on a 2-week loan (APR)	391 percent	261 percent
Security provided to lender	Post-dated check or electronic debit authorization for borrower's account at third-party institution	Electronic debit authorization for borrower's account held by the lender
Requirements to borrow	Income stream, checking account	Income stream, checking account with direct deposit at this bank
Borrower experience	Average borrower indebted 5 months during year; ¾ of loans are quick re-borrows	Available evidence shows similar patterns as conventional payday loans

SOURCES: "Payday Lending in America: Who Borrows, Where They Borrow, and Why." The Pew Charitable Trusts. (2012); "Big Bank Payday Loans." Center for Responsible Lending. (2011); Consumer Financial Protection Bureau."Examination Procedures: Short-Term, Small-Dollar Lending." January 19, 2012. Available at: http://files.consumerfinance.gov/f/2012/01/Short-Term-Small-Dollar-Lending-Examination-Manual.pdf; Fed. Reg. 76. 33409-33413. Guidance on Deposit-Related Consumer Credit Products. Notice by the Comptroller of the Currency. June 8, 2011; Bank-specific cost information comes from the websites of banks offering deposit advance loans. Pew's safe small-dollar loans research project, 2013.

i Center for Responsible Lending. "Big Bank Payday Loans." (2011). Available at: http://www.responsiblelending.org/payday-lending/research-analysis/big-bank-payday-loans.pdf

2 Renewing Payday Loans Is Affordable, but Paying Them Off Is Not

"If you can't pay that money back when you ... agreed to, they let you just pay the interest, and then it gets easier and easier for you to renew that loan, because you're saying, well, I need to do this with this money, and I can pay this $17.50 or $35 and go ahead on."

—Storefront borrower, Birmingham, AL

The vast majority of payday loan users are repeat borrowers who pay fees to renew or re-borrow the loans, accounting for nearly all of lender profitability.[9] Available data demonstrate the depth of this problem:

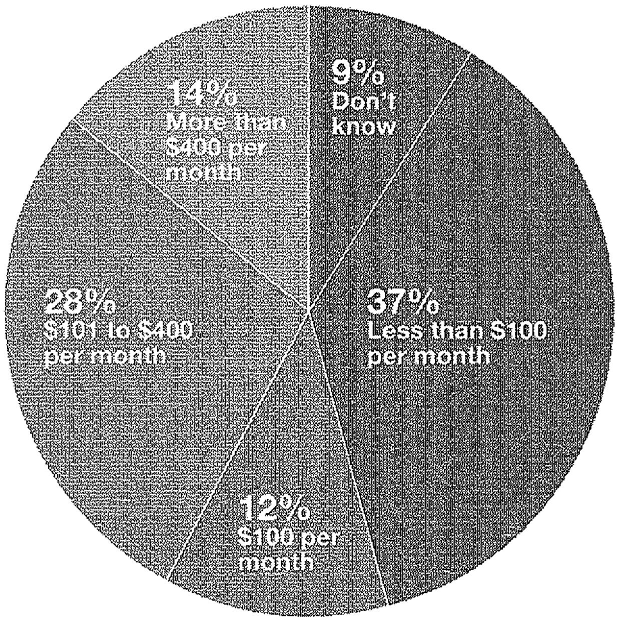
- The average payday borrower is indebted for five months during the year.[10]
- Four in five borrowers use three or more loans per year and account for 97 percent of all loans.[11]
- One in five borrowers use payday loans only once or twice per year, accounting for just 3 percent of all loans.[12] Notably, these borrowers are not profitable for lenders and are not the focus of the payday loan business model.[13]
- More than 60 percent of all loans go to people using 12 or more loans per year.[14]
- Seventy-six percent of loans are renewals or quick re-borrows.[15]

Lump-Sum Repayments Far Exceed Borrowers' Means

Pew's survey asked how much borrowers can afford to pay toward their payday loan debt and still afford their regular bills and expenses. As shown in Exhibit 3, the average borrower reported being able to pay $100 per month, or about $50 per two weeks. However, the typical borrower owes $430 ($375 plus a fee of $55) in two weeks for a storefront loan.[16] Only 14 percent of borrowers can afford enough out of their monthly budgets to pay off an

EXHIBIT 3:

AVERAGE PAYDAY BORROWER CAN AFFORD $100 PER MONTH



NOTE: Data represent percentage of payday borrowers who gave an answer that fell in this range. Respondents were asked: "How much can you afford to pay each MONTH toward (an online payday loan/a payday loan) and still be able to pay your other bills and expenses?" All responses were volunteered and not read aloud as options to select. Results are based on 703 interviews conducted from December 2011 through April 2012.

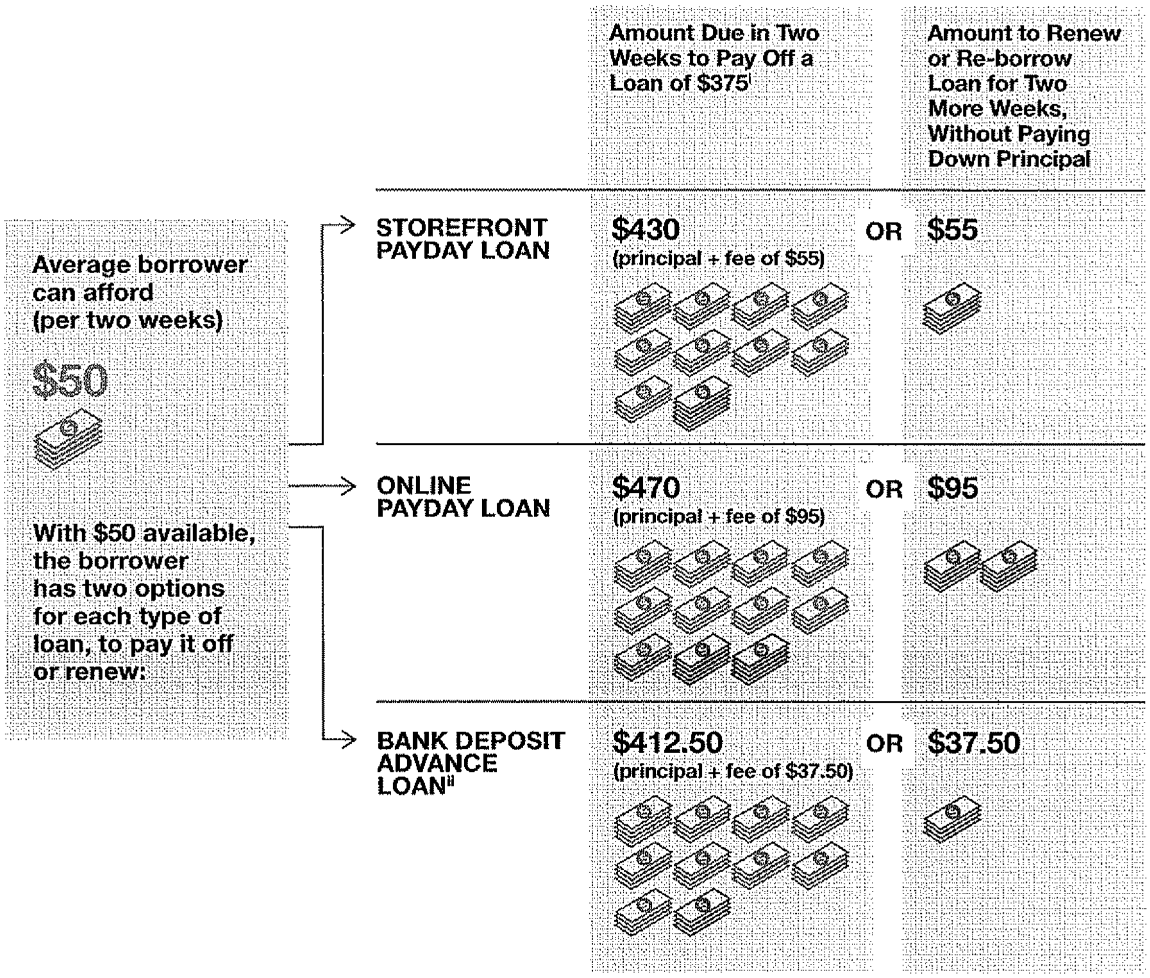
SOURCE: Pew's safe small-dollar loans research project, 2013.

average payday loan. As Exhibit 4 shows, the average borrower can barely afford just the $55 fee required to renew an average storefront loan for another two weeks.

Even among those who describe their financial situation as very or fairly good, only 15 percent can afford to pay more than $400 toward their payday loan debt in a month. Borrowers explained in focus groups that this incompatibility between the loans' required payment and their ability to pay caused them to renew or re-borrow the loans for months before they could pay them off. This finding about unaffordability helps explain why the average borrower ends up indebted for five months of the year.[17]

EXHIBIT 4:

RENEWALS ARE AFFORDABLE, REPAYMENT IS NOT



NOTE: Respondents were asked: "How much can you afford to pay each MONTH toward (an online payday loan/a payday loan) and still be able to pay your other bills and expenses?" Results are based on 703 interviews conducted from December 2011 through April 2012.

[i] The average cost of storefront and online payday loans is discussed in Pew's first report in this series and comes from Stephens Inc. (2011).

[ii] "Big Bank Payday Loans." Center for Responsible Lending. (2011). Bank-specific cost information can also be found at https://www.usbank.com/checking/caa/index.html, https://www.wellsfargo.com/checking/direct-deposit-advance/, http://www.regions.com/personal_banking/ready_advance.rf, https://www.53.com/doc/pe/pe-eax-faq.pdf, http://www.guarantybanking.com/SiteContent/5871/final%20ea%20service%20agreement%20(gb)%207-31-10.pdf, and https://www.bankofoklahoma.com/sites/Bank-Of-Oklahoma/asset/en/theme/default/PDF/Bank%20of%20Oklahoma%20FastLoanSM%20Terms%20and%20Conditions.pdf.

SOURCE: Pew's safe small-dollar loans research project, 2013.

"It only costs me $45, but I can't live without that $255 at the same time. I've got to take out the loan again every paycheck. As much as I would just like to say, 'Here's the $300, I'm good. I don't want another loan,' I can't. Because if I do, that $255 that I don't have, what am I going to do? That's anything from like rent, other bills, food, cost of living stuff. It's difficult."

—Storefront borrower, San Francisco

"Paying $500 now, I mean, that's where the, kind of the vicious circle comes in. Now you almost have to at least get some of it back so you have enough to make it to the end of the month."

—Storefront borrower, Birmingham, AL

"I mean, to all of a sudden, 'Oh, you owe us $500. You got to pay now.' That's tough for anybody, you know what I mean? It's hard to come up with $500."

—Storefront borrower, Chicago

"Well, Friday came, you gave them your pay, what you owed them, which cleared off that loan, but now you have nothing, so you have to re-borrow to survive the week or two weeks."

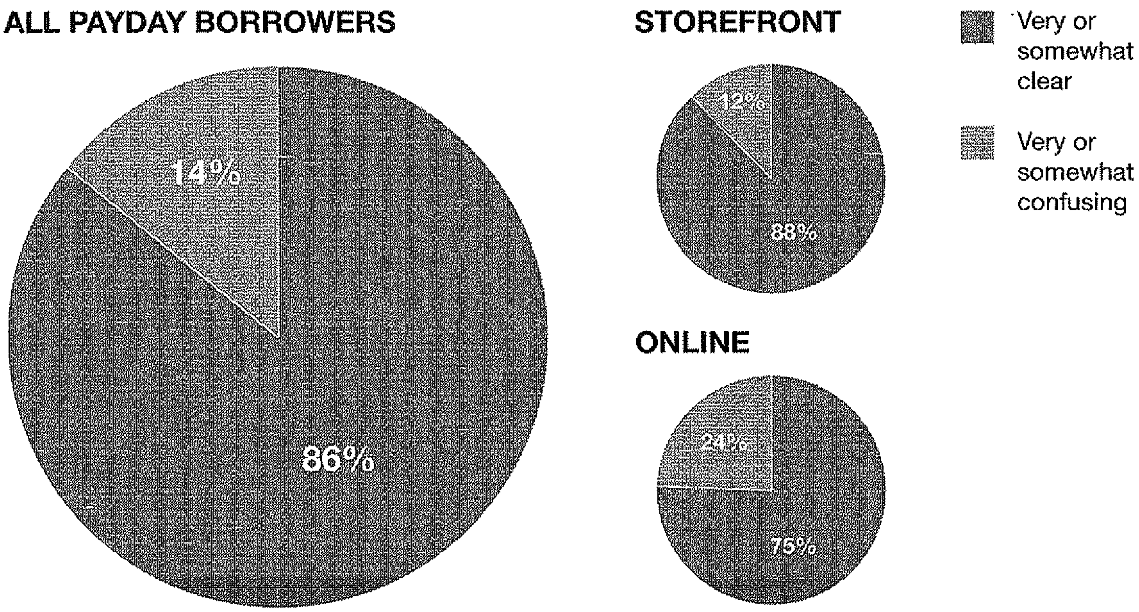
—Former storefront borrower, Manchester, NH

Most Borrowers Say Terms Are Clear but Still Struggle to Repay

Although most borrowers cannot afford to repay their payday loans, large numbers state that the terms and conditions were clear. Focus group participants often described the terms as unfair, usually meaning very expensive, but most said they understood what the fee was and when the loan was due, and in that way they thought the terms were clear. A significantly higher number of storefront borrowers than online borrowers thought the terms were clear.

The average storefront payday loan requires a $430 repayment in two weeks. Pew's survey found that even among those who said the loan terms were very clear, just 46 percent of borrowers could afford a repayment of more than $100 a month, and just 14 percent said they could pay more than $400 a month.

EXHIBIT 5:
SIX IN SEVEN BORROWERS SAY TERMS AND CONDITIONS ARE CLEAR



NOTE: Data represent percentage of payday borrowers who gave the listed answer. Respondents were asked: "When you took out (that FIRST/the) (online payday loan/payday loan), would you say the terms and conditions of the loan were very clear, somewhat clear, somewhat confusing, or very confusing?" Data for online do not add to 100% because "Don't know" and "Refused" were omitted from this chart. Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

"It's really basic. If you're taking out $300 and they're charging you $90, you pay $390. If you do not pay it back in two weeks, you're paying $90 out of your check every two weeks until you pay the full amount."

—Online borrower, New York

"I do agree [with other borrowers that loans take advantage of you], but you know up front what you're getting into."

—Storefront borrower, Birmingham, AL

"You know the interest rate is 17 percent. I mean, so you know before you get it what you're going to have to pay back."

—Storefront borrower, Birmingham, AL

"I think they're honest, but I don't think it's really fair. I mean, it's a really high interest rate."

—Storefront borrower, Chicago

PAYDAY LOAN LOSS RATES

Loss rates at the larger payday lenders are about 3 percent of funds ($2.98 per $100 lent), according to industry analyst calculations,[i] suggesting that 97 percent of payday loans (including extensions and renewals) are eventually repaid.[ii] No comparable data are available for deposit advance loans, but given that the loans are secured by the borrower's direct deposit to an account owned by the lender, it is likely that the loss rate is even lower.

In focus groups, borrowers stated they were eager to pay back loans, both to meet their obligations and to maintain future access to credit. These sentiments are consistent with relatively high rates of repayment and with prior research that found little evidence of strategic default.[iii]

i Stephens Inc. "Payday Loan Industry." (2011)

ii Using 2011's Annual (10-K) Report from Advance America, the largest storefront lender, as an example, we can calculate an approximate loss rate by dividing the "provision for doubtful accounts" by the "aggregate principal amount of cash advances originated." This calculation of $107,911,000 divided by $3,965,225,000 yields an estimated loss rate of 2.72 percent. Borrowers may renew or re-borrow a loan, or experience temporary defaults by bouncing checks and incurring nonsufficient funds fees while still paying back a loan eventually. Advance America has made a similar point, stating, "97 percent of our customers pay us back." http://www.ncsl.org/portals/1/documents/fiscal/Jamie_Fulmer_PowerPoint.pdf

iii Paige Marta Skiba and Jeremy Tobacman. "Payday Loans, Uncertainty, and Discounting: Explaining Patterns of Borrowing, Repayment, and Default." (2008). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1319751

3 Why People Borrow When They Can Afford Only to Renew, Not to Repay

"You don't know that it's going to take you six months when you're going into it, to pay."

—Online borrower, New York

Payday borrowers renew or re-borrow loans because they cannot afford to repay them in full. But why do people choose to borrow unaffordable loans in the first place? The answer is not the same for every borrower, but our research reveals several contributing factors.

One clear reason is desperation. More than one-third of borrowers say they have been in such a difficult situation that they would take a payday loan on any terms offered. Another reason is that many borrowers struggle with the temptation of having cash readily available to them, describing payday loans as "too easy" to obtain.

Borrowers also hold unrealistic expectations about payday loans. In focus groups, people described struggling to accommodate two competing desires: to get fast cash and to avoid taking on more debt. They cited the "short-term" aspect of payday loans as a reason for their appeal and described how a payday loan appeared to be something that could provide needed cash, for a manageable fixed fee, without creating another ongoing obligation. However, this perception does not match reality: Borrowers typically experience prolonged periods of debt,[18] paying more than $500 in fees over five months.[19]

Lenders benefit from this misperception, because they rely on borrowers to use the loans for an extended period of time. Prior research shows that the payday loan business model requires repeat usage in order to be profitable,[20] with nearly all loans going to repeat users. (Ninety-seven percent of loans go to people using three or more loans per year, and 60 percent go to those using at least 12 loans per year.[21]) Yet lenders continue to structure their loans as a two-week fixed-fee product. They routinely promote the loans as a short-term solution that should not be used on a long-term basis,[22] even though the loans' unaffordability makes this long-term use widespread. These efforts help shape the expectations of borrowers, who say they rely on lenders to give them accurate information by a nearly 4-to-1 margin. When asked to reflect on their experiences, borrowers expressed surprise over how long it actually took to pay off the loans, as well as frustration about how difficult that was to predict.

Taken together, these and other findings presented below help explain why people select an unaffordable loan.

Some Borrowers Have Been in Situations Where They Would Accept Any Terms Offered

Thirty-seven percent of payday borrowers have at some point felt that they would take a loan on any terms offered. This figure rises to 46 percent among those who rate their financial situation as fairly or very bad.

EXHIBIT 6:

SIX REASONS WHY PEOPLE USE PAYDAY LOANS THEY CANNOT AFFORD

1 **Desperation**
More than one-third of borrowers say they have been in such a difficult situation that they would take a payday loan on any terms offered.

2 **Perception**
Borrowers perceive that payday loans do not create ongoing debt, or are "not another bill," although the loans do in fact create high-cost, ongoing debt.

3 **Reliance**
Borrowers rely on lenders for accurate information. Lenders sell payday loans that are packaged as a two-week product, although the borrower ends up indebted for five months on average.

4 **Focus on fee**
Borrowers focus on being able to afford the finance fee, rather than on how the lump-sum repayment will affect their budget.

5 **Trust**
Some bank deposit advance borrowers believe that bank payday loans are safer or more regulated than other payday loans.

6 **Temptation**
Some borrowers consider the loans "too easy" to obtain, because they are readily available, and borrowers have a consistent cash shortfall.

SOURCE: Pew's safe small-dollar loans research project, 2013.

These borrowers accept an unaffordable loan for the simple reason that it allows them to stay solvent for two more weeks, regardless of cost. Previous research has also found that most customers do not comparison shop for small loans and instead focus on obtaining money quickly, demonstrating that when people are in an urgent situation, speed rather than affordability is paramount.[23]

EXHIBIT 7:

37%

of borrowers would have taken a payday loan on any terms offered

NOTE: Data represent percentage of payday borrowers who gave the listed answer. Respondents were asked: "Have you ever felt you were in such a difficult situation that you would take (an online payday loan/a payday loan) on pretty much any terms offered or have you never felt that way?" Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

"If you're that desperate then you almost do any terms."

—Storefront borrower, Manchester, NH

"You don't think about the cost of funds in an emergency. That's basically it."

—Storefront borrower, San Francisco

"I mean you cannot choose—not as completely as you probably should ... I am going to have to pay more later when I pay this off but we'll cross that bridge in two weeks. Right now I think it's just that whole immediacy moment."

—Storefront borrower, San Francisco

"Like the first time I did it, and maybe like the second time, getting the loan wasn't really going to help me out too long term, because I was spending more than I was bringing in. So I got into a real hard spot the first time I did it. And then the second time I did it, because I was desperate, where I ended up having to like extend it, because I needed that money to live on, and then extend it again. And I got in sort of over my head, where it's like now I owe all this money, and you're going to take basically my whole check."

—Storefront borrower, Chicago

"It hurts me to be in a situation where I have to go and accept those types of conditions."

—Former storefront borrower, San Francisco

Borrowers Perceive Payday Loans as 'Not Another Bill'

To some focus group respondents, a payday loan, as marketed, did not seem as if it would add to their recurring debt, because it was a short-term loan to provide quick cash rather than an additional obligation. They were already in debt and struggling with regular expenses, and a payday loan seemed like a way to get a cash infusion without creating an additional bill. Despite this appeal, the reality is that the average borrower ends up indebted to the payday lender for five months of the year.

It is highly unrealistic for borrowers to think that they will repay the loan on their next payday and not need to re-borrow the money (more people use 17-plus loans per year than use just one). But this optimism is consistent with previous research from the behavioral economics field.[24] Previous research has found that people across income levels express unrealistic optimism in assessing their financial prospects in areas such as investment returns, future earnings, or ability to repay loans quickly.[25]

"I thought, 'No I don't want to charge it,' at the time, because I had enough [other bills] to pay. I was already, you know, my limit was getting kind of there."

—Online borrower, New York

"I don't want to prolong it too much, and then it becomes another bill, because that's essentially what will happen. If I'm paying over six months, it's just another bill, like I have another extra cable bill or something."

—Online borrower, New York

"Because when I kept getting those statements and so forth, I made a decision to pay [the credit cards] off, and I'm not going to get another one . . . because I don't want to keep paying all that interest."

—Storefront borrower, Birmingham, AL

"By my next paycheck, I should be done."

—Online borrower, New York, who has had a loan out for three months

"And I think, 'Oh, it'll just be fine next paycheck, just need to get to the next paycheck.' And I need, you know, either pay the bill to keep the lights on, or need some food, or whatever it is."

—Storefront borrower, Chicago

Other research in the field has found that people experience "confirmation bias," looking for information to confirm their already-held hope or belief.[26] A loan from a state-licensed lender or federally chartered bank that is marketed as a two-week product serves to confirm an overly optimistic perspective, signaling to borrowers that it is realistic for them to receive quick cash without creating ongoing debt.

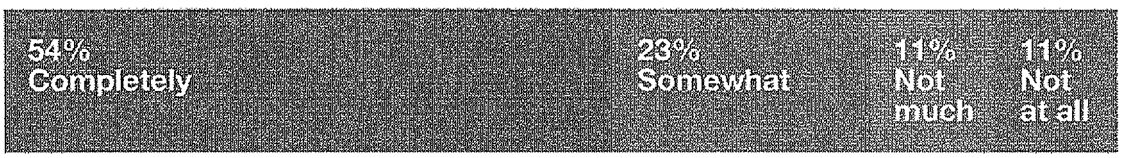
Borrowers Rely Heavily on Payday Lenders, Whose Loans Appear to Last for Just Two Weeks

More than three-quarters of borrowers in Pew's survey stated that they rely on the payday lender to provide accurate information, but information is provided only about a two-week product, even though borrowers end up indebted for an average of five months. Because the loans do not amortize, paying just the fee—the salient price that borrowers are instructed to pay if they cannot afford full repayment—does not reduce the amount owed, leaving them no closer to eliminating the debt. Therefore relying on the lender for accurate information makes the ultimate cost and duration of the debt extremely difficult to predict.

Lenders' advertising heavily promotes the concept of relying on and trusting them. One bank describes itself in a payday loan advertisement as "your trusted source"[27] and suggests you "work with a lender you trust."[28] A large storefront payday lender advertises itself as "the name millions trust"[29] and promises, "We're here for you."[30] Other lenders call themselves "a company you can trust"[31] or "someone you can rely on"[32] and explain that they are "here to help you,"[33] encouraging people to "stop by to borrow … money from your friends."[34]

EXHIBIT 8:

MAJORITY COMPLETELY RELY ON PAYDAY LENDERS FOR ACCURATE INFORMATION



NOTE: Data represent percentage of payday borrowers who gave the listed answer. Respondents were asked: "How much do you rely on (online payday lenders/payday lenders) to give you accurate information?" Results are based on 703 interviews conducted from December 2011 through April 2012. Data do not add to 100 percent because "Don't know" and "Refused" were omitted from this chart.

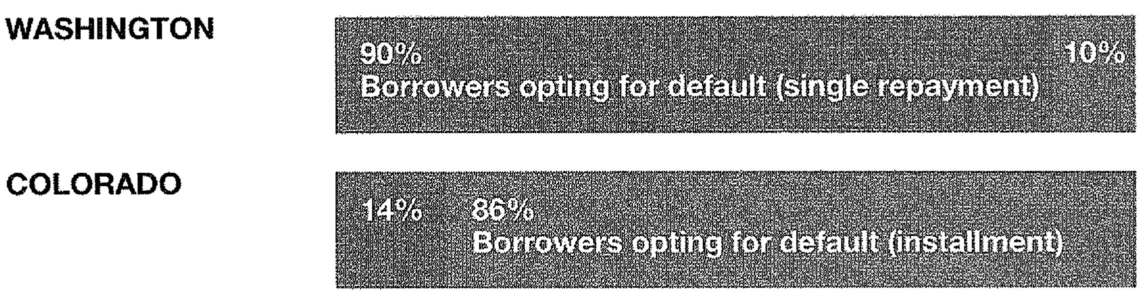
SOURCE: Pew's safe small-dollar loans research project, 2013.

The meaning and implications of this reliance are perhaps best illustrated by comparing how borrowers use payday loans in Washington and Colorado. In Washington, a payday loan's term is for two weeks with a lump-sum repayment, and, as in most states, the majority of payday users re-borrow the loans multiple times.[35] But unlike most states, Washington gives borrowers a no-cost option to convert the loan immediately into a far more affordable[36] 90- to 180-day loan, payable in installments.[37] In 9 of 10 instances, however, borrowers fail to do so, instead accepting the unaffordable default loan structure provided by the lender.[38] This striking data point demonstrates that even when a payday loan could become affordable for borrowers through conversion to an installment loan, the default structure provided by the lender is so influential that most borrowers do not alter that structure.

It would be possible to interpret this inaction as a borrower preference for single-repayment loans, were it not for the example of Colorado, where the default loan structure is for a 180-day term, but borrowers can pay back the loans (with no pre-payment penalty) in two weeks or any other amount of time. Only 1 in 7 pay the loans back in full within a month, with the majority instead accepting the default installment loan structure.[39] As has been found repeatedly in the behavioral economics literature,[40] people tend to accept financial products as they are offered, relying on the structure and choices the provider has established as the default. Payday borrowers are no exception, overwhelmingly accepting the default loan structure that the lender provides them and demonstrating a tremendous degree of reliance on the lender, even when they cannot afford the terms the lender is offering.

EXHIBIT 9:

BORROWERS RELY HEAVILY ON LENDER, ACCEPTING DEFAULT LOAN STRUCTURE



SOURCES: State of Colorado Department of Law; Washington State Department of Financial Institutions; Pew's safe small-dollar loans research project, 2013.

Previous research also found that borrowers do not know the annual percentage rates (APRs) on payday loans,[41] although they are posted in stores and on websites. Instead, borrowers generally know the fee charged per $100 borrowed per pay period. Not knowing a loan's APR makes it hard to compare products, leading to further reliance on lenders. Some in focus groups expressed difficulty in comparing the cost of a payday loan with that of other loan products, such as a credit card. Several borrowers mistook the two-week fee on a payday loan for an interest rate and erroneously compared that with the APR of a credit card.[42] (More information on payday borrowers' use of credit cards is featured on Page 30.)

"I honestly did not think about the fact that once I got paid again . . . that it was going to take that money out that I owed them plus with the fee for it. So when that happened I was just like, 'Okay, so now what? I still have to pay [the bills] . . . What do I do?' That's when I had to do it again. I honestly just needed to get that done in that moment and did not think about the consequences too well."

—Bank deposit advance borrower, San Francisco

"They just say it in big terms, . . . I get real confused when they start talking about the numbers, and I don't read it. I'll be honest, I don't read it. She just said initial here, initial here, initial here, initial here."

—Storefront borrower, Birmingham, AL

"Should I pay this whole loan back, or pay the little fee they told me to pay a month? I'm going to pay them a little money."

—Storefront borrower, Chicago

"And there's a lot of, there's a lot of nice talk going back and forth, but not a lot of like, you know, understand the steps that are here."

—Storefront borrower, Chicago

ALMOST ALL PAYDAY BORROWING IS FOR PERSONAL, NOT BUSINESS, EXPENSES

In developing countries, economists and academics have documented the widespread use of high-cost credit to finance investment in a small business.[i]

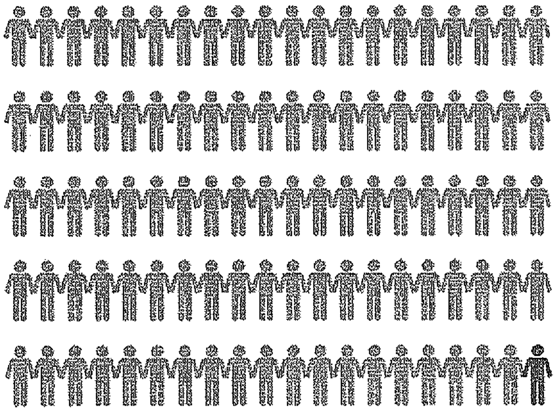
Domestically, some business and policy leaders have suggested that small businesses are using payday and other high-cost, very short-term loans to finance their operations.[ii] However, Pew's data show that borrowers almost universally use payday loans to cover personal or family—rather than business—expenses, even among the 6 percent of storefront payday loan borrowers who are self-employed.

i A great deal has been written about the self-employed poor borrowing from money lenders to finance their business operations in developing countries. For example, David Bornstein discusses this practice in "The Price of a Dream: The Story of the Grameen Bank" (2005), and Esther Duflo and Abhijit Banerjee discuss it in "Poor Economics" (2011).

ii The Hispanic Chamber of Commerce argued that small-business owners are using overdraft services and direct deposit advances as credit to finance business operations in a letter from the organization's president, Javier Palomarez, to the Office of the Comptroller of the Currency (OCC) on July 18, 2011. http://www.regulations.gov/#!documentDetail;D=OCC-2011-0012-0038. See also Jim Hawkins, "Credit on Wheels: The Law and Business of Auto Title Lending" (2011), which notes that those claiming that significant numbers of title loan borrowers are using the loans for business reasons have included industry leaders, elected officials, and academics.

EXHIBIT 10:

ALMOST ALL PAYDAY BORROWING IS FOR A PERSONAL OR FAMILY EXPENSE



NOTE: Data represent percentage of payday borrowers who gave the listed answer. Respondents were asked: "And was that primarily a personal or family expense, or was that primarily for a business that you own or operate?" Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

Borrowers Focus on the Fee, Rather Than the Whole Repayment

A number of focus group participants explained that when using payday loans, they concentrated just on the fee, which they could afford, rather than the entire repayment, which they usually could not afford without having to borrow again to meet their expenses. Some borrowers talked about the loan fee being affordable, but they had not realized that the full loan repayment would then make it impossible to meet their expenses.

"You can afford that little bit [the loan fee]. It doesn't hurt you."

—Former storefront borrower, San Francisco

"Once my paycheck came, it was like, 'Okay, we're taking this out.' I was like, 'Dang, I should have never done this.' And it was like it took me a while to pay it back. It took me . . . six months. . . . Because every two weeks it was something, their amount of money, then I had to pay this, and I had to pay bills."

—Online borrower, New York

"It's just playing with the money. I hand it to you, you hand it back. I hand it to you, you hand it back, you know, and it's only the interest. . . . Just as long as you pay me $17 on every $100, we're good, you know."

—Storefront borrower, Birmingham, AL

"The first one I paid off in full. That's the thing. . . I paid it off. I said, 'Here's $400, whatever it was.' . . . But then that month, okay, here's my paycheck, $400 gone, and now I have this much left, but I have all these bills. All of a sudden, you're already like, 'Hmmm, I got the short end of the straw.'"

—Online borrower, New York

"You need that money from the next paycheck that is coming, but they take it all, and then you're going to have to find another way to get the money from somewhere to cover that amount."

—Former storefront borrower, San Francisco

"I think [it's safe] because they are through the bank and the bank has FDIC insurance. I don't know. I am just assuming that. I would assume so."

—*Bank deposit advance borrower, San Francisco*

"Well they've got usury laws, don't they? I think probably the payday loans aren't subject to usury laws, but the banks, because they're chartered by federals, they've got a lot of pressure on them to stay within the usury laws."

—*Bank deposit advance borrower, San Francisco*

"For the banks, on the door it says FDIC, so you know it's governed."

—*Bank deposit advance borrower, San Francisco*

"I found out about it because when you do the online banking there is this thing. I hadn't heard about it, and it just says that I can do a direct deposit advance. And I clicked on it, like 'Oh! Really?' And then, well, it's very quick and easy."

—*Bank deposit advance borrower, San Francisco*

"Well, I was a little short and was thinking I could use some more money and I was at the ATM actually, and it was there, offering me a direct deposit advance. So, I thought I would try it. They did it for me. They put it right on the ATM where I was at, so I went for it."

—*Bank deposit advance borrower, San Francisco*

Some Borrowers Believe Bank Deposit Advances Are Safer or More Regulated

Several borrowers in focus groups believed that bank deposit advance products (see Page 12), which have the same lump-sum repayment structure as payday loans, were safer than other types of payday loans and were more inclined to use them. Some focused on the fact that the loan was offered by the bank where they already did business, making it both familiar and convenient. Others mistakenly believed that the products were covered by special federal regulatory protections and therefore were relatively safe to use compared with other payday loan options. In reality, nationally chartered banks that offer deposit advance loans may disregard state usury rate limits and other consumer protection laws, and so far there is relatively little federal regulation of payday and deposit advance lending.[43]

"It could be a little too easy."

—Storefront borrower, Chicago

"It [was] tempting when you were just in that dire need."

—Former storefront borrower, Chicago

"We press click, we press okay, we say submit, and you know, I agree. But I think it's, it makes it too convenient. It's too easy to do it."

—Online borrower, Manchester NH

"It's contradictory, but it's like I wouldn't fall into the trap if I didn't have the option."

—Online borrower, New York

"When I paid them off . . . they'd send me stuff in the mail, we'll give you this, we'll give you this, we'll give you this, you know, and they'd call me on the phone . . . I knew what they were up to, you know, because it was so easy to fall right back into that."

—Former storefront borrower, Manchester, NH

"It was that quick fix that was too easy."

—Former storefront borrower, Manchester, NH

Some Borrowers Describe Getting Payday Loans as 'Too Easy'

In focus groups, borrowers appreciated how easy it is to obtain a payday loan, but in many instances, they described it as "too easy" and said they had difficulty resisting the temptation to borrow. Interestingly, both storefront and online borrowers expressed this sentiment, even though these two groups are different, and they think of storefront and online payday loans as two very different products.

CREDIT CARD USAGE AMONG PAYDAY BORROWERS

Credit cards can be an important source of liquidity for cash-strained households. Although a large portion of payday loan applicants have credit card accounts, many have exhausted their limits.[i] Pew's survey found that 2 in 5 payday borrowers used a credit card in the past year, and most had "maxed out" their credit at some point during the same period.

Among payday borrowers who do not have a credit card, nearly half do not want one, and almost as many have been turned down or expect they would be turned down. In focus groups, many borrowers reported having incurred substantial credit card debt in the past and said that is why they intentionally avoid them. Other borrowers discussed feeling overextended by debt already and said payday loans seemed like a different kind of choice compared with a credit card or longer-term loan, because they expected payday loans to last only a short time.

Still others were confused about the relative costs of credit cards compared with payday loans. For example, one participant mistakenly believed that a credit card's annual percentage rate (APR) of 23.99 would cost more per month than a payday loan (which in his state costs $17.50 per $100 borrowed, or 17.5 percent every two weeks), and others did not disagree.

"Because the interest on … some credit cards [is] 23.99 percent. So if you go charge $300, and then you don't pay that $300 off at the end of the month, they're going to tack that 23.99 percent on to it, so you're going to still be paying more than you would if you had to [get a payday loan]."

—Storefront borrower, Birmingham, AL

"I just never got one because I've seen what it did to my sister."

—Storefront borrower, Chicago

"Well, I got my first credit card when I, I think I was 18, and was probably working like a minimum wage job, and I've not had one since. … I'm still paying it off."

—Storefront borrower, Chicago

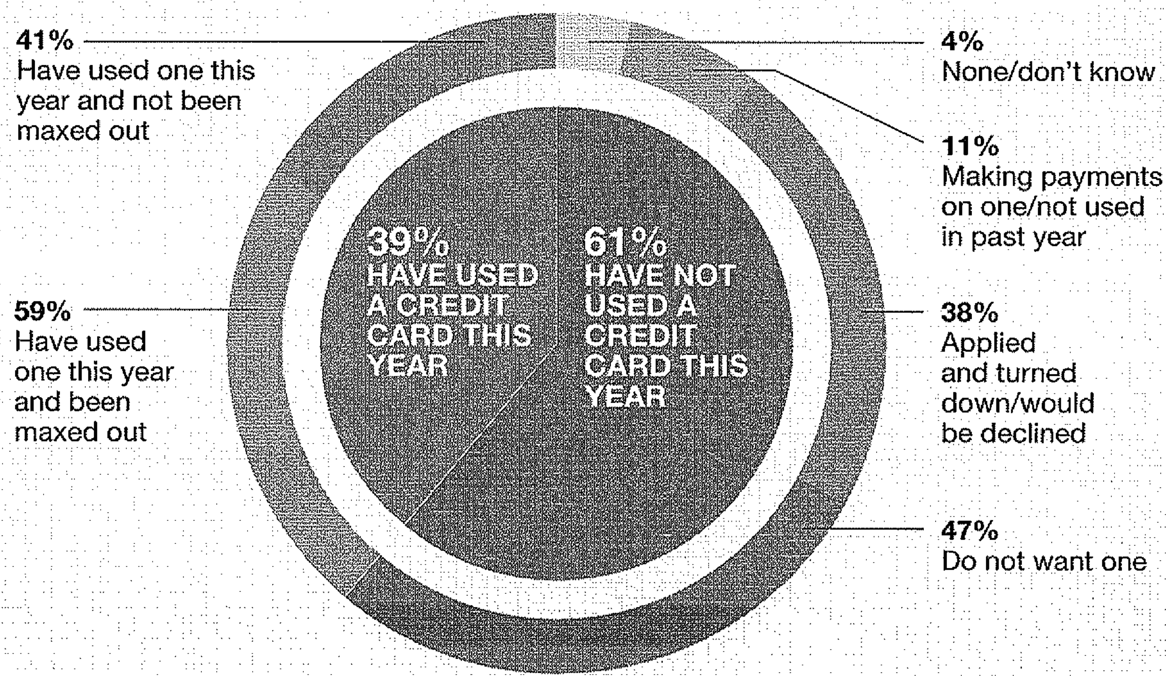
"I've had them, and … I just can't deal with it, you know. It's a false money. You pay for it later and more than you plan to."

—Storefront borrower, Birmingham, AL

i Neil Bhutta, Paige Marta Skiba, and Jeremy Tobacman (forthcoming). "Payday Loan Choices and Consequences." This research finds that almost all payday applicants have a credit score, and a majority have credit cards but are mostly maxed out on their credit limits at the time they apply for a payday loan. Available at: http://assets.wharton.upenn.edu/~tobacman/papers/Payday%20Loan%20Choices%20and%20Consequences%2020121010.pdf. Overall, approximately 68 percent of all American adults utilize credit cards (2010 Survey of Consumer Finances. Federal Reserve Bulletin. 2012. http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf).

EXHIBIT 11:

CREDIT CARD SITUATION OF PAYDAY LOAN BORROWERS



NOTE: Data represent percentage of payday loan borrowers who gave the listed answer. Respondents were asked: "I'm going to read several types of financial products and services. For each one, please tell me whether you have used that product or service in the past year. Have you used a credit card in the past year?" (If "Yes") "In the past year, have you maxed out or been at the top of your credit limit on any of your credit cards?" (If "No") "Have you not used a credit card in the past year because you do not want one, because you think you would not be approved to get one, you are already making payments on one, or did you apply for one and were turned down?" Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

4 Most Payday Borrowers Are Also Overdrafting Their Checking Accounts

"And even if you tell them the money is not there, guess what? They're going to put that check through and it's going to bounce two times before they come back and say, 'well, can you send us another check?' So now you have two extra fees on your bank account."

—Storefront borrower, Chicago

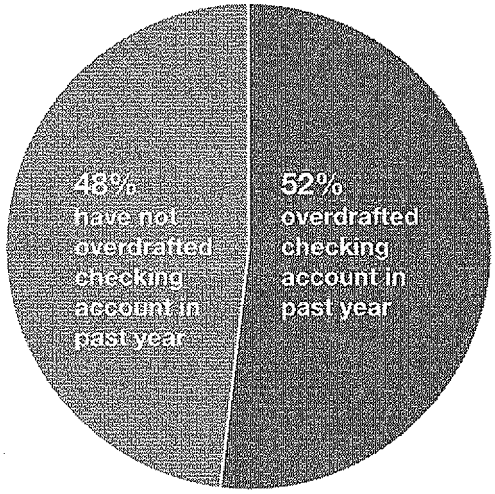
Payday loans are sometimes promoted as a cost-effective alternative to checking account overdrafts. (A major storefront and online payday lender encourages borrowers to "use payday loans to stop a bank overdraft or NSF fee,"[44] and a prominent online payday loan website states, "avoid costly overdraft fees and charges!"[45]) However, more than half of payday loan borrowers report having overdrafted their accounts in the past year,[46] and 27 percent report that a payday lender making a withdrawal from their bank account caused an overdraft. Moreover, Pew's prior research has shown that the vast majority of those who overdraw their accounts do so by mistake, not by intention. Although people choose payday loans in order to avoid overdrafts, many end up paying payday loan fees and overdraft fees as well.[47]

Payday Loans Not Eliminating Overdrafts

Although it is unclear how much payday borrowing may reduce or increase the likelihood of checking account overdrafts, Pew's research shows that payday loans do not eliminate overdraft risk. Prior research has found that some payday loan borrowers are explicitly choosing to use the loans to avoid overdrafts and bounced checks,[48] but Pew's survey research demonstrates that borrowers are incurring overdraft fees anyway.

EXHIBIT 12:

MAJORITY OF PAYDAY BORROWERS HAVE OVERDRAFTED IN THE PAST YEAR



NOTE: Data represent percentage of payday loan borrowers who gave the listed answer. Respondents were asked: "I'm going to read several types of financial products and services. For each one, please tell me whether you have used that product or service in the past year. Have you used overdrafting on your checking account in the past year?" Results are based on interviews with the 565 payday borrowers in the survey who still had a checking or savings account at the time they took the survey. Interviews were conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

There is less evidence about overdrafts related to bank deposit advance loans, but those loans' single-repayment structure makes it likely that they will be of limited help to customers trying to avoid overdrafts. Corroborating evidence comes from a large financial services consultant that developed a deposit advance loan program for banks and originally promoted the program as a new source of revenue that would result in little to no "overdraft revenue cannibalization."[49] Its analysis indicates that deposit advance loans provide little to no value in helping borrowers avoid overdrafts.

Previous research on the relationship between payday loan usage and overdrafts has yielded mixed results. One study looked at county-level data nationwide and found that access to payday loans was associated with increased levels of involuntary bank account closures, generally because of overdrafts.[50] Another

Twenty-seven percent of borrowers report that a payday lender making a withdrawal from their bank account *caused* an overdraft.

study found that when payday loans were no longer available in two states, bounced checks increased in one state but not the other.[51] A third study showed similar levels of nonsufficient funds (NSF) and overdraft fees paid per household in states that had payday loan stores and in states that did not.[52]

In focus groups, borrowers overwhelmingly agreed that they would not use overdrafts as an alternative to payday loans because, as a credit source, they would be too expensive. These sentiments are consistent with a national survey from Pew's Safe Checking in the Electronic Age Project, which found that 90 percent of those who overdrew their accounts did so by mistake rather than by choice.[53]

PAYDAY LOAN BORROWERS USE PREPAID CARDS AT THREE TIMES THE NATIONAL RATE

Thirty-eight percent of payday loan borrowers report having used a prepaid debit card[i] in the past year, triple the rate at which the general population uses these products.[ii] Prepaid cards are often advertised as a way to avoid checking account overdraft fees and credit card debt, perhaps explaining their appeal to payday loan users, who are eager to avoid both of these.[iii] Prepaid cards also can function much like a checking account for those who do not have one and can be used to budget and compartmentalize spending. For more on prepaid cards, please visit www.pewtrusts.org/prepaid.

i This data point refers to usage of general purpose reloadable (GPR) prepaid cards.

ii Javelin Strategy & Research found that 13 percent of American adults used a prepaid card in 2011. http://www.businessweek.com/news/2012-04-11/prepaid-card-use-up-18-percent-as-consumers-drop-debit-study

iii For example, one of the largest providers of prepaid debit cards, Green Dot, focuses its marketing on the fact that its cards do not have overdraft fees or lead to credit card debt: https://www.greendot.com/greendot

Payday Loans Causing Overdrafts

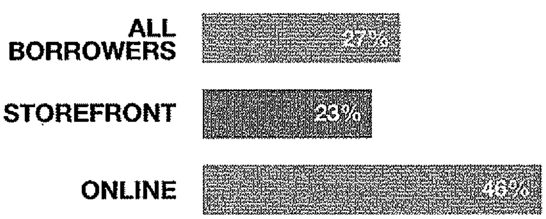
Among storefront borrowers, 23 percent report that a payday lender attempting to make a withdrawal from their account caused an overdraft. Among online borrowers, 46 percent had this experience.[54] This significant difference was reflected in Pew's focus groups: Online borrowers experienced many more problems as the result of payday lenders accessing their bank accounts.

> "When I was actually out of town, we had a family member that passed away, and then I missed the date to pay it back, and then I was gone longer than I expected, so I missed a payment. And then they, it was two weeks, and they went and they took it out of my account. And then the overdrafts killed me."
>
> —*Storefront borrower, Chicago*

These findings—that 52 percent of payday borrowers also report overdrafting their checking accounts, and that for 27 percent of borrowers, payday loans are actually causing overdrafts—reveal that payday loans frequently fail to help borrowers avoid overdrafts.

EXHIBIT 13:

PAYDAY LOANS CAUSING OVERDRAFTS



NOTE: Data represent percentage of payday borrowers who gave the listed answer. Storefront payday borrowers were asked: "For each one I read, please tell me whether it has happened to you. How about Had a payday lender attempt to make a withdrawal that overdrew your bank account?" Online payday loan borrowers were asked: "For each one I read, please tell me whether it has happened to you. How about Had an online payday lender make a withdrawal that overdrew your bank account?" Results are based on 703 interviews conducted from December 2011 through April 2012.

SOURCE: Pew's safe small-dollar loans research project, 2013.

Methodology

Opinion Research

Findings in this report are based on a survey conducted among storefront payday loan borrowers and online payday loan borrowers. The sample for this survey was compiled over the course of eight months of screening on a nationally representative weekly survey. Borrower quotations in this report come from a series of 10 focus groups with small-loan borrowers, as described below.

Survey Methodology

Social Science Research Solutions (SSRS) omnibus survey

The Pew Safe Small-Dollar Loans Research Project contracted with SSRS to conduct the first-ever nationally representative in-depth telephone survey with payday loan borrowers about their loan usage. To identify and survey a low-incidence population such as payday loan borrowers, SSRS screened 1,000 to 2,000 adults per week on its regular omnibus survey, using random-digit dialing (RDD) methodology, from August 2011 to April 2012. The term "omnibus" refers to a survey that includes questions on a variety of topics. This survey took steps to minimize payday loan borrowers' denial of their usage of this product, because the omnibus survey included mostly nonfinancial questions purchased by other clients, and the payday loan questions were asked after other, less sensitive questions, giving interviewers a chance to establish a rapport with respondents.

The first phase of the research, to identify payday borrowers, asked respondents to the omnibus survey whether they had used a payday loan. If respondents answered that they had, they were placed in a file to be re-contacted later. Once the full-length survey was ready to field, in order to maximize participation, people who had used a payday loan were then given the full-length survey and paid an incentive of $20 for participating. Because of their relative scarcity, online payday loan borrowers were given an incentive of $35 for participating.

Respondents were told about the compensation only after having indicated that they had used a payday loan. Further, online payday loan borrowers who were identified during the early months of screening were sent a letter with a $5 bill informing them that they would be re-contacted to take the full-length survey. The second phase of the research involved re-contacting all respondents who answered that they had used a payday loan and immediately giving the full-length survey to anyone newly identified in the weekly omnibus survey as a payday loan borrower.

Sample and Interviewing

In the first phase of the survey, the Pew Safe Small-Dollar Loans Research Project purchased time on SSRS's omnibus survey, EXCEL, which covers the continental United States. Analysis of the incidence of payday borrowing was conducted after 33,576 adults had been screened and answered a question about payday loan usage. An additional 16,108 adults were screened in order to find a sufficient number of storefront payday loan, online payday loan, and auto-title loan borrowers to complete a 20-minute survey about their usage and views, for a total of 49,684 screens to complete the research. The sampling error for those incidence estimates from the omnibus survey of borrowers is plus or minus 0.24 percentage points.

In the second phase, a total of 451 adults completed the full-length storefront payday loan survey, and 252 adults completed the full-length online payday loan survey, for a total of 703 payday borrowers. The sampling error for the full-length survey of payday borrowers is plus or minus 4.2 percentage points. The sampling error for the full-length survey of storefront payday loan borrowers is plus or minus 4.6 percentage points, and it is plus or minus 6.2 percentage points for the full-length survey of online payday loan borrowers.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each EXCEL survey consists of a minimum of 1,000 interviews, of which 300 interviews are completed with respondents on their cellphones and at least 30 are conducted in Spanish, ensuring unprecedented representation on an omnibus platform. Completed surveys are representative of the continental United States population of adults 18 and older. EXCEL uses a fully replicated, stratified, single-stage, random-digit-dialing (RDD) sample of land-line telephone households and randomly generated cellphones. Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing (CATI) system. Within each sample household, a single respondent is randomly selected. Further details about EXCEL and its weighting are available at www.pewtrusts.org/small-loans. The proportion of storefront to online borrowers was weighted to the ratio at which they occurred naturally in the omnibus. Including 252 online borrowers reflects an oversample of 147 online borrowers, and the online borrower results have been weighted down accordingly so they would not have disproportionate influence over the full results.

Question Wording—Omnibus Survey

Wording for demographic and other questions is available at www.pewtrusts.org/small-loans.

Screening Phase (measuring incidence and compiling sample for callbacks):

- In the past five years, have you used payday loan or cash advance services, where you borrow money to be repaid out of your next paycheck?
- And was that physically through a store, or on the Internet?

Re-contact Phase (calling back respondents who answered affirmatively, and identifying additional borrowers to take the full-length survey immediately):

In the past five years, have you or has someone in your family used an in-person payday lending store or cash advance service?

Question Wording—Full-Length Survey of Storefront and Online Payday Loan Borrowers

The data from the nationally representative, full-length survey of 451 storefront payday loan borrowers and 252 online payday loan borrowers are based on responses to the following questions, which Pew designed with assistance from SSRS and Hart Research Associates. All other questions from this survey are being held for future release. The sample for this telephone survey was derived from the RDD omnibus survey. All questions also included "Don't know" and "Refused" options that were not read aloud.

How would you rate the condition of your personal economic situation these days? Is it ... (READ LIST)? (ENTER ONE RESPONSE)

1 Very good
2 Fairly good
3 Fairly bad
4 Very bad

How often, if ever, do you have trouble meeting your regular monthly bills and expenses—do you have trouble with this every month, most months, about half the time, less than half the time, or do you never have trouble meeting your regular monthly bills and expenses?

1 Every month
2 Most months
3 About half the time
4 Less than half the time
5 Never

Thinking back now to (that FIRST/the) time you took out (an online payday loan/a payday loan), which of the following best describes what specifically you needed the money for? (READ LIST. ACCEPT ONE RESPONSE.) (IF MORE THAN ONE, ASK:) Well, if you had to choose just one, which best describes what specifically you needed the money for?

1 To pay rent or a mortgage
2 To pay for food and groceries
3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs
4 To pay an unexpected expense, such as a car repair or emergency medical expense
5 To pay for something special, such as a vacation, entertainment, or gifts
6 (DO NOT READ) Other (SPECIFY)

And was that primarily a personal or family expense, or was that primarily for a business that you own or operate?

(INTERVIEWER NOTE: If "BOTH," PROBE—) If you had to choose just one, would you say it was primarily for personal or for business reasons?

1 For personal or family reasons
2 For business I own or operate
3 (DO NOT READ) Both

When you took out (that FIRST/the) (online payday loan/payday loan), would you say the terms and conditions of the loan were very clear, somewhat clear, somewhat confusing, or very confusing?

1 Very clear
2 Somewhat clear
3 Somewhat confusing
4 Very confusing

Please tell me whether you have or have not used each of the following methods to pay back (an online payday loan/a payday loan). How about (INSERT)?

Have you used this method or not?

1 Have used

2 Have not used

a. Friends or family helped pay it off

b. Took out another short-term loan of any type to pay it off

c. Got a loan from a bank or credit union to pay it off

d. Had or saved enough money to pay it off

e. Used a tax refund to pay it off

f. Pawned or sold items to pay it off

g. Used a credit card to pay it off

Are you currently employed? (IF "NO," ASK:) Are you a student, a homemaker, retired, or unemployed?

1 Yes, employed

2 Student

3 Homemaker

4 Retired

5 Unemployed

6 (DO NOT READ) Volunteer

7 (DO NOT READ) Disabled

(ASK ONLY OF EMPLOYED STOREFRONT BORROWERS)

Are you self-employed or a small business owner, or not?

1 Yes, self-employed

2 No, not self-employed

3 (DO NOT READ) Both, self-employed/small business owner and work for someone else

How much can you afford to pay each MONTH toward (an online payday loan/a payday loan) and still be able to pay your other bills and expenses?

____________ ($0 to $1,000)

Overall, do you think that (online payday loans/payday loans) MOSTLY help borrowers like you or MOSTLY hurt borrowers like you? (IF "BOTH," ASK:) I know it can be hard to say, but generally do you think they MOSTLY help or MOSTLY hurt borrowers?

1 Mostly help

2 Mostly hurt

3 (DO NOT READ) Some of both/ neither

(Have/Was) the (online payday loan(s)/ payday loan(s)) (been) more a SOURCE of stress and anxiety or more something that has RELIEVED stress and anxiety?

1 More a source of stress and anxiety

2 More something that has relieved stress and anxiety

3 (DO NOT READ) Neither/both

I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash, and short-term loans of any kind no longer existed. How about (INSERT)?

a. Borrow from family or friends

b. Borrow from your employer

c. Sell or pawn personal possessions

d. Delay paying some bills

e. Cut back on expenses such as food and clothing

f. Take out a loan from a bank or credit union

g. Use a credit card

Would you use this option or not?

1 Yes, would use

2 No, would not use

Which of the following best describes your view? (READ LIST. ACCEPT ONE RESPONSE.)

1 (Online payday loans/Payday loans) should be kept as they are now with no changes

2 There should be small changes to (online payday loans/payday loans)

3 There should be major changes to (online payday loans/payday loans)

(Asked of storefront borrowers only)

I'm going to read you several things that some people have told us happened to them. For each one I read, please tell me whether it has happened to you. How about had a payday lender attempt to make a withdrawal that overdrew your bank account? Has this happened to you or not?

1 Has happened

2 Has not happened

3 (DO NOT READ) Does not apply

(Asked of online borrowers only)

I'm going to read you several things that some people have told us happened to them. For each one I read, please tell me whether it has happened to you. How about had an online payday lender make a withdrawal that overdrew your bank account? Has this happened to you or not?

1 Has happened

2 Has not happened

3 (DO NOT READ) Does not apply

Which of these statements comes closer to your point of view?

(READ STATEMENTS)

1 (Online payday loans/Payday loans) should be more regulated

2 (Online payday loans/Payday loans) should not be more regulated

If you find yourself in a financial bind again, how likely is it that you would take out (an online payday loan/a payday loan)? Is it very likely, somewhat likely, not very likely, or not at all likely?

1 Very likely

2 Somewhat likely

3 Not very likely

4 Not at all likely

Have you ever felt you were in such a difficult situation that you would take (an online payday loan/a payday loan) on pretty much any terms offered, or have you never felt that way?

1 Yes, have felt that way

2 No, have not felt that way

How much do you rely on (online payday lenders/payday lenders) to give you accurate information—completely, somewhat, not much, or not at all? (ENTER ONE ONLY)

INTERVIEWER NOTE: ONLY READ IF RESPONDENT VOLUNTARILY ASKS A QUESTION SUCH AS, "WHAT KIND OF INFORMATION?" Say: "Information about the terms of the loan, including how much you pay in interest or fees, and when and how you will need to repay the loan."

1 Completely

2 Somewhat

3 Not much

4 Not at all

Some people say (online payday loans/payday loans) take advantage of borrowers, while other people do not think (online payday loans/payday loans) take advantage of borrowers. What do you think, do (online payday loans/payday loans) take advantage of borrowers or not?

1 (Online payday loans/payday loans) take advantage of borrowers

2 (Online payday loans/payday loans) do not take advantage of borrowers

3 (DO NOT READ) Some of both/neither

I'm going to read several types of financial products and services. For each one, please tell me whether you have used that product or service in the past year. Have you used (INSERT) in the past year?

1 Yes, used

2 No, have not used

a. A personal checking or savings account at a bank or credit union

b. A credit card

c. A prepaid card that works like a debit card but is not attached to an actual bank account

d. Overdrafting on your checking account (IF NECESSARY: Overdrafting is when your checking account balance becomes negative because more money has been withdrawn than was in the account)

(ASK ONLY OF THOSE WHO HAVE USED A CREDIT CARD IN THE PAST YEAR)

In the past year, have you maxed out or been at the top of your credit limit on any of your credit cards?

1 Yes, have maxed out

2 No, have not maxed out

(ASK ONLY OF THOSE WHO HAVE NOT USED A CREDIT CARD IN THE PAST YEAR)

Have you not used a credit card in the past year because you do not want one, because you think you would not be approved to get one, you are already making payments on one, or did you apply for one and were turned down? (ENTER ONE ONLY)

1 Do not want one

2 Would not be approved for one

3 Already making payments on one

4 Applied and was turned down

5 (DO NOT READ) Have credit card, but haven't used it in past year

6 (DO NOT READ) None of these

Focus Group Methodology

On behalf of the Safe Small-Dollar Loans Research Project, Hart Research Associates and Public Opinion Strategies conducted eight two-hour focus groups, with two groups per location in New York City; Chicago; Birmingham, AL; and Manchester, NH. Those groups were conducted during weekday evenings from Sept. 7, 2011, through Sept. 19, 2011. The Safe Small-Dollar Loans Research Project conducted two additional groups in San Francisco on Nov. 16, 2011. All quotations come from these 10 focus groups.

Endnotes

1 The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), available at: http://www.pewstates.org/research/reports/who-borrows-where-they-borrow-and-why-85899405043.

2 CashNetUSA. https://www.cashnetusa.com/payday/articles/safe-secure-payday-loans-best-found-online.html.

3 Jamie Fulmer's presentation on behalf of the Consumer Financial Services Association available at: http://www.ncsl.org/portals/1/documents/fiscal/Jamie_Fulmer_PowerPoint.pdf.

4 Fisca website: http://www.fisca.org/Content/NavigationMenu/AboutFISCA/FAQs/default.htm.

5 See note 3, above.

6 The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), p. 9.

7 These figures are from Pew's first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012). The data for online borrowers have not been previously published.

8 Center for Financial Services Innovation. "A Complex Portrait—An Examination of Small-Dollar Credit Consumers." 2012. Available at: http://cfsinnovation.com/system/files/A%20Complex%20Portrait-%20An%20Examination%20of%20Small-Dollar%20Credit%20Consumers.pdf.

9 Industry analyst Stephens Inc. in its 2011 report estimates that borrowers do not become profitable for lenders until they have borrowed four or five times. Robert DeYoung and Ronnie J. Phillips of the Federal Reserve Bank of Kansas City Economic Research Department also conclude that "the profitability of payday lenders depends on repeat borrowing." http://www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf. An analysis of North Carolina data found that 73 percent of lender revenue came from borrowers using seven or more loans per year. Michael A. Stegman and Robert Faris, "Payday Lending: A Business Model that Encourages Chronic Borrowing," Economic Development Quarterly (2003), www.ccc.unc.edu/abstracts/0203_Payday.php. See also: The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), p. 15.

10 Pew's first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), found that borrowers are indebted for an average of five months, using eight loans (based on state regulatory data) that last 18.2 days (based on the Annual Report from Advance America, the largest storefront lender, which industry analysts use as a proxy for the storefront payday lending industry).

11 "Oklahoma Trends in Deferred Deposit Lending, 2011." 2011. http://www.ok.gov/okdocc/documents/2011_10_OK%20Trends_Final_Draft.pdf.

12 See note 11, above.

13 See note 9, above.

14 "Florida Trends in Deferred Presentment." 2010. https://www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf. "Oklahoma Trends in Deferred Deposit Lending, 2011." 2011. http://www.ok.gov/okdocc/documents/2011_10_OK%20Trends_Final_Draft.pdf.

15 Leslie Parrish and Uriah King, "Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume." Center for Responsible Lending. June 2009. http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf.

16 In 2011, the average payday loan at the nation's largest payday lender—Advance America—was $375, based on its annual (10-K) report. Industry analyst Stephens Inc. uses Advance America as a proxy for the payday lending industry. Stephens Inc., "Payday Loan Industry" (2011). The average fee reported in Advance America's 10-K was $55, yielding a repayment of $430 in two weeks ($375+$55). Stephens also reports an average fee of $25 per $100 borrowed for online loans, implying a $95 fee for $375 borrowed, yielding a repayment of $470 in two weeks ($375+$95).

17 See note 10, above.

18 See note 14, above.

19 See note 6, above, p. 15.

20 See note 9, above. Most borrowing occurs in rapid succession (see note 15, above).

21 See note 11, above.

22 A trade group website includes a section titled "Is a Payday Advance Appropriate for You," which states, "A payday advance should be used responsibly and for only the purpose for which it is intended: To solve temporary cash-flow problems by bridging the gap between paydays. A payday advance is designed to provide short-term financial assistance. It is not meant to be a long-term solution." http://cfsaa.com/what-is-a-payday-advance/is-a-payday-advance-appropriate-for-you.aspx (accessed December 26, 2012).

23 Center for Financial Services Innovation. "A Complex Portrait—An Examination of Small-Dollar Credit Consumers." 2012. Available at: http://cfsinnovation.com/system/files/A%20Complex%20Portrait-%20An%20Examination%20of%20Small-Dollar%20Credit%20Consumers.pdf.

24 Oren Bar-Gill and Elizabeth Warren. "Making Credit Safer," (2008). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1137981.

25 Examples include Marianne Bertrand, Sendhil Mullainathan, and Eldar Shafir. "Behavioral Economics and Marketing in Aid of Decision-Making among the Poor," (2006); Stephen J. Hoch. "Counterfactual Reasoning and Accuracy in Predicting Personal Events," (1984); and Ron Harris and Einat Albin. "Bankruptcy Policy in Light of Manipulation in Credit Advertising." (2006).

26 Raymond S. Nickerson. "Confirmation Bias: A Ubiquitous Phenomenon in Many Guises." (1998). Available at: http://psy2.ucsd.edu/~mckenzie/nickersonConfirmationBias.pdf.

27 U.S. Bank printed advertisement, September 2012. On file at The Pew Charitable Trusts.

28 U.S. Bank printed advertisement, September 2012. On file at The Pew Charitable Trusts.

29 Advance America. http://www.advanceamerica.net/community-outreach/witfy.

30 Advance America printed advertisement. "People are Saving by Dining In." On file at The Pew Charitable Trusts.

31 CashNetUSA. http://www.cashnetusa.com/fast-cash/fast-cash-payday-loan.html.

32 Quik Cash printed advertisement. September 2012. On File at The Pew Charitable Trusts.

33 We Loan Cash. www.weloancash.net.

34 Reliable Finance printed advertisement. September 2012. On file at The Pew Charitable Trusts.

ENDNOTES

35 Washington State Department of Financial Institutions. 2011 Payday Lending Report. http://www.dfi.wa.gov/cs/pdf/2011-payday-lending-report.pdf.

36 For example, a $500 loan in Washington carries a $75 fee, so the default loan structure would require a $575.00 payment, while the installment structure would provide for up to 12 payments of $47.92 each over 180 days.

37 Details governing Washington's installment options on payday loans are available at http://apps.leg.wa.gov/Rcw/default.aspx?cite=31.45.084.

38 See note 35, above.

39 This calculation is made by dividing the 40,367 loans that were paid in full within a month by the 297,985 loans that were made. Data are available at: http://www.coloradoattorneygeneral.gov/sites/default/files/uploads/uccc/annual_reports/2011%20DDL%20Composite.REV_.pdf.

40 For example, Raj Chetty et al. classify 85 percent of people as "passive savers" who are heavily influenced by defaults as to whether to use a retirement savings account, but not by tax incentives to save. "Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark." 2012. According to John Beshears et al., "recent research has highlighted the important role that defaults play in a wide range of settings: organ donation decisions (Johnson and Goldstein 2003; Abadie and Gay 2004), car insurance plan choices (Johnson et al. 1993), car option purchases (Park, Jun, and McInnis 2000), and consent to receive e-mail marketing (Johnson, Bellman, and Lohse 2003)." Beshears et al. find that defaults have "tremendous influence" on "savings plan participation, contributions, asset allocation, rollovers, and decumulation." "The Importance of Default Options for Retirement Savings Outcomes," published in Social Security Policy in a Changing Environment. 2009.

41 Gregory Elliehausen and Edward C. Lawrence. "Payday Advance Credit in America: An Analysis of Customer Demand." (2001). Marianne Bertrand and Adair Morse. "Information Disclosure, Cognitive Biases and Payday Borrowing." (2010).

42 The Pew Charitable Trusts. "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012).

43 National Consumer Law Center. "300% Bank Payday Loans Spreading." http://www.nclc.org/images/pdf/banking_and_payment_systems/ib_bank_payday_spreading.pdf.

44 CashNetUSA. http://www.cashnetusa.com/payday/articles/use-payday-loans-to-stop-a-bank-overdraft-or-nsf-fee.html. (2012).

45 MoneyMutual. www.moneymutual.com. (2012).

46 These results refer to those borrowers who have had an account at a bank or credit union in the past year. Because these are questions about extended periods of time, it is impossible to say whether borrowers were overdrafting at the same times they were using payday loans, but the underlying point remains valid that payday loans do not eliminate overdraft risk.

47 It should be noted that bank customers can avoid overdraft fees on debit card transactions and ATM withdrawals by not opting in to overdraft coverage when they open an account, or by opting out at a later point. But a study by Pew's safe checking in the electronic age project, "Overdraft America: Confusion and Concerns about Bank Practices" (2012), found that a majority of customers who had paid an overdraft penalty fee in the last year did not realize that they had opted in to these fees.

48 Cypress Research Group. "Payday Advance Customer Satisfaction Survey." 2004. Available at: http://www.rtoonline.com/images/Payday-Loan-National-Customer-Satisfaction-Survey.pdf.

49 FiServ brochure. "Relationship Advance." 2009. On file at The Pew Charitable Trusts.

50 Dennis Campbell, Francisco de Asis Martinez-Jerez, and Peter Tufano. "Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures." 2008. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335873.

51 Donald P. Morgan and Michael R. Strain. "Payday Holiday: How Households Fare after Payday Credit Bans." 2007. Available at: http://www.newyorkfed.org/research/staff_reports/sr309.pdf.

52 Bretton Woods Inc. 2008 Fee Analysis of Bank and Credit Union Non-Sufficient Funds and Overdraft Protection Programs. 2009. Available at: http://bretton-woods.com/media/Bretton$20Woods$2C$20Inc.$202008$20NSF-ODP$20Fee$20Analysis$2C$2001-09-2009.pdf Analysis by Center for Responsible Lending. "Payday Loans Put Families in the Red." 2009. Available at: http://www.responsiblelending.org/payday-lending/research-analysis/payday-puts-families-in-the-red-final.pdf.

53 The Pew Charitable Trusts. "Overdraft America: Confusion and Concerns about Bank Practices." (2012) http://www.pewhealth.org/uploadedFiles/PHG/Content_Level_Pages/Issue_Briefs/SC-IB-Overdraft%20America.pdf.

54 The exact wording for this question was different for storefront and online borrowers because of an oversight and is reported verbatim in the methodology section.

55 The Pew Charitable Trusts. "Payday Lending in America: Who Borrows, Where They Borrow, and Why." (2012).

56 The other options that payday borrowers say they would have available to them if payday loans were unavailable are discussed in more detail in the first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why." (2012).

57 Marianne Bertrand and Adair Morse. "What Do High-Interest Borrowers Do With Their Tax Rebate?" (2009). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1344489.

58 Center for Responsible Lending's analysis of how a payday loan would fit into a typical borrower's household budget reached a similar conclusion. "Springing The Debt Trap." (2007). Available at: http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.pdf.

59 See note 48, above.

60 Robert B. Avery and Katherine A. Samolyk, "Payday Loans Versus Pawn Shops: The Effects of Loan Fee Limits on Household Use." (preliminary draft, 2011).

61 ACE Cash Express. https://www.acecashexpress.com/services.

62 Dollar Financial Group. http://www.dfg.com/mobile/products.asp.

63 Check into Cash. http://checkintocash.com/Testimonials/.

64 Check into Cash. http://checkintocash.com/Testimonials/.

65 Dollar Loan Center DBA www.dontbebroke.com; Quik Cash. Printed advertisement, downloaded September 2012.

66 Center for Financial Services Innovation. "A Complex Portrait." 2012. Forty-four percent of payday borrowers would use the loans again only if they have no better options, 33 percent would use the product again without hesitation, and 22 percent would not use payday loans again.

67 Pew's first report in this series found that in states that restrict storefront lending, 95 out of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere. "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), pps. 22-23.

68 Jannekke Ratcliffe and Kim Manturuk. "North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options" UNC Center for Community Capital. (2007). Available at: http://www.nccob.gov/public/docs/News/Press%20Releases/Archives/2007/NC_After_Payday.pdf.

69 Information on laws in New Hampshire and other states is available at http://www.pewstates.org/research/data-visualizations/interactive-state-payday-loan-regulation-and-usage-rates-8589940569.

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Methodology

Opinion Research

Findings in this report are based on a survey conducted among storefront payday loan borrowers and online payday loan borrowers. The sample for this survey was compiled over the course of eight months of screening on a nationally representative weekly survey. Borrower quotations in this report come from a series of 10 focus groups with small-loan borrowers, as described below.

Survey Methodology

Social Science Research Solutions (SSRS) omnibus survey

The Pew Safe Small-Dollar Loans Research Project contracted with SSRS to conduct the first-ever nationally representative in-depth telephone survey with payday loan borrowers about their loan usage. To identify and survey a low-incidence population such as payday loan borrowers, SSRS screened 1,000 to 2,000 adults per week on its regular omnibus survey, using random-digit dialing (RDD) methodology, from August 2011 to April 2012. The term "omnibus" refers to a survey that includes questions on a variety of topics. This survey took steps to minimize payday loan borrowers' denial of their usage of this product, because the omnibus survey included mostly nonfinancial questions purchased by other clients, and the payday loan questions were asked after other, less sensitive questions, giving interviewers a chance to establish a rapport with respondents.

The first phase of the research, to identify payday borrowers, asked respondents to the omnibus survey whether they had used a payday loan. If respondents answered that they had, they were placed in a file to be re-contacted later. Once the full-length survey was ready to field, in order to maximize participation, people who had used a payday loan were then given the full-length survey and paid an incentive of $20 for participating. Because of their relative scarcity, online payday loan borrowers were given an incentive of $35 for participating.

Respondents were told about the compensation only after having indicated that they had used a payday loan. Further, online payday loan borrowers who were identified during the early months of screening were sent a letter with a $5 bill informing them that they would be re-contacted to take the full-length survey. The second phase of the research involved re-contacting all respondents who answered that they had used a payday loan and immediately giving the full-length survey to anyone newly identified in the weekly omnibus survey as a payday loan borrower.

Sample and Interviewing

In the first phase of the survey, the Pew Safe Small-Dollar Loans Research Project purchased time on SSRS's omnibus survey, EXCEL, which covers the continental United States. Analysis of the incidence of payday borrowing was conducted after 33,576 adults had been screened and answered a question about payday loan usage. An additional 16,108 adults were screened in order to find a sufficient number of storefront payday loan, online payday loan, and auto-title loan borrowers to complete a 20-minute survey about their usage and views, for a total of 49,684 screens to complete the research. The sampling error for those incidence estimates from the omnibus survey of borrowers is plus or minus 0.24 percentage points.

In the second phase, a total of 451 adults completed the full-length storefront payday loan survey, and 252 adults completed the full-length online payday loan survey, for a total of 703 payday borrowers. The sampling error for the full-length survey of payday borrowers is plus or minus 4.2 percentage points. The sampling error for the full-length survey of storefront payday loan borrowers is plus or minus 4.6 percentage points, and it is plus or minus 6.2 percentage points for the full-length survey of online payday loan borrowers.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each EXCEL survey consists of a minimum of 1,000 interviews, of which 300 interviews are completed with respondents on their cellphones and at least 30 are conducted in Spanish, ensuring unprecedented representation on an omnibus platform. Completed surveys are representative of the continental United States population of adults 18 and older. EXCEL uses a fully replicated, stratified, single-stage, random-digit-dialing (RDD) sample of land-line telephone households and randomly generated cellphones. Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing (CATI) system. Within each sample household, a single respondent is randomly selected. Further details about EXCEL and its weighting are available at www.pewtrusts.org/small-loans. The proportion of storefront to online borrowers was weighted to the ratio at which they occurred naturally in the omnibus. Including 252 online borrowers reflects an oversample of 147 online borrowers, and the online borrower results have been weighted down accordingly so they would not have disproportionate influence over the full results.

Question Wording—Omnibus Survey

Wording for demographic and other questions is available at www.pewtrusts.org/small-loans.

Screening Phase (measuring incidence and compiling sample for callbacks):

- In the past five years, have you used payday loan or cash advance services, where you borrow money to be repaid out of your next paycheck?
- And was that physically through a store, or on the Internet?

Re-contact Phase (calling back respondents who answered affirmatively, and identifying additional borrowers to take the full-length survey immediately):

In the past five years, have you or has someone in your family used an in-person payday lending store or cash advance service?

Question Wording—Full-Length Survey of Storefront and Online Payday Loan Borrowers

The data from the nationally representative, full-length survey of 451 storefront payday loan borrowers and 252 online payday loan borrowers are based on responses to the following questions, which Pew designed with assistance from SSRS and Hart Research Associates. All other questions from this survey are being held for future release. The sample for this telephone survey was derived from the RDD omnibus survey. All questions also included "Don't know" and "Refused" options that were not read aloud.

How would you rate the condition of your personal economic situation these days? Is it ... (READ LIST)? (ENTER ONE RESPONSE)

1 Very good
2 Fairly good
3 Fairly bad
4 Very bad

How often, if ever, do you have trouble meeting your regular monthly bills and expenses—do you have trouble with this every month, most months, about half the time, less than half the time, or do you never have trouble meeting your regular monthly bills and expenses?

1 Every month
2 Most months
3 About half the time
4 Less than half the time
5 Never

Thinking back now to (that FIRST/the) time you took out (an online payday loan/a payday loan), which of the following best describes what specifically you needed the money for? (READ LIST. ACCEPT ONE RESPONSE.) (IF MORE THAN ONE, ASK:) Well, if you had to choose just one, which best describes what specifically you needed the money for?

1 To pay rent or a mortgage
2 To pay for food and groceries
3 To pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs
4 To pay an unexpected expense, such as a car repair or emergency medical expense
5 To pay for something special, such as a vacation, entertainment, or gifts
6 (DO NOT READ) Other (SPECIFY)

And was that primarily a personal or family expense, or was that primarily for a business that you own or operate?

(INTERVIEWER NOTE: If "BOTH," PROBE—) If you had to choose just one, would you say it was primarily for personal or for business reasons?

1 For personal or family reasons
2 For business I own or operate
3 (DO NOT READ) Both

When you took out (that FIRST/the) (online payday loan/payday loan), would you say the terms and conditions of the loan were very clear, somewhat clear, somewhat confusing, or very confusing?

1 Very clear
2 Somewhat clear
3 Somewhat confusing
4 Very confusing

Please tell me whether you have or have not used each of the following methods to pay back (an online payday loan/a payday loan). How about (INSERT)?

Have you used this method or not?

1 Have used

2 Have not used

a. Friends or family helped pay it off

b. Took out another short-term loan of any type to pay it off

c. Got a loan from a bank or credit union to pay it off

d. Had or saved enough money to pay it off

e. Used a tax refund to pay it off

f. Pawned or sold items to pay it off

g. Used a credit card to pay it off

Are you currently employed? (IF "NO," ASK:) Are you a student, a homemaker, retired, or unemployed?

1 Yes, employed

2 Student

3 Homemaker

4 Retired

5 Unemployed

6 (DO NOT READ) Volunteer

7 (DO NOT READ) Disabled

(ASK ONLY OF EMPLOYED STOREFRONT BORROWERS)

Are you self-employed or a small business owner, or not?

1 Yes, self-employed

2 No, not self-employed

3 (DO NOT READ) Both, self-employed/small business owner and work for someone else

How much can you afford to pay each MONTH toward (an online payday loan/a payday loan) and still be able to pay your other bills and expenses?

____________ ($0 to $1,000)

Overall, do you think that (online payday loans/payday loans) MOSTLY help borrowers like you or MOSTLY hurt borrowers like you? (IF "BOTH," ASK:) I know it can be hard to say, but generally do you think they MOSTLY help or MOSTLY hurt borrowers?

1 Mostly help

2 Mostly hurt

3 (DO NOT READ) Some of both/ neither

(Have/Was) the (online payday loan(s)/ payday loan(s)) (been) more a SOURCE of stress and anxiety or more something that has RELIEVED stress and anxiety?

1 More a source of stress and anxiety

2 More something that has relieved stress and anxiety

3 (DO NOT READ) Neither/both

I'm going to read you several options. For each, tell me whether you would use this option if you were short on cash, and short-term loans of any kind no longer existed. How about (INSERT)?

a. Borrow from family or friends

b. Borrow from your employer

c. Sell or pawn personal possessions

d. Delay paying some bills

e. Cut back on expenses such as food and clothing

f. Take out a loan from a bank or credit union

g. Use a credit card

Would you use this option or not?

1 Yes, would use

2 No, would not use

Which of the following best describes your view? (READ LIST. ACCEPT ONE RESPONSE.)

1 (Online payday loans/Payday loans) should be kept as they are now with no changes

2 There should be small changes to (online payday loans/payday loans)

3 There should be major changes to (online payday loans/payday loans)

(Asked of storefront borrowers only)

I'm going to read you several things that some people have told us happened to them. For each one I read, please tell me whether it has happened to you. How about had a payday lender attempt to make a withdrawal that overdrew your bank account? Has this happened to you or not?

1 Has happened

2 Has not happened

3 (DO NOT READ) Does not apply

(Asked of online borrowers only)

I'm going to read you several things that some people have told us happened to them. For each one I read, please tell me whether it has happened to you. How about had an online payday lender make a withdrawal that overdrew your bank account? Has this happened to you or not?

1 Has happened

2 Has not happened

3 (DO NOT READ) Does not apply

Which of these statements comes closer to your point of view?

(READ STATEMENTS)

1 (Online payday loans/Payday loans) should be more regulated

2 (Online payday loans/Payday loans) should not be more regulated

If you find yourself in a financial bind again, how likely is it that you would take out (an online payday loan/a payday loan)? Is it very likely, somewhat likely, not very likely, or not at all likely?

1 Very likely

2 Somewhat likely

3 Not very likely

4 Not at all likely

Have you ever felt you were in such a difficult situation that you would take (an online payday loan/a payday loan) on pretty much any terms offered, or have you never felt that way?

1 Yes, have felt that way

2 No, have not felt that way

How much do you rely on (online payday lenders/payday lenders) to give you accurate information—completely, somewhat, not much, or not at all? (ENTER ONE ONLY)

INTERVIEWER NOTE: ONLY READ IF RESPONDENT VOLUNTARILY ASKS A QUESTION SUCH AS, "WHAT KIND OF INFORMATION?" Say: "Information about the terms of the loan, including how much you pay in interest or fees, and when and how you will need to repay the loan."

1 Completely

2 Somewhat

3 Not much

4 Not at all

Some people say (online payday loans/payday loans) take advantage of borrowers, while other people do not think (online payday loans/payday loans) take advantage of borrowers. What do you think, do (online payday loans/payday loans) take advantage of borrowers or not?

1 (Online payday loans/payday loans) take advantage of borrowers

2 (Online payday loans/payday loans) do not take advantage of borrowers

3 (DO NOT READ) Some of both/ neither

I'm going to read several types of financial products and services. For each one, please tell me whether you have used that product or service in the past year. Have you used (INSERT) in the past year?

1 Yes, used

2 No, have not used

a. A personal checking or savings account at a bank or credit union

b. A credit card

c. A prepaid card that works like a debit card but is not attached to an actual bank account

d. Overdrafting on your checking account (IF NECESSARY: Overdrafting is when your checking account balance becomes negative because more money has been withdrawn than was in the account)

(ASK ONLY OF THOSE WHO HAVE USED A CREDIT CARD IN THE PAST YEAR)

In the past year, have you maxed out or been at the top of your credit limit on any of your credit cards?

1 Yes, have maxed out

2 No, have not maxed out

(ASK ONLY OF THOSE WHO HAVE NOT USED A CREDIT CARD IN THE PAST YEAR)

Have you not used a credit card in the past year because you do not want one, because you think you would not be approved to get one, you are already making payments on one, or did you apply for one and were turned down? (ENTER ONE ONLY)

1 Do not want one

2 Would not be approved for one

3 Already making payments on one

4 Applied and was turned down

5 (DO NOT READ) Have credit card, but haven't used it in past year

6 (DO NOT READ) None of these

Focus Group Methodology

On behalf of the Safe Small-Dollar Loans Research Project, Hart Research Associates and Public Opinion Strategies conducted eight two-hour focus groups, with two groups per location in New York City; Chicago; Birmingham, AL; and Manchester, NH. Those groups were conducted during weekday evenings from Sept. 7, 2011, through Sept. 19, 2011. The Safe Small-Dollar Loans Research Project conducted two additional groups in San Francisco on Nov. 16, 2011. All quotations come from these 10 focus groups.

Endnotes

1 The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), available at: http://www.pewstates.org/research/reports/who-borrows-where-they-borrow-and-why-85899405043.

2 CashNetUSA. https://www.cashnetusa.com/payday/articles/safe-secure-payday-loans-best-found-online.html.

3 Jamie Fulmer's presentation on behalf of the Consumer Financial Services Association available at: http://www.ncsl.org/portals/1/documents/fiscal/Jamie_Fulmer_PowerPoint.pdf.

4 Fisca website: http://www.fisca.org/Content/NavigationMenu/AboutFISCA/FAQs/default.htm.

5 See note 3, above.

6 The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), p. 9.

7 These figures are from Pew's first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012). The data for online borrowers have not been previously published.

8 Center for Financial Services Innovation. "A Complex Portrait—An Examination of Small-Dollar Credit Consumers." 2012. Available at: http://cfsinnovation.com/system/files/A%20Complex%20Portrait-%20An%20Examination%20of%20Small-Dollar%20Credit%20Consumers.pdf.

9 Industry analyst Stephens Inc. in its 2011 report estimates that borrowers do not become profitable for lenders until they have borrowed four or five times. Robert DeYoung and Ronnie J. Phillips of the Federal Reserve Bank of Kansas City Economic Research Department also conclude that "the profitability of payday lenders depends on repeat borrowing." http://www.kansascityfed.org/PUBLICAT/RESWKPAP/PDF/rwp09-07.pdf. An analysis of North Carolina data found that 73 percent of lender revenue came from borrowers using seven or more loans per year. Michael A. Stegman and Robert Faris, "Payday Lending: A Business Model that Encourages Chronic Borrowing," Economic Development Quarterly (2003), www.ccc.unc.edu/abstracts/0203_Payday.php. See also: The Pew Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), p. 15.

10 Pew's first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), found that borrowers are indebted for an average of five months, using eight loans (based on state regulatory data) that last 18.2 days (based on the Annual Report from Advance America, the largest storefront lender, which industry analysts use as a proxy for the storefront payday lending industry).

11 "Oklahoma Trends in Deferred Deposit Lending, 2011." 2011. http://www.ok.gov/okdocc/documents/2011_10_OK%20Trends_Final_Draft.pdf.

12 See note 11, above.

13 See note 9, above.

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14 "Florida Trends in Deferred Presentment." 2010. https://www.veritecs.com/Docs/2010_06_FL_Trends-UPDATED.pdf. "Oklahoma Trends in Deferred Deposit Lending, 2011." 2011. http://www.ok.gov/okdocc/documents/2011_10_OK%20Trends_Final_Draft.pdf.

15 Leslie Parrish and Uriah King, "Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume." Center for Responsible Lending. June 2009. http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf.

16 In 2011, the average payday loan at the nation's largest payday lender—Advance America—was $375, based on its annual (10-K) report. Industry analyst Stephens Inc. uses Advance America as a proxy for the payday lending industry. Stephens Inc., "Payday Loan Industry" (2011). The average fee reported in Advance America's 10-K was $55, yielding a repayment of $430 in two weeks ($375+$55). Stephens also reports an average fee of $25 per $100 borrowed for online loans, implying a $95 fee for $375 borrowed, yielding a repayment of $470 in two weeks ($375+$95).

17 See note 10, above.

18 See note 14, above.

19 See note 6, above, p. 15.

20 See note 9, above. Most borrowing occurs in rapid succession (see note 15, above).

21 See note 11, above.

22 A trade group website includes a section titled "Is a Payday Advance Appropriate for You," which states, "A payday advance should be used responsibly and for only the purpose for which it is intended: To solve temporary cash-flow problems by bridging the gap between paydays. A payday advance is designed to provide short-term financial assistance. It is not meant to be a long-term solution." http://cfsaa.com/what-is-a-payday-advance/is-a-payday-advance-appropriate-for-you.aspx (accessed December 26, 2012).

23 Center for Financial Services Innovation. "A Complex Portrait—An Examination of Small-Dollar Credit Consumers." 2012. Available at: http://cfsinnovation.com/system/files/A%20Complex%20Portrait-%20An%20Examination%20of%20Small-Dollar%20Credit%20Consumers.pdf.

24 Oren Bar-Gill and Elizabeth Warren. "Making Credit Safer," (2008). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1137981.

25 Examples include Marianne Bertrand, Sendhil Mullainathan, and Eldar Shafir. "Behavioral Economics and Marketing in Aid of Decision-Making among the Poor," (2006); Stephen J. Hoch. "Counterfactual Reasoning and Accuracy in Predicting Personal Events," (1984); and Ron Harris and Einat Albin. "Bankruptcy Policy in Light of Manipulation in Credit Advertising." (2006).

26 Raymond S. Nickerson. "Confirmation Bias: A Ubiquitous Phenomenon in Many Guises." (1998). Available at: http://psy2.ucsd.edu/~mckenzie/nickersonConfirmationBias.pdf.

27 U.S. Bank printed advertisement, September 2012. On file at The Pew Charitable Trusts.

28 U.S. Bank printed advertisement, September 2012. On file at The Pew Charitable Trusts.

29 Advance America. http://www.advanceamerica.net/community-outreach/witfy.

30 Advance America printed advertisement. "People are Saving by Dining In." On file at The Pew Charitable Trusts.

31 CashNetUSA. http://www.cashnetusa.com/fast-cash/fast-cash-payday-loan.html.

32 Quik Cash printed advertisement. September 2012. On File at The Pew Charitable Trusts.

33 We Loan Cash. www.weloancash.net.

34 Reliable Finance printed advertisement. September 2012. On file at The Pew Charitable Trusts.

35 Washington State Department of Financial Institutions. 2011 Payday Lending Report. http://www.dfi.wa.gov/cs/pdf/2011-payday-lending-report.pdf.

36 For example, a $500 loan in Washington carries a $75 fee, so the default loan structure would require a $575.00 payment, while the installment structure would provide for up to 12 payments of $47.92 each over 180 days.

37 Details governing Washington's installment options on payday loans are available at http://apps.leg.wa.gov/Rcw/default.aspx?cite=31.45.084.

38 See note 35, above.

39 This calculation is made by dividing the 40,367 loans that were paid in full within a month by the 297,985 loans that were made. Data are available at: http://www.coloradoattorneygeneral.gov/sites/default/files/uploads/uccc/annual_reports/2011%20DDL%20Composite.REV_.pdf.

40 For example, Raj Chetty et al. classify 85 percent of people as "passive savers" who are heavily influenced by defaults as to whether to use a retirement savings account, but not by tax incentives to save. "Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark." 2012. According to John Beshears et al., "recent research has highlighted the important role that defaults play in a wide range of settings: organ donation decisions (Johnson and Goldstein 2003; Abadie and Gay 2004), car insurance plan choices (Johnson et al. 1993), car option purchases (Park, Jun, and McInnis 2000), and consent to receive e-mail marketing (Johnson, Bellman, and Lohse 2003)." Beshears et al. find that defaults have "tremendous influence" on "savings plan participation, contributions, asset allocation, rollovers, and decumulation." "The Importance of Default Options for Retirement Savings Outcomes," published in Social Security Policy in a Changing Environment. 2009.

41 Gregory Elliehausen and Edward C. Lawrence. "Payday Advance Credit in America: An Analysis of Customer Demand." (2001). Marianne Bertrand and Adair Morse. "Information Disclosure, Cognitive Biases and Payday Borrowing." (2010).

42 The Pew Charitable Trusts. "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012).

43 National Consumer Law Center. "300% Bank Payday Loans Spreading." http://www.nclc.org/images/pdf/banking_and_payment_systems/ib_bank_payday_spreading.pdf.

44 CashNetUSA. http://www.cashnetusa.com/payday/articles/use-payday-loans-to-stop-a-bank-overdraft-or-nsf-fee.html. (2012).

45 MoneyMutual. www.moneymutual.com. (2012).

46 These results refer to those borrowers who have had an account at a bank or credit union in the past year. Because these are questions about extended periods of time, it is impossible to say whether borrowers were overdrafting at the same times they were using payday loans, but the underlying point remains valid that payday loans do not eliminate overdraft risk.

47 It should be noted that bank customers can avoid overdraft fees on debit card transactions and ATM withdrawals by not opting in to overdraft coverage when they open an account, or by opting out at a later point. But a study by Pew's safe checking in the electronic age project, "Overdraft America: Confusion and Concerns about Bank Practices" (2012), found that a majority of customers who had paid an overdraft penalty fee in the last year did not realize that they had opted in to these fees.

48 Cypress Research Group. "Payday Advance Customer Satisfaction Survey." 2004. Available at: http://www.rtoonline.com/images/Payday-Loan-National-Customer-Satisfaction-Survey.pdf.

49 FiServ brochure. "Relationship Advance." 2009. On file at The Pew Charitable Trusts.

50 Dennis Campbell, Francisco de Asis Martinez-Jerez, and Peter Tufano. "Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures." 2008. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335873.

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51 Donald P. Morgan and Michael R. Strain. "Payday Holiday: How Households Fare after Payday Credit Bans." 2007. Available at: http://www.newyorkfed.org/research/staff_reports/sr309.pdf.

52 Bretton Woods Inc. 2008 Fee Analysis of Bank and Credit Union Non-Sufficient Funds and Overdraft Protection Programs. 2009. Available at: http://bretton-woods.com/media/Bretton$20Woods$2C$20Inc.$202008$20NSF-ODP$20Fee$20Analysis$2C$2001-09-2009.pdf Analysis by Center for Responsible Lending. "Payday Loans Put Families in the Red." 2009. Available at: http://www.responsiblelending.org/payday-lending/research-analysis/payday-puts-families-in-the-red-final.pdf.

53 The Pew Charitable Trusts. "Overdraft America: Confusion and Concerns about Bank Practices." (2012) http://www.pewhealth.org/uploadedFiles/PHG/Content_Level_Pages/Issue_Briefs/SC-IB-Overdraft%20America.pdf.

54 The exact wording for this question was different for storefront and online borrowers because of an oversight and is reported verbatim in the methodology section.

55 The Pew Charitable Trusts. "Payday Lending in America: Who Borrows, Where They Borrow, and Why." (2012).

56 The other options that payday borrowers say they would have available to them if payday loans were unavailable are discussed in more detail in the first report in this series, "Payday Lending in America: Who Borrows, Where They Borrow, and Why." (2012).

57 Marianne Bertrand and Adair Morse. "What Do High-Interest Borrowers Do With Their Tax Rebate?" (2009). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1344489.

58 Center for Responsible Lending's analysis of how a payday loan would fit into a typical borrower's household budget reached a similar conclusion. "Springing The Debt Trap." (2007). Available at: http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.pdf.

59 See note 48, above.

60 Robert B. Avery and Katherine A. Samolyk, "Payday Loans Versus Pawn Shops: The Effects of Loan Fee Limits on Household Use." (preliminary draft, 2011).

61 ACE Cash Express. https://www.acecashexpress.com/services.

62 Dollar Financial Group. http://www.dfg.com/mobile/products.asp.

63 Check into Cash. http://checkintocash.com/Testimonials/.

64 Check into Cash. http://checkintocash.com/Testimonials/.

65 Dollar Loan Center DBA www.dontbebroke.com; Quik Cash. Printed advertisement, downloaded September 2012.

66 Center for Financial Services Innovation. "A Complex Portrait." 2012. Forty-four percent of payday borrowers would use the loans again only if they have no better options, 33 percent would use the product again without hesitation, and 22 percent would not use payday loans again.

67 Pew's first report in this series found that in states that restrict storefront lending, 95 out of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere. "Payday Lending in America: Who Borrows, Where They Borrow, and Why" (2012), pps. 22-23.

68 Jannekke Ratcliffe and Kim Manturuk. "North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options" UNC Center for Community Capital. (2007). Available at: http://www.nccob.gov/public/docs/News/Press%20Releases/Archives/2007/NC_After_Payday.pdf.

69 Information on laws in New Hampshire and other states is available at http://www.pewstates.org/research/data-visualizations/interactive-state-payday-loan-regulation-and-usage-rates-8589940569.

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Exhibit C

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How often can I receive installment loans?

Online installment loan offer a quick, hassle-free solution when you need to cover unexpected or emergency expenses. While they're available whenever you need them, you shouldn't use online installment loans as a long-term financial solution.

Check 'n Go allows for up to eight installment loans in any 12 month period.

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- Financial Advice
- Connect with Check 'n Go

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- Title Loans
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- Pay Online
- Store Customers
- Installment Loans

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How can you determine if an installment loan is the right choice?

First, clearly assess the financial situation. Installment Loans are intended as an occasional, short-term solution and not as a source of ongoing help. If you need more help than an installment loan can provide, consider talking to a professional credit counselor.

Only borrow the amount that you're certain you can repay on time. If you're able to budget the prompt repayment of your loan into your next pay period, you're taking the responsible approach. When used responsibly and as intended, an installment loan works as a good alternative to late fees, credit card debt, and damaged credit scores.

RETURN TO QUESTIONS

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- Installment Loan Services
- Financial Advice
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Exhibit D

From: "Check 'n Go Customer Service" <email@checkngo.t.messages1.com>
Date: May 24, 2013 7:06 AM
Subject: Get at least $3600.00 cash back when you refinance
To: <ajsfather18@gmail.com>
Cc:

Refinance my loan

Check 'n Go

VeriSign

Online Customer Service:
1-800-723-7022
Contact Us

Refinance today, get cash next business day

Hello lacey,

Your next installment loan payment is just 7 days away. But if you refinance now, you can get at least $3600.00 cash back by the next business day. It's a new loan, with new terms for you to take advantage of -- so refinance now.

Just log onto your My Accounts page and click the "Refinance" button.

Start Now ››

Sincerely,

Check 'n Go

7755 Montgomery Road Cincinnati, OH 45236

To unsubscribe from all future marketing communications, click here. To view our privacy policy, please click here.

California loans are issued pursuant to the California Finance Lenders Law. Texas loans originated by a third party lender, restrictions apply.

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Check n Go

This email was sent to: ajsfather18@gmail.com. We love talking to you. Thank you for allowing us into your inbox.

Exhibit E

INSTALLMENT LOAN AGREEMENT

CONSUMER

Name: Lacey Townsend
Street Address: [redacted]
City and State: [redacted]
Telephone: [redacted]
Customer Identification Number: [redacted]

FEDERAL TRUTH-IN-LENDING STATEMENT			
ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	**FINANCE CHARGE** The dollar amount the credit will cost you.	**AMOUNT FINANCED** The amount of credit provided to you or on your behalf.	**TOTAL OF PAYMENTS** The amount you will have paid after you have made all payments as scheduled.
357.91% (e)	$3,371.90	$2,000.00	$5,371.90

Your payment schedule will be:

Installment Payment	Amount of Payment	When Payment Is Due
Payment No. 1	$316.01	6/15/2012
Payment No. 2	$316.01	6/29/2012
Payment No. 3	$316.01	7/13/2012
Payment No. 4	$316.01	7/27/2012
Payment No. 5	$316.01	8/10/2012
Payment No. 6	$316.01	8/24/2012
Payment No. 7	$316.01	9/7/2012
Payment No. 8	$316.01	9/21/2012
Payment No. 9	$316.01	10/5/2012
Payment No. 10	$316.01	10/19/2012
Payment No. 11	$316.01	11/2/2012
Payment No. 12	$316.01	11/16/2012
Payment No. 13	$316.01	11/30/2012
Payment No. 14	$316.01	12/14/2012
Payment No. 15	$316.01	12/28/2012
Payment No. 16	$316.01	1/11/2013
Payment No. 17	$315.74	1/25/2013

Security: If you selected Repayment Option A, then your EFT authorization is security for this loan. If you selected Repayment Option B, then this loan is not secured.

Late charge: If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

Prepayment: If you pay off early, then you will not have to pay a penalty and you may be entitled to a refund of part of the Finance Charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds.

(e) means estimate*

PAID 08/23/2012

LICENSEE*

Eastern Specialty Finance, Inc. d/b/a Check 'n Go
Website address: www.checkngo.com
Telephone: 1-800-723-7022
* We hold a license under, and we make this loan under, the Delaware Licensed Lenders Act (5 Delaware Code §§ 2201, *et seq.*) To contact us, please call our customer comment line: (888) 3PAYDAY.

METHOD OF REPAYMENT

Sign by one of the two repayment options listed below. By selecting one repayment option, you automatically decline the other option. The selection of the repayment option is entirely within your discretion. Your selection has no effect on your eligibility for this loan.

/s/ E-signature on file
__________ REPAYMENT OPTION A: ELECTRONIC FUNDS TRANSFER.

EFT Authorization. This paragraph contains your authorization for us to initiate electronic funds transfers from the bank account identified below (your "*bank account*"). You may revoke this EFT authorization at any time by contacting either us or your bank. You authorize us to initiate an EFT to your bank account to collect each installment listed on the payment schedule (each an "*installment EFT*"). An installment EFT will generally post to your bank account on the business day following the installment's due date. Additionally, if you default on this loan, then you authorize us to initiate one or more EFTs to your bank account to collect the accelerated loan balance (collectively an "*accelerated-balance EFT*"). An accelerated-balance EFT will generally post to your bank account on the first business day, following your payment default, on which you receive a regular deposit of income to your bank account.

Bank Account #: [redacted] **Bank Routing #:** [redacted]

DeclineB
__________ REPAYMENT OPTION B: CASH OR CHECK.

Cash or Check. You agree to pay each installment by cash or check, mailed to: Check 'n Go, Attn: Installment Loan Payments, 4540 Cooper Road, Suite 200, Cincinnati, Ohio 45[illegible]

FUNDS AVAILABILITY

* The Loan Date is the date on which you electronically sign this Agreement. Funds that we electronically transmit to your bank account will generally be made available to you by the first banking day following the Loan Date (the "*Funds Availability Date*"). The APR shown in the Truth-In-Lending Statement is calculated based on the estimated Funds Availability Date. If this transaction represents a refinance of a previous transaction from us, then we will not need to electronically transmit any funds to your bank account. Consequently, the Finance Charge and APR will be calculated based on the Loan Date.

LOAN REFERENCE

Loan Date: 5/29/2012
Loan Number: 13022127

ITEMIZATION OF AMOUNT FINANCED

1. Amount paid directly to you: $248.87
2. Amount credited to your account with us: $1751.13
3. Total Amount Financed (the sum of 1 and 2): $2000

NOTICE OF ARBITRATION AGREEMENT; RIGHT TO REJECT ARBITRATION AGREEMENT

Before signing this Agreement, you should carefully review the Arbitration Agreement located on pages 2 and 3. The Arbitration Agreement provides that all Claims arising from or relating to this Agreement or any other agreement that you and we have ever entered into must be resolved by binding arbitration if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. Thus, if the person or entity against whom you assert a Claim elects to arbitrate the Claim, then you will not have the following important rights:

- You may not file or maintain a lawsuit in any court except a small claims court.
- You may not join or participate in a class action, act as a class representative or a private attorney general, or consolidate your Claim with the claims of others.
- You will have to pay the arbitration firm certain fees in order to commence an arbitration proceeding, unless you ask us to pay those fees to the arbitration firm for you.
- You give up your right to have a jury decide your Claim.
- You will not be afforded the procedural, pre-trial discovery, and appellate rights in an arbitration proceeding that you would enjoy in a court or judicial proceeding.

If you do not want to arbitrate all Claims as provided in the Arbitration Agreement, then you have the right to reject the Arbitration Agreement. To reject arbitration, you must deliver written notice to us at the following address within 60 days following the date of this Agreement: Check 'n Go, Attn: Arbitration Opt-Out, 7755 Montgomery Road, Suite 400, Cincinnati, Ohio 45236. Nobody else can reject arbitration for you; this method is the only way you can reject the Arbitration Agreement. Your rejection of the Arbitration Agreement will not affect your right to credit, how much credit you receive, or any contract term other than the Arbitration Agreement.

You should carefully review this entire Agreement, including the Definitions, Terms, and Conditions located on page 2, and the Arbitration Agreement and the Notice-of-Grievance Agreement located on pages 2 and 3. By signing below, you agree to every provision contained in this three-page Agreement.

LICENSEE: [signature]
By: __________ Stephen Schaller, Secretary ______
Title: Authorized Representative

CONSUMER: /s/ E-signature on file
Signature: ____________________

DEFINITIONS, TERMS, AND CONDITIONS

1. DEFINITIONS.

- *We*, *our*, and *us* each means Eastern Specialty Finance, Inc. d/b/a Check 'n Go, and *you* and *your* each means the consumer identified on page one.
- *Agreement* means this Installment Loan Agreement, and *this loan* means the loan that we make to you on this date.
- Your *Payment Item* means any electronic funds transfer that we submit to your bank if you have signed Repayment Option A: Electronic Funds Transfer. Because applicable federal law and state law do not clearly address whether our interest in your EFT authorization is a "security interest" for Truth-In-Lending purposes, we have – pursuant to Comment 2(a)(25) of the Federal Reserve Board Official Staff Commentary to Regulation Z § 226.2 – disclosed in the TILA Statement that your EFT authorization is "security" for this loan; we make this disclosure for Truth-in-Lending purposes only. If you terminate your EFT authorization, as permitted by Repayment Option A, then you authorize us to present a pre-authorized draft to your bank account to collect all money you owe under this Agreement. In such case, the term Payment Item refers to this pre-authorized draft.
- Your *bank* and your *bank account* mean, respectively, the bank and the bank account that you identify in your application for this loan or, if different, on page 1 of this Agreement.
- *Finance Charge*, *Amount Financed*, and *Total of Payments* mean the respective amounts identified in the Federal Truth-In-Lending (TIL) Statement disclosed on page 1.
- *Installment due date* means each date identified in the TIL Statement on which an installment payment is due.
- *This date* refers to the date on which you and we sign this Agreement.

2. PROMISE TO PAY. You promise to pay us the Amount Financed plus interest on the unpaid principal balance of this loan. We will begin charging interest on this date. We calculate interest on a daily basis by multiplying the daily rate times the unpaid principal balance of this loan. We figure the daily rate by dividing our contract interest rate of 360.00% by 365. You must pay each installment on its due date. We apply your payments first to interest (accrued as of the date the payment is received), then to principal (due as of the date the payment is received), and then to any other charges you owe us.

3. PREPAYMENT. You have the right to prepay this loan at any time. If you prepay this loan in full or in part, then – upon your full repayment of this loan – we will rebate to you the unearned portion of the Finance Charge, calculated in accordance with the simple interest method.

4. LATE FEE AND DISHONORED ITEM FEE. If your Bank dishonors a Payment Item for any reason, then you must pay us a dishonored item fee in the amount of $35. We will charge and collect no more than one dishonored item fee per installment. If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

5. EVENTS OF DEFAULT. A payment default occurs if you fail to pay an installment when it is due. If you default, then all money owing under this Agreement becomes immediately due and payable. By failing to accelerate the balance of this loan in one instance of your default, we do not waive any right or remedy we may have in a later instance of your default.

6. AUTHORIZATION TO SERVICE LOAN. Prior to an installment due date, you authorize us to call you during reasonable hours at home or work to remind you of the due date. Until you pay this loan in full, you further authorize us to obtain your bank account information to determine whether funds are available to pay an installment that is due. Finally, if you default on this Agreement, then you authorize us to call you at the home or work phone numbers listed in your credit application (during reasonable hours and subject to your right to instruct us not to call you), to leave a message with a person or voice-mail service at either location stating our name and phone number, to write you at home, and to acquire location information about you from the personal contacts whom you identify in your credit application.

7. RIGHT OF RESCISSION. You may rescind this loan at no cost by prepaying the loan in full and in immediately available funds not later than our closing time on the business day immediately following this date.

8. PRIVACY STATEMENT. You acknowledge that you have received a copy of our privacy statement either on this date or within the last 12 months.

9. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

10. AFFIRMATIVE CONSENT TO RECEIVE COMMERCIAL E-MAILS AND PHONE CALLS. By signing this Agreement, you authorize us to send you commercial e-mail messages at the following e-mail address: [redacted]. You also authorize us to place pre-recorded or live phone calls to the following phone numbers, including any mobile phone number(s): [redacted]

11. COVERED BORROWER IDENTIFICATION STATEMENT. **Federal law provides important protections to active duty members of the Armed Forces and their dependents. To ensure that these protections are provided to eligible applicants, we require you to sign one of the following statements as applicable:**

_____________________________ **I AM** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer.

_____________________________ **I AM** a dependent of a member of the Armed Forces on active duty as described above, because I am the member's spouse, the member's child under the age of eighteen years old, or I am an individual for whom the member provided more than one-half of my financial support for 180 days immediately preceding today's date.

- OR -

/s/ E-signature on file
_____________________________ **I AM NOT** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer (or a dependent of such a member).

Warning: It is important to fill out this form accurately. Knowingly making a false statement on a credit application is a crime.

Date: 5/29/2012

PAID 08/23/2012

ARBITRATION AGREEMENT

1. DEFINITION OF CLAIM. *Claim* means any claim, dispute, or controversy arising from or relating to this Agreement, this Transaction, any other agreement or transaction that you and we have ever entered into or completed, or any other conduct or dealing between you and us. A court or arbitrator interpreting the scope of this Arbitration Agreement should broadly construe the meaning of Claim so as to give effect to your and our intention to arbitrate any and all claims, disputes, or controversies that may arise between you and us. Consistent with this broad construction, Claim includes (but is not limited to) each of the claims, disputes, or controversies listed below.

- A Claim includes any dispute or controversy regarding the scope, validity, or enforceability of this Arbitration Agreement. For example, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because applicable usury, lending, or consumer protection laws render the underlying Transaction void or unenforceable. A Claim also includes any assertion by you or us that this Arbitration Agreement is unenforceable because it lacks fairness or mutuality of obligations,

conflicts with bankruptcy or other federal laws, improperly limits your or our remedies for the other's violation of laws, or unduly restricts your or our access to the court system. Finally, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because you or we did not receive notice of or understand its provisions, you or we need to discover the filing fees or administrative costs associated with commencing an arbitration proceeding, or you or we believe the arbitration firm or the arbitrator will be unfair or biased.

- A Claim includes any claim that you assert against a person or entity related to us – including our parent company, affiliated companies, directors, officers, employees, agents, and representatives – and any claim that we assert against a person or entity related to you. For the purpose of this Arbitration Agreement, references to *we*, *our*, and *us* and references to *you* and *your* include such related persons or entities. You and we agree that these related persons and entities may elect to arbitrate any Claim asserted against them even though they have not signed this Arbitration Agreement.
- A Claim includes any statutory, tort, contractual, or equitable (*i.e.*, non-monetary) claim. For example, a Claim includes any claim arising under the following: a federal or state statute, act, or legislative enactment; a federal or state administrative regulation or rule; common law (*i.e.*, non-statutory law based on court cases); a local ordinance or zoning code; this Agreement or another contract; a judicial or regulatory decree, order, or consent agreement; or any other type of law.
- A Claim includes (but is not limited to) any claim based on your or our conduct before you and we consummated this Transaction. For example, a Claim includes any dispute or controversy regarding our advertising, application processing, or underwriting practices, our communication of credit decisions, or our provision of cost-of-credit or other consumer protection disclosures.
- A Claim includes any request for monetary damages or equitable remedies, whether such request is asserted as a claim, counterclaim, or cross-claim.

2. MANDATORY ARBITRATION UPON ELECTION. Subject to your right to reject arbitration (explained on page 1 of this Agreement) and subject to the small claims court exception (explained below), you and we agree to arbitrate any Claim if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. **Consequently, if the person or entity against whom a Claim is asserted elects to arbitrate the Claim, then neither you nor we may file or maintain a lawsuit in any court except a small claims court and neither you nor we may join or participate in a class action, act as a class representative or a private attorney general, or consolidate a Claim with the claims of others.** A person or entity against whom a Claim is asserted may elect to arbitrate the Claim by providing oral or written notice to the person asserting the Claim (*i.e.*, the claimant). Such notice need not follow any particular format but must reasonably inform the claimant that arbitration has been elected. For example, if you or we file a lawsuit against the other, then the other provides sufficient notice if the other orally informs the claimant that the other elects to arbitrate the Claim or if the other files a pleading (*i.e.*, a document filed in court) requesting the court to stay (*i.e.*, freeze) the court case and refer the Claim to arbitration.

3. SMALL CLAIMS COURT EXCEPTION. You and we may ask a small claims court to decide a Claim so long as no party to the small claims court lawsuit seeks to certify a class, consolidate the claims of multiple persons, or recover damages beyond the jurisdiction of the small claims court. If you file a small claims court lawsuit against us, then we lose the right to elect arbitration of your Claim (but not of other persons' Claims). In contrast, if we file a small claims court lawsuit against you, then you retain the right to elect arbitration of our Claim.

4. ARBITRATION FIRM. The American Arbitration Association ("*AAA*") (1-800-778-7879, www.adr.org) will administer the arbitration of Claims. The AAA will normally apply its Consumer Arbitration Rules then in effect to a Claim but may apply other types of procedural rules – such as the AAA's Commercial Arbitration Rules then in effect – if a party to the arbitration proceeding demonstrates that the application of such other procedural rules is appropriate. No matter what the arbitration firm's procedural rules provide, you and we agree that the arbitrator must issue a written decision and may award any type of remedy – including punitive damages and equitable relief – that a court or jury could award if the Claim were litigated. **You and we also agree that an arbitration firm may not arbitrate a Claim as a class action or otherwise consolidate the Claims of multiple persons.** You may request a copy of the AAA's Consumer Arbitration Rules and other procedural rules at the toll-free phone number or URL (universal resource locator) identified above. If you object to the AAA as the arbitration firm or if the AAA is unavailable, then the parties may agree to select a local arbitrator who is a retired judge or a registered arbitrator in good standing with an arbitration firm, provided that such local arbitrator must enforce all the terms of this arbitration agreement, including the class-action waiver. **The parties may not select a local arbitrator who refuses to enforce this arbitration agreement, including the class action waiver, because you and we waive any right to arbitrate a Claim on a class-action, representative-action, or consolidated basis.** When attempting to contact AAA or another arbitration firm, please recognize that phone numbers and URLs change frequently; you may need to update the contact information provided above with your own research.

5. PAYMENT OF ARBITRATION FEES; SELECTION OF FORUM. If you file a Claim with the AAA or another arbitration firm, the firm will usually ask you to pay a filing fee and may also ask you to pay in advance for some of the expenses the firm will incur when administering the arbitration proceeding. Upon your written request, we will pay to the arbitration firm any fees or advance administrative expenses that the arbitration firm requires you to pay as a condition to your filing a Claim with the firm. Additionally, we will pay any fees or expenses the arbitration firm charges for administering the arbitration proceeding, any fees or expenses the individual arbitrator or arbitrators charge for attending the arbitration hearing, and any fees a court charges you to file a lawsuit appealing the arbitration decision. We will pay these fees and expenses whether or not you prevail in the arbitration proceeding. Finally, we agree to hold the arbitration proceedings in the county of your residence or in any different location in the United States of your choice.

6. GOVERNING LAW. You and we acknowledge that this Transaction involves interstate commerce. Accordingly, you and we agree that both the procedural and the substantive provisions of the Federal Arbitration Act, 9 USC §§ 1-16, govern the enforcement, interpretation, and performance of this Arbitration Agreement. Any court with jurisdiction may enforce this Arbitration Agreement. Additionally, any court with jurisdiction may enforce an arbitration decision rendered under this Arbitration Agreement if that arbitration decision has been properly registered as a judgment.

7. SURVIVAL; BINDING EFFECT; SEVERABILITY. You and we retain the right to invoke this Arbitration Agreement and to compel the arbitration of Claims even after your and our respective obligations under this Agreement have been completed, defaulted, rescinded, or discharged in bankruptcy. This Arbitration Agreement binds the heirs, successors, and assigns – including any bankruptcy trustee – of both you and us. Finally, if a court or arbitrator determines that any part of this Arbitration Agreement is unenforceable, then you and we agree that the court or arbitrator must fully enforce the remaining provisions that have not been invalidated.

NOTICE-OF-GRIEVANCE AGREEMENT

If the person or entity against whom a Claim is asserted declines to arbitrate the Claim or if a court or arbitrator determines that the above Arbitration Agreement is unenforceable, then you and we agree that neither you nor we may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from or relates to a Claim until the claimant has provided the other party written notice of the asserted Claim and afforded the other party a reasonable period after the giving of the written notice to take corrective action. If applicable law provides a time period which must elapse before certain action can be taken, then that time period will be deemed reasonable for the purpose of the preceding sentence.

By signing below, you and we agree to the Arbitration Agreement and the Notice-of-Grievance Agreement, each of which is set forth above.

LENDER: Stephen Scholler

By: Stephen Scholler, Secretary

Date: 5/29/2012

CONSUMER:

Signature: /s/ E-signature on file

Print Name: Lacey Townsend

Date: 5/29/2012

PAID 08/23/2012

Exhibit F

INSTALLMENT LOAN AGREEMENT

CONSUMER

Name: lacey townsend
Street Address: [redacted]
City and State: [redacted]
Telephone: [redacted]
Customer Identification Number: [redacted]

LICENSEE*

Eastern Specialty Finance, Inc. d/b/a Check 'n Go
Website address: www.checkngo.com
Telephone: 1-800-723-7022
* We hold a license under, and we make this loan under, the Delaware Licensed Lenders Act (5 Delaware Code §§ 2201, *et seq.*) To contact us, please call our customer comment line: (888) 3PAYDAY.

FEDERAL TRUTH-IN-LENDING STATEMENT

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	AMOUNT FINANCED The amount of credit provided to you or on your behalf.	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled.
356.98% (e)	$1,877.20	$1,100.00	$2,977.20

Your payment schedule will be:

Installment Payment	Amount of Payment	When Payment Is Due
Payment No. 1	$175.13	10/5/2012
Payment No. 2	$175.13	10/19/2012
Payment No. 3	$175.13	11/2/2012
Payment No. 4	$175.13	11/16/2012
Payment No. 5	$175.13	11/30/2012
Payment No. 6	$175.13	12/14/2012
Payment No. 7	$175.13	12/28/2012
Payment No. 8	$175.13	1/11/2013
Payment No. 9	$175.13	1/25/2013
Payment No. 10	$175.13	2/8/2013
Payment No. 11	$175.13	2/22/2013
Payment No. 12	$175.13	3/8/2013
Payment No. 13	$175.13	3/22/2013
Payment No. 14	$175.13	4/5/2013
Payment No. 15	$175.13	[illegible]/2013
Payment No. 16	$175.13	5/[illegible]/2013
Payment No. 17	$[illegible]5.12	5/[illegible]/2013

Security: If you selected Repayment Option A, then your EFT authorization is security for this loan. If you selected Repayment Option B, then this loan is not secured.

Late charge: If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

Prepayment: If you pay off early, then you will not have to pay a penalty and you may be entitled to a refund of part of the Finance Charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds.

(e) means estimate*

PAID 10/26/2012

METHOD OF REPAYMENT

Sign by one of the two repayment options listed below. By selecting one repayment option, you automatically decline the other option. The selection of the repayment option is entirely within your discretion. Your selection has no effect on your eligibility for this loan.

/s/ E-signature on file
______ REPAYMENT OPTION A: ELECTRONIC FUNDS TRANSFER.

EFT Authorization. This paragraph contains your authorization for us to initiate electronic funds transfers from the bank account identified below (your "*bank account*"). You may revoke this EFT authorization at any time by contacting either us or your bank. You authorize us to initiate an EFT to your bank account to collect each installment listed on the payment schedule (each an "*installment EFT*"). An installment EFT will generally post to your bank account on the business day following the installment's due date. Additionally, if you default on this loan, then you authorize us to initiate one or more EFTs to your bank account to collect the accelerated loan balance (collectively an "*accelerated-balance EFT*"). An accelerated-balance EFT will generally post to your bank account on the first business day, following your payment default, on which you receive a regular deposit of income to your bank account.

Bank Account #: [redacted] **Bank Routing #:** [redacted]

DeclineB
______ REPAYMENT OPTION B: CASH OR CHECK.

Cash or Check. You agree to pay each installment by cash or check, mailed to: Check 'n Go, Attn: Installment Loan Payments, 45[illegible] Cooper Road, Suite 200, Cincinnati, Ohio 4[illegible]

FUNDS AVAILABILITY

* The Loan Date is the date on which you electronically sign this Agreement. Funds that we electronically transmit to your bank account will generally be made available to you by the first banking day following the Loan Date (the "*Funds Availability Date*"). The APR shown in the Truth-In-Lending Statement is calculated based on the estimated Funds Availability Date. If this transaction represents a refinance of a previous transaction from us, then we will not need to electronically transmit any funds to your bank account. Consequently, the Finance Charge and APR will be calculated based on the Loan Date.

LOAN REFERENCE

Loan Date: 9/15/2012
Loan Number: 13686534

ITEMIZATION OF AMOUNT FINANCED

1. Amount paid directly to you: $1,100.00
2. Amount credited to your account with us: $5799.04
3. Total Amount Financed (the sum of 1 and 2): $-4699.04

NOTICE OF ARBITRATION AGREEMENT; RIGHT TO REJECT ARBITRATION AGREEMENT

Before signing this Agreement, you should carefully review the Arbitration Agreement located on pages 2 and 3. The Arbitration Agreement provides that all Claims arising from or relating to this Agreement or any other agreement that you and we have ever entered into must be resolved by binding arbitration if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. Thus, if the person or entity against whom you assert a Claim elects to arbitrate the Claim, then you will not have the following important rights:

- You may not file or maintain a lawsuit in any court except a small claims court.
- You may not join or participate in a class action, act as a class representative or a private attorney general, or consolidate your Claim with the claims of others.
- You will have to pay the arbitration firm certain fees in order to commence an arbitration proceeding, unless you ask us to pay those fees to the arbitration firm for you.
- You give up your right to have a jury decide your Claim.
- You will not be afforded the procedural, pre-trial discovery, and appellate rights in an arbitration proceeding that you would enjoy in a court or judicial proceeding.

If you do not want to arbitrate all Claims as provided in the Arbitration Agreement, then you have the right to reject the Arbitration Agreement. To reject arbitration, you must deliver written notice to us at the following address within 60 days following the date of this Agreement: Check 'n Go, Attn: Arbitration Opt-Out, 7755 Montgomery Road, Suite 400, Cincinnati, Ohio 45236. Nobody else can reject arbitration for you; this method is the only way you can reject the Arbitration Agreement. Your rejection of the Arbitration Agreement will not affect your right to credit, how much credit you receive, or any contract term other than the Arbitration Agreement.

You should carefully review this entire Agreement, including the Definitions, Terms, and Conditions located on page 2, and the Arbitration Agreement and the Notice-of-Grievance Agreement located on pages 2 and 3. By signing below, you agree to every provision contained in this three-page Agreement.

LICENSEE:
By: ______ Stephen Schaller, Secretary
Title: Authorized Representative

CONSUMER: /s/ E-signature on file
Signature: ______

DEFINITIONS, TERMS, AND CONDITIONS

1. DEFINITIONS.

- *We*, *our*, and *us* each means Eastern Specialty Finance, Inc. d/b/a Check 'n Go, and *you* and *your* each means the consumer identified on page one.
- *Agreement* means this Installment Loan Agreement, and *this loan* means the loan that we make to you on this date.
- Your *Payment Item* means any electronic funds transfer that we submit to your bank if you have signed Repayment Option A: Electronic Funds Transfer. Because applicable federal law and state law do not clearly address whether our interest in your EFT authorization is a "security interest" for Truth-In-Lending purposes, we have – pursuant to Comment 2(a)(25) of the Federal Reserve Board Official Staff Commentary to Regulation Z § 226.2 – disclosed in the TILA Statement that your EFT authorization is "security" for this loan; we make this disclosure for Truth-in-Lending purposes only. If you terminate your EFT authorization, as permitted by Repayment Option A, then you authorize us to present a pre-authorized draft to your bank account to collect all money you owe under this Agreement. In such case, the term Payment Item refers to this pre-authorized draft.
- Your *bank* and your *bank account* mean, respectively, the bank and the bank account that you identify in your application for this loan or, if different, on page 1 of this Agreement.
- *Finance Charge*, *Amount Financed*, and *Total of Payments* mean the respective amounts identified in the Federal Truth-In-Lending (TIL) Statement disclosed on page 1.
- *Installment due date* means each date identified in the TIL Statement on which an installment payment is due.
- *This date* refers to the date on which you and we sign this Agreement.

2. PROMISE TO PAY. You promise to pay us the Amount Financed plus interest on the unpaid principal balance of this loan. We will begin charging interest on this date. We calculate interest on a daily basis by multiplying the daily rate times the unpaid principal balance of this loan. We figure the daily rate by dividing our contract interest rate of 360.00% by 365. You must pay each installment on its due date. We apply your payments first to interest (accrued as of the date the payment is received), then to principal (due as of the date the payment is received), and then to any other charges you owe us.

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4. LATE FEE AND DISHONORED ITEM FEE. If your Bank dishonors a Payment Item for any reason, then you must pay us a dishonored item fee in the amount of $35. We will charge and collect no more than one dishonored item fee per installment. If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

5. EVENTS OF DEFAULT. A payment default occurs if you fail to pay an installment when it is due. If you default, then all money owing under this Agreement becomes immediately due and payable. By failing to accelerate the balance of this loan in one instance of your default, we do not waive any right or remedy we may have in a later instance of your default.

6. AUTHORIZATION TO SERVICE LOAN. Prior to an installment due date, you authorize us to call you during reasonable hours at home or work to remind you of the due date. Until you pay this loan in full, you further authorize us to obtain your bank account information to determine whether funds are available to pay an installment that is due. Finally, if you default on this Agreement, then you authorize us to call you at the home or work phone numbers listed in your credit application (during reasonable hours and subject to your right to instruct us not to call you), to leave a message with a person or voice-mail service at either location stating your name and phone number, to write you at home, and to acquire location information about you from the personal contacts whom you identify in your credit application.

7. RIGHT OF RESCISSION. You may rescind this loan at no cost by prepaying the loan in full and in immediately available funds not later than our closing time on the business day immediately following this date.

8. PRIVACY STATEMENT. You acknowledge that you have received a copy of our privacy statement either on this date or within the last 12 months.

9. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

10. AFFIRMATIVE CONSENT TO RECEIVE COMMERCIAL E-MAILS AND PHONE CALLS. By signing this Agreement, you authorize us to send you commercial e-mail messages to the following e-mail address: [redacted]. You also authorize us to place pre-recorded or live phone calls to the following phone numbers, including any mobile phone number(s): [redacted]

11. COVERED BORROWER IDENTIFICATION STATEMENT. Federal law provides important protections to active duty members of the Armed Forces and their dependents. To ensure that these protections are provided to eligible applicants, we require you to sign one of the following statements as applicable:

PAID 10/26/2012

______________________________ **I AM** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer.

______________________________ **I AM** a dependent of a member of the Armed Forces on active duty as described above, because I am the member's spouse, the member's child under the age of eighteen years old, or I am an individual for whom the member provided more than one-half of my financial support for 180 days immediately preceding today's date.

- OR -

/s/ E-signature on file
______________________________ **I AM NOT** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer (or a dependent of such a member).

Warning: It is important to fill out this form accurately. Knowingly making a false statement on a credit application is a crime.

Date: 9/15/2012

ARBITRATION AGREEMENT

1. DEFINITION OF CLAIM. *Claim* means any claim, dispute, or controversy arising from or relating to this Agreement, this Transaction, any other agreement or transaction that you and we have ever entered into or completed, or any other conduct or dealing between you and us. A court or arbitrator interpreting the scope of this Arbitration Agreement should broadly construe the meaning of Claim so as to give effect to your and our intention to arbitrate any and all claims, disputes, or controversies that may arise between you and us. Consistent with this broad construction, Claim includes (but is not limited to) each of the claims, disputes, or controversies listed below.

- A Claim includes any dispute or controversy regarding the scope, validity, or enforceability of this Arbitration Agreement. For example, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because applicable usury, lending, or consumer protection laws render the underlying Transaction void or unenforceable. A Claim also includes any assertion by you or us that this Arbitration Agreement is unenforceable because it lacks fairness or mutuality of obligations,

conflicts with bankruptcy or other federal laws, improperly limits your or our remedies for the other's violation of laws, or unduly restricts your or our access to the court system. Finally, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because you or we did not receive notice of or understand its provisions, you or we need to discover the filing fees or administrative costs associated with commencing an arbitration proceeding, or you or we believe the arbitration firm or the arbitrator will be unfair or biased.

- A Claim includes any claim that you assert against a person or entity related to us – including our parent company, affiliated companies, directors, officers, employees, agents, and representatives – and any claim that we assert against a person or entity related to you. For the purpose of this Arbitration Agreement, references to *we*, *our*, and *us* and references to *you* and *your* include such related persons or entities. You and we agree that these related persons and entities may elect to arbitrate any Claim asserted against them even though they have not signed this Arbitration Agreement.
- A Claim includes any statutory, tort, contractual, or equitable (*i.e.*, non-monetary) claim. For example, a Claim includes any claim arising under the following: a federal or state statute, act, or legislative enactment; a federal or state administrative regulation or rule; common law (*i.e.*, non-statutory law based on court cases); a local ordinance or zoning code; this Agreement or another contract; a judicial or regulatory decree, order, or consent agreement; or any other type of law.
- A Claim includes (but is not limited to) any claim based on your or our conduct before you and we consummated this Transaction. For example, a Claim includes any dispute or controversy regarding our advertising, application processing, or underwriting practices, our communication of credit decisions, or our provision of cost-of-credit or other consumer protection disclosures.
- A Claim includes any request for monetary damages or equitable remedies, whether such request is asserted as a claim, counterclaim, or cross-claim.

2. MANDATORY ARBITRATION UPON ELECTION. Subject to your right to reject arbitration (explained on page 1 of this Agreement) and subject to the small claims court exception (explained below), you and we agree to arbitrate any Claim if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. **Consequently, if the person or entity against whom a Claim is asserted elects to arbitrate the Claim, then neither you nor we may file or maintain a lawsuit in any court except a small claims court and neither you nor we may join or participate in a class action, act as a class representative or a private attorney general, or consolidate a Claim with the claims of others.** A person or entity against whom a Claim is asserted may elect to arbitrate the Claim by providing oral or written notice to the person asserting the Claim (*i.e.*, the claimant). Such notice need not follow any particular format but must reasonably inform the claimant that arbitration has been elected. For example, if you or we file a lawsuit against the other, then the other provides sufficient notice if the other orally informs the claimant that the other elects to arbitrate the Claim or if the other files a pleading (*i.e.*, a document filed in court) requesting the court to stay (*i.e.*, freeze) the court case and refer the Claim to arbitration.

3. SMALL CLAIMS COURT EXCEPTION. You and we may ask a small claims court to decide a Claim so long as no party to the small claims court lawsuit seeks to certify a class, consolidate the claims of multiple persons, or recover damages beyond the jurisdiction of the small claims court. If you file a small claims court lawsuit against us, then we lose the right to elect arbitration of your Claim (but not of other persons' Claims). In contrast, if we file a small claims court lawsuit against you, then you retain the right to elect arbitration of our Claim.

4. ARBITRATION FIRM. The American Arbitration Association ("*AAA*") (1-800-778-7879, www.adr.org) will administer the arbitration of Claims. The AAA will normally apply its Consumer Arbitration Rules then in effect to a Claim but may apply other types of procedural rules – such as the AAA's Commercial Arbitration Rules then in effect – if a party to the arbitration proceeding demonstrates that the application of such other procedural rules is appropriate. No matter what the arbitration firm's procedural rules provide, you and we agree that the arbitrator must issue a written decision and may award any type of remedy – including punitive damages and equitable relief – that a court or jury could award if the Claim were litigated. **You and we also agree that an arbitration firm may not arbitrate a Claim as a class action or otherwise consolidate the Claims of multiple persons.** You may request a copy of the AAA's Consumer Arbitration Rules and other procedural rules at the toll-free phone number or URL (universal resource locator) identified above. If you object to the AAA as the arbitration firm or if the AAA is unavailable, then the parties may agree to select a local arbitrator who is a retired judge or a registered arbitrator in good standing with an arbitration firm, provided that such local arbitrator must enforce all the terms of this arbitration agreement, including the class-action waiver. **The parties may not select a local arbitrator who refuses to enforce this arbitration agreement, including the class action waiver, because you and we waive any right to arbitrate a Claim on a class-action, representative-action, or consolidated basis.** When attempting to contact AAA or another arbitration firm, please recognize that phone numbers and URLs change frequently; you may need to update the contact information provided above with your own research.

PAID 10/26/2012

5. PAYMENT OF ARBITRATION FEES; SELECTION OF FORUM. If you file a Claim with the AAA or another arbitration firm, the firm will usually ask you to pay a filing fee and may also ask you to pay in advance for some of the expenses the firm will incur when administering the arbitration proceeding. Upon your written request, we will pay to the arbitration firm any fees or advance administrative expenses that the arbitration firm requires you to pay as a condition to your filing a Claim with the firm. Additionally, we will pay any fees or expenses the arbitration firm charges for administering the arbitration proceeding, any fees or expenses the individual arbitrator or arbitrators charge for attending the arbitration hearing, and any fees a court charges you to file a lawsuit appealing the arbitration decision. We will pay these fees and expenses whether or not you prevail in the arbitration proceeding. Finally, we agree to hold the arbitration proceedings in the county of your residence or in any different location in the United States of your choice.

6. GOVERNING LAW. You and we acknowledge that this Transaction involves interstate commerce. Accordingly, you and we agree that both the procedural and the substantive provisions of the Federal Arbitration Act, 9 USC §§ 1-16, govern the enforcement, interpretation, and performance of this Arbitration Agreement. Any court with jurisdiction may enforce this Arbitration Agreement. Additionally, any court with jurisdiction may enforce an arbitration decision rendered under this Arbitration Agreement if that arbitration decision has been properly registered as a judgment.

7. SURVIVAL; BINDING EFFECT; SEVERABILITY. You and we retain the right to invoke this Arbitration Agreement and to compel the arbitration of Claims even after your and our respective obligations under this Agreement have been completed, defaulted, rescinded, or discharged in bankruptcy. This Arbitration Agreement binds the heirs, successors, and assigns – including any bankruptcy trustee – of both you and us. Finally, if a court or arbitrator determines that any part of this Arbitration Agreement is unenforceable, then you and we agree that the court or arbitrator must fully enforce the remaining provisions that have not been invalidated.

NOTICE-OF-GRIEVANCE AGREEMENT

If the person or entity against whom a Claim is asserted declines to arbitrate the Claim or if a court or arbitrator determines that the above Arbitration Agreement is unenforceable, then you and we agree that neither you nor we may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from or relates to a Claim until the claimant has provided the other party written notice of the asserted Claim and afforded the other party a reasonable period after the giving of the written notice to take corrective action. If applicable law provides a time period which must elapse before certain action can be taken, then that time period will be deemed reasonable for the purpose of the preceding sentence.

By signing below, you and we agree to the Arbitration Agreement and the Notice-of-Grievance Agreement, each of which is set forth above.

LENDER:	CONSUMER:
By: [signature] Stephen Schaller, Secretary	Signature: /s/ E-signature on file
	Print Name: lacey townsend
Date: 9/15/2012	Date: 9/15/2012

Exhibit G

INSTALLMENT LOAN AGREEMENT

CONSUMER

Name: lacey townsend
Street Address: [redacted]
City and State: [redacted]
Telephone: [redacted]
Customer Identification Number: [redacted]

LICENSEE*

Eastern Specialty Finance, Inc. d/b/a Check 'n Go
Website address: www.checkngo.com
Telephone: 1-800-723-7022
* We hold a license under, and we make this loan under, the Delaware Licensed Lenders Act (5 Delaware Code §§ 2201, *et seq.*) To contact us, please call our customer comment line: (888) 3PAYDAY.

FEDERAL TRUTH-IN-LENDING STATEMENT

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	**FINANCE CHARGE** The dollar amount the credit will cost you.	**AMOUNT FINANCED** The amount of credit provided to you or on your behalf.	**TOTAL OF PAYMENTS** The amount you will have paid after you have made all payments as scheduled.
356.08% (e)	$3,022.10	$1,750.00	$4,772.10

Your payment schedule will be:

Installment Payment	Amount of Payment	When Payment Is Due
Payment No. 1	$280.72	11/16/2012
Payment No. 2	$280.72	11/30/2012
Payment No. 3	$280.72	12/14/2012
Payment No. 4	$280.72	12/28/2012
Payment No. 5	$280.72	1/11/2013
Payment No. 6	$280.72	1/25/2013
Payment No. 7	$280.72	2/8/2013
Payment No. 8	$280.72	2/22/2013
Payment No. 9	$280.72	3/8/2013
Payment No. 10	$280.72	3/22/2013
Payment No. 11	$280.72	4/5/2013
Payment No. 12	$280.72	4/19/2013
Payment No. 13	$280.72	5/3/2013
Payment No. 14	$280.72	5/17/2013
Payment No. 15	$280.72	[illegible]1/2013
Payment No. 16	$280.72	6/[illegible]/2013
Payment No. 17	[illegible]0.58	6/2[illegible]/2013

PAID 05/28/2013

Security: If you selected Repayment Option A, then your EFT authorization is security for this loan. If you selected Repayment Option B, then this loan is not secured.

Late charge: If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

Prepayment: If you pay off early, then you will not have to pay a penalty and you may be entitled to a refund of part of the Finance Charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds.

(e) means estimate*

METHOD OF REPAYMENT

Sign by one of the two repayment options listed below. By selecting one repayment option, you automatically decline the other option. The selection of the repayment option is entirely within your discretion. Your selection has no effect on your eligibility for this loan.

/s/ E-signature on file
________________ REPAYMENT OPTION A: ELECTRONIC FUNDS TRANSFER.

EFT Authorization. This paragraph contains your authorization for us to initiate electronic funds transfers from the bank account identified below (your "*bank account*"). You may revoke this EFT authorization at any time by contacting either us or your bank. You authorize us to initiate an EFT to your bank account to collect each installment listed on the payment schedule (each an "*installment EFT*"). An installment EFT will generally post to your bank account on the business day following the installment's due date. Additionally, if you default on this loan, then you authorize us to initiate one or more EFTs to your bank account to collect the accelerated loan balance (collectively an "*accelerated-balance EFT*"). An accelerated-balance EFT will generally post to your bank account on the first business day, following your payment default, on which you receive a regular deposit of income to your bank account.

Bank Account #: [redacted] **Bank Routing #:** [redacted]

DeclineB
________________ REPAYMENT OPTION B: CASH OR CHECK.

Cash or Check. You agree to pay each installment by cash or check, mailed to: Check 'n Go, Attn: Installment Loan Payments, 454[illegible] [illegible]oper Road, Suite 200, Cincinnati, Ohio 4[illegible]

FUNDS AVAILABILITY

* The Loan Date is the date on which you electronically sign this Agreement. Funds that we electronically transmit to your bank account will generally be made available to you by the first banking day following the Loan Date (the "*Funds Availability Date*"). The APR shown in the Truth-In-Lending Statement is calculated based on the estimated Funds Availability Date. If this transaction represents a refinance of a previous transaction from us, then we will not need to electronically transmit any funds to your bank account. Consequently, the Finance Charge and APR will be calculated based on the Loan Date.

LOAN REFERENCE

Loan Date: 10/26/2012
Loan Number: 13910614

ITEMIZATION OF AMOUNT FINANCED

1. Amount paid directly to you: $588.95
2. Amount credited to your account with us: $1161.05

3. Total Amount Financed (the sum of 1 and 2): $1750

NOTICE OF ARBITRATION AGREEMENT; RIGHT TO REJECT ARBITRATION AGREEMENT

Before signing this Agreement, you should carefully review the Arbitration Agreement located on pages 2 and 3. The Arbitration Agreement provides that all Claims arising from or relating to this Agreement or any other agreement that you and we have ever entered into must be resolved by binding arbitration if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. Thus, if the person or entity against whom you assert a Claim elects to arbitrate the Claim, then you will not have the following important rights:

- You may not file or maintain a lawsuit in any court except a small claims court.
- You may not join or participate in a class action, act as a class representative or a private attorney general, or consolidate your Claim with the claims of others.
- You will have to pay the arbitration firm certain fees in order to commence an arbitration proceeding, unless you ask us to pay those fees to the arbitration firm for you.
- You give up your right to have a jury decide your Claim.
- You will not be afforded the procedural, pre-trial discovery, and appellate rights in an arbitration proceeding that you would enjoy in a court or judicial proceeding.

If you do not want to arbitrate all Claims as provided in the Arbitration Agreement, then you have the right to reject the Arbitration Agreement. To reject arbitration, you must deliver written notice to us at the following address within 60 days following the date of this Agreement: Check 'n Go, Attn: Arbitration Opt-Out, 7755 Montgomery Road, Suite 400, Cincinnati, Ohio 45236. Nobody else can reject arbitration for you; this method is the only way you can reject the Arbitration Agreement. Your rejection of the Arbitration Agreement will not affect your right to credit, how much credit you receive, or any contract term other than the Arbitration Agreement.

You should carefully review this entire Agreement, including the Definitions, Terms, and Conditions located on page 2, and the Arbitration Agreement and the Notice-of-Grievance Agreement located on pages 2 and 3. By signing below, you agree to every provision contained in this three-page Agreement.

LICENSEE:
By: ____________________ Stephen Schaller, Secretary
Title: Authorized Representative

CONSUMER: /s/ E-signature on file
Signature: ____________________

DEFINITIONS, TERMS, AND CONDITIONS

1. DEFINITIONS.

- *We*, *our*, and *us* each means Eastern Specialty Finance, Inc. d/b/a Check 'n Go, and *you* and *your* each means the consumer identified on page one.
- *Agreement* means this Installment Loan Agreement, and *this loan* means the loan that we make to you on this date.
- Your *Payment Item* means any electronic funds transfer that we submit to your bank if you have signed Repayment Option A: Electronic Funds Transfer. Because applicable federal law and state law do not clearly address whether our interest in your EFT authorization is a "security interest" for Truth-In-Lending purposes, we have – pursuant to Comment 2(a)(25) of the Federal Reserve Board Official Staff Commentary to Regulation Z § 226.2 – disclosed in the TILA Statement that your EFT authorization is "security" for this loan; we make this disclosure for Truth-in-Lending purposes only. If you terminate your EFT authorization, as permitted by Repayment Option A, then you authorize us to present a pre-authorized draft to your bank account to collect all money you owe under this Agreement. In such case, the term Payment Item refers to this pre-authorized draft.
- Your *bank* and your *bank account* mean, respectively, the bank and the bank account that you identify in your application for this loan or, if different, on page 1 of this Agreement.
- *Finance Charge*, *Amount Financed*, and *Total of Payments* mean the respective amounts identified in the Federal Truth-In-Lending (TIL) Statement disclosed on page 1.
- *Installment due date* means each date identified in the TIL Statement on which an installment payment is due.
- *This date* refers to the date on which you and we sign this Agreement.

2. PROMISE TO PAY. You promise to pay us the Amount Financed plus interest on the unpaid principal balance of this loan. We will begin charging interest on this date. We calculate interest on a daily basis by multiplying the daily rate times the unpaid principal balance of this loan. We figure the daily rate by dividing our contract interest rate of 360.00% by 365. You must pay each installment on its due date. We apply your payments first to interest (accrued as of the date the payment is received), then to principal (due as of the date the payment is received), and then to any other charges you owe us.

3. PREPAYMENT. You have the right to prepay this loan at any time. If you prepay this loan in full or in part, then – upon your full repayment of this loan – we will rebate to you the unearned portion of the Finance Charge, calculated in accordance with the simple interest method.

4. LATE FEE AND DISHONORED ITEM FEE. If your Bank dishonors a Payment Item for any reason, then you must pay us a dishonored item fee in the amount of $35. We will charge and collect no more than one dishonored item fee per installment. If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

5. EVENTS OF DEFAULT. A payment default occurs if you fail to pay an installment when it is due. If you default, then all money owing under this Agreement becomes immediately due and payable. By failing to accelerate the balance of this loan in one instance of your default, we do not waive any right or remedy we may have in a later instance of your default.

6. AUTHORIZATION TO SERVICE LOAN. Prior to an installment due date, you authorize us to call you during reasonable hours at home or work to remind you of the due date. Until you pay this loan in full, you further authorize us to obtain your bank account information to determine whether funds are available to pay an installment that is due. Finally, if you default on this Agreement, then you authorize us to call you at the home or work phone numbers listed in your credit application (during reasonable hours and subject to your right to instruct us not to call you), to leave a message with a person or voice-mail service at either location stating our name and phone number, to write you at home, and to acquire location information about you from the personal contacts whom you identify in your credit application.

7. RIGHT OF RESCISSION. You may rescind this loan at no cost by prepaying the loan in full and in immediately available funds not later than our closing time on the business day immediately following this date.

8. PRIVACY STATEMENT. You acknowledge that you have received a copy of our privacy statement either on this date or within the last 12 months.

9. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

10. AFFIRMATIVE CONSENT TO RECEIVE COMMERCIAL E-MAILS AND PHONE CALLS. By signing this Agreement, you authorize us to send you commercial e-mail messages at the following e-mail address: [redacted] . You also authorize us to place pre-recorded or live phone calls to the following phone numbers (including any mobile phone number(s)): [redacted] .

PAID 05/28/2013

11. COVERED BORROWER IDENTIFICATION STATEMENT. **Federal law provides important protections to active duty members of the Armed Forces and their dependents. To ensure that these protections are provided to eligible applicants, we require you to sign one of the following statements as applicable:**

______________________________ **I AM** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer.

______________________________ **I AM** a dependent of a member of the Armed Forces on active duty as described above, because I am the member's spouse, the member's child under the age of eighteen years old, or I am an individual for whom the member provided more than one-half of my financial support for 180 days immediately preceding today's date.

- OR -

/s/ E-signature on file

______________________________ **I AM NOT** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer (or a dependent of such a member).

Warning: It is important to fill out this form accurately. Knowingly making a false statement on a credit application is a crime.

Date: 10/26/2012

ARBITRATION AGREEMENT

1. DEFINITION OF CLAIM. *Claim* means any claim, dispute, or controversy arising from or relating to this Agreement, this Transaction, any other agreement or transaction that you and we have ever entered into or completed, or any other conduct or dealing between you and us. A court or arbitrator interpreting the scope of this Arbitration Agreement should broadly construe the meaning of Claim so as to give effect to your and our intention to arbitrate any and all claims, disputes, or controversies that may arise between you and us. Consistent with this broad construction, Claim includes (but is not limited to) each of the claims, disputes, or controversies listed below.

- A Claim includes any dispute or controversy regarding the scope, validity, or enforceability of this Arbitration Agreement. For example, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because applicable usury, lending, or consumer protection laws render the underlying Transaction void or unenforceable. A Claim also includes any assertion by you or us that this Arbitration Agreement is unenforceable because it lacks fairness or mutuality of obligations,

conflicts with bankruptcy or other federal laws, improperly limits your or our remedies for the other's violation of laws, or unduly restricts your or our access to the court system. Finally, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because you or we did not receive notice of or understand its provisions, you or we need to discover the filing fees or administrative costs associated with commencing an arbitration proceeding, or you or we believe the arbitration firm or the arbitrator will be unfair or biased.

- A Claim includes any claim that you assert against a person or entity related to us – including our parent company, affiliated companies, directors, officers, employees, agents, and representatives – and any claim that we assert against a person or entity related to you. For the purpose of this Arbitration Agreement, references to *we*, *our*, and *us* and references to *you* and *your* include such related persons or entities. You and we agree that these related persons and entities may elect to arbitrate any Claim asserted against them even though they have not signed this Arbitration Agreement.
- A Claim includes any statutory, tort, contractual, or equitable (*i.e.*, non-monetary) claim. For example, a Claim includes any claim arising under the following: a federal or state statute, act, or legislative enactment; a federal or state administrative regulation or rule; common law (*i.e.*, non-statutory law based on court cases); a local ordinance or zoning code; this Agreement or another contract; a judicial or regulatory decree, order, or consent agreement; or any other type of law.
- A Claim includes (but is not limited to) any claim based on your or our conduct before you and we consummated this Transaction. For example, a Claim includes any dispute or controversy regarding our advertising, application processing, or underwriting practices, our communication of credit decisions, or our provision of cost-of-credit or other consumer protection disclosures.
- A Claim includes any request for monetary damages or equitable remedies, whether such request is asserted as a claim, counterclaim, or cross-claim.

2. MANDATORY ARBITRATION UPON ELECTION. Subject to your right to reject arbitration (explained on page 1 of this Agreement) and subject to the small claims court exception (explained below), you and we agree to arbitrate any Claim if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. **Consequently, if the person or entity against whom a Claim is asserted elects to arbitrate the Claim, then neither you nor we may file or maintain a lawsuit in any court except a small claims court and neither you nor we may join or participate in a class action, act as a class representative or a private attorney general, or consolidate a Claim with the claims of others.** A person or entity against whom a Claim is asserted may elect to arbitrate the Claim by providing oral or written notice to the person asserting the Claim (*i.e.*, the claimant). Such notice need not follow any particular format but must reasonably inform the claimant that arbitration has been elected. For example, if you or we file a lawsuit against the other, then the other provides sufficient notice if the other orally informs the claimant that the other elects to arbitrate the Claim or if the other files a pleading (*i.e.*, a document filed in court) requesting the court to stay (*i.e.*, freeze) the court case and refer the Claim to arbitration.

3. SMALL CLAIMS COURT EXCEPTION. You and we may ask a small claims court to decide a Claim so long as no party to the small claims court lawsuit seeks to certify a class, consolidate the claims of multiple persons, or recover damages beyond the jurisdiction of the small claims court. If you file a small claims court lawsuit against us, then we lose the right to elect arbitration of your Claim (but not of other persons' Claims). In contrast, if we file a small claims court lawsuit against you, then you retain the right to elect arbitration of our Claim.

4. ARBITRATION FIRM. The American Arbitration Association ("*AAA*") (1-800-778-7879, www.adr.org) will administer the arbitration of Claims. The AAA will normally apply its Consumer Arbitration Rules then in effect to a Claim but may apply other types of procedural rules – such as the AAA's Commercial Arbitration Rules then in effect – if a party to the arbitration proceeding demonstrates that the application of such other procedural rules is appropriate. No matter what the arbitration firm's procedural rules provide, you and we agree that the arbitrator must issue a written decision and may award any type of remedy – including punitive damages and equitable relief – that a court or jury could award if the Claim were litigated. **You and we also agree that an arbitration firm may not arbitrate a Claim as a class action or otherwise consolidate the Claims of multiple persons.** You may request a copy of the AAA's Consumer Arbitration Rules and other procedural rules at the toll-free phone number or URL (universal resource locator) identified above. If you object to the AAA as the arbitration firm or if the AAA is unavailable, then the parties may agree to select a local arbitrator who is a retired judge or a registered arbitrator in good standing with an arbitration firm, provided that such local arbitrator must enforce all the terms of this arbitration agreement, including the class-action waiver. **The parties may not select a local arbitrator who refuses to enforce this arbitration agreement, including the class action waiver, because you and we waive any right to arbitrate a Claim on a class-action, representative-action, or consolidated basis.** When attempting to contact AAA or another arbitration firm, please recognize that phone numbers and URLs change frequently; you may need to update the contact information provided above with your own research.

5. PAYMENT OF ARBITRATION FEES; SELECTION OF FORUM. If you file a Claim with the AAA or another arbitration firm, the firm will usually ask you to pay a filing fee and may also ask you to pay in advance for some of the expenses the firm will incur when administering the arbitration proceeding. Upon your written request, we will pay to the arbitration firm any fees or advance administrative expenses that the arbitration firm requires you to pay as a condition to your filing a Claim with the firm. Additionally, we will pay any fees or expenses the arbitration firm charges for administering the arbitration proceeding, any fees or expenses the individual arbitrator or arbitrators charge for attending the arbitration hearing, and any fees a court charges you to file a lawsuit appealing the arbitration decision. We will pay these fees and expenses whether or not you prevail in the arbitration proceeding. Finally, we agree to hold the arbitration proceedings in the county of your residence or in any different location in the United States of your choice.

PAID 05/28/2013

6. GOVERNING LAW. You and we acknowledge that this Transaction involves interstate commerce. Accordingly, you and we agree that both the procedural and the substantive provisions of the Federal Arbitration Act, 9 USC §§ 1-16, govern the enforcement, interpretation, and performance of this Arbitration Agreement. Any court with jurisdiction may enforce this Arbitration Agreement. Additionally, any court with jurisdiction may enforce an arbitration decision rendered under this Arbitration Agreement if that arbitration decision has been properly registered as a judgment.

7. SURVIVAL; BINDING EFFECT; SEVERABILITY. You and we retain the right to invoke this Arbitration Agreement and to compel the arbitration of Claims even after your and our respective obligations under this Agreement have been completed, defaulted, rescinded, or discharged in bankruptcy. This Arbitration Agreement binds the heirs, successors, and assigns – including any bankruptcy trustee – of both you and us. Finally, if a court or arbitrator determines that any part of this Arbitration Agreement is unenforceable, then you and we agree that the court or arbitrator must fully enforce the remaining provisions that have not been invalidated.

NOTICE-OF-GRIEVANCE AGREEMENT

If the person or entity against whom a Claim is asserted declines to arbitrate the Claim or if a court or arbitrator determines that the above Arbitration Agreement is unenforceable, then you and we agree that neither you nor we may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from or relates to a Claim until the claimant has provided the other party written notice of the asserted Claim and afforded the other party a reasonable period after the giving of the written notice to take corrective action. If applicable law provides a time period which must elapse before certain action can be taken, then that time period will be deemed reasonable for the purpose of the preceding sentence.

By signing below, you and we agree to the Arbitration Agreement and the Notice-of-Grievance Agreement, each of which is set forth above.

LENDER:

By: Stephen Schaller
Stephen Schaller, Secretary

Date: 10/26/2012

CONSUMER:

Signature: /s/ E-signature on file

Print Name: lacey townsend

Date: 10/26/2012

Exhibit H

INSTALLMENT LOAN AGREEMENT

CONSUMER

Name: lacey townsend
Street Address: [redacted]
City and State: [redacted]
Telephone: [redacted]
Customer Identification Number: [redacted]

LICENSEE*

Eastern Specialty Finance, Inc. d/b/a Check 'n Go
Website address: www.checkngo.com
Telephone: 1-800-723-7022
* We hold a license under, and we make this loan under, the Delaware Licensed Lenders Act (5 Delaware Code §§ 2201, *et seq.*) To contact us, please call our customer comment line: (888) 3PAYDAY.

FEDERAL TRUTH-IN-LENDING STATEMENT

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	AMOUNT FINANCED The amount of credit provided to you or on your behalf.	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled.
357.91% (e)	$5,058.02	$3,000.00	$8,058.02

Your payment schedule will be:

Installment Payment	Amount of Payment	When Payment Is Due
Payment No. 1	$474.01	6/14/2013
Payment No. 2	$474.01	6/28/2013
Payment No. 3	$474.01	7/12/2013
Payment No. 4	$474.01	7/26/2013
Payment No. 5	$474.01	8/9/2013
Payment No. 6	$474.01	8/23/2013
Payment No. 7	$474.01	9/6/2013
Payment No. 8	$474.01	9/20/2013
Payment No. 9	$474.01	10/4/2013
Payment No. 10	$474.01	10/18/2013
Payment No. 11	$474.01	11/1/2013
Payment No. 12	$474.01	11/15/2013
Payment No. 13	$474.01	11/29/2013
Payment No. 14	$474.01	12/13/2013
Payment No. 15	$474.01	12/27/2013
Payment No. 16	$474.01	1/10/2014
Payment No. 17	$473.86	1/24/2014

Security: If you selected Repayment Option A, then your EFT authorization is security for this loan. If you selected Repayment Option B, then this loan is not secured.

Late charge: If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

Prepayment: If you pay off early, then you will not have to pay a penalty and you may be entitled to a refund of part of the Finance Charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds.

(e) means estimate*

METHOD OF REPAYMENT

Sign by one of the two repayment options listed below. By selecting one repayment option, you automatically decline the other option. The selection of the repayment option is entirely within your discretion. Your selection has no effect on your eligibility for this loan.

/s/ E-signature on file
______________ REPAYMENT OPTION A: ELECTRONIC FUNDS TRANSFER.

EFT Authorization. This paragraph contains your authorization for us to initiate electronic funds transfers from the bank account identified below (your "*bank account*"). You may revoke this EFT authorization at any time by contacting either us or your bank. You authorize us to initiate an EFT to your bank account to collect each installment listed on the payment schedule (each an "*installment EFT*"). An installment EFT will generally post to your bank account on the business day following the installment's due date. Additionally, if you default on this loan, then you authorize us to initiate one or more EFTs to your bank account to collect the accelerated loan balance (collectively an "*accelerated-balance EFT*"). An accelerated-balance EFT will generally post to your bank account on the first business day, following your payment default, on which you receive a regular deposit of income to your bank account.

Bank Account #: [redacted] **Bank Routing #:** [redacted]

DeclineB
______________ REPAYMENT OPTION B: CASH OR CHECK.

Cash or Check. You agree to pay each installment by cash or check, mailed to: Check 'n Go, Attn: Installment Loan Payments, 4540 Cooper Road, Suite 200, Cincinnati, Ohio 45242.

FUNDS AVAILABILITY

* The Loan Date is the date on which you electronically sign this Agreement. Funds that we electronically transmit to your bank account will generally be made available to you by the first banking day following the Loan Date (the "*Funds Availability Date*"). The APR shown in the Truth-In-Lending Statement is calculated based on the estimated Funds Availability Date. If this transaction represents a refinance of a previous transaction from us, then we will not need to electronically transmit any funds to your bank account. Consequently, the Finance Charge and APR will be calculated based on the Loan Date.

LOAN REFERENCE

Loan Date: 5/28/2013
Loan Number: 15052262

ITEMIZATION OF AMOUNT FINANCED

1. Amount paid directly to you: $2,275.33
2. Amount credited to your account with us: $724.67

3. Total Amount Financed (the sum of 1 and 2): $3000

NOTICE OF ARBITRATION AGREEMENT; RIGHT TO REJECT ARBITRATION AGREEMENT

Before signing this Agreement, you should carefully review the Arbitration Agreement located on pages 2 and 3. The Arbitration Agreement provides that all Claims arising from or relating to this Agreement or any other agreement that you and we have ever entered into must be resolved by binding arbitration if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. Thus, if the person or entity against whom you assert a Claim elects to arbitrate the Claim, then you will not have the following important rights:

- You may not file or maintain a lawsuit in any court except a small claims court.
- You may not join or participate in a class action, act as a class representative or a private attorney general, or consolidate your Claim with the claims of others.
- You will have to pay the arbitration firm certain fees in order to commence an arbitration proceeding, unless you ask us to pay those fees to the arbitration firm for you.
- You give up your right to have a jury decide your Claim.
- You will not be afforded the procedural, pre-trial discovery, and appellate rights in an arbitration proceeding that you would enjoy in a court or judicial proceeding.

If you do not want to arbitrate all Claims as provided in the Arbitration Agreement, then you have the right to reject the Arbitration Agreement. To reject arbitration, you must deliver written notice to us at the following address within 60 days following the date of this Agreement: Check 'n Go, Attn: Arbitration Opt-Out, 7755 Montgomery Road, Suite 400, Cincinnati, Ohio 45236. Nobody else can reject arbitration for you; this method is the only way you can reject the Arbitration Agreement. Your rejection of the Arbitration Agreement will not affect your right to credit, how much credit you receive, or any contract term other than the Arbitration Agreement.

You should carefully review this entire Agreement, including the Definitions, Terms, and Conditions located on page 2, and the Arbitration Agreement and the Notice-of-Grievance Agreement located on pages 2 and 3. By signing below, you agree to every provision contained in this three-page Agreement.

LICENSEE: [signature]
By: ______________ Stephen Schaller, Secretary
Title: Authorized Representative

CONSUMER: /s/ E-signature on file
Signature: ______________

DEFINITIONS, TERMS, AND CONDITIONS

1. DEFINITIONS.

- *We*, *our*, and *us* each means Eastern Specialty Finance, Inc. d/b/a Check 'n Go, and *you* and *your* each means the consumer identified on page one.
- *Agreement* means this Installment Loan Agreement, and *this loan* means the loan that we make to you on this date.
- Your *Payment Item* means any electronic funds transfer that we submit to your bank if you have signed Repayment Option A: Electronic Funds Transfer. Because applicable federal law and state law do not clearly address whether our interest in your EFT authorization is a "security interest" for Truth-In-Lending purposes, we have – pursuant to Comment 2(a)(25) of the Federal Reserve Board Official Staff Commentary to Regulation Z § 226.2 – disclosed in the TILA Statement that your EFT authorization is "security" for this loan; we make this disclosure for Truth-in-Lending purposes only. If you terminate your EFT authorization, as permitted by Repayment Option A, then you authorize us to present a pre-authorized draft to your bank account to collect all money you owe under this Agreement. In such case, the term Payment Item refers to this pre-authorized draft.
- Your *bank* and your *bank account* mean, respectively, the bank and the bank account that you identify in your application for this loan or, if different, on page 1 of this Agreement.
- *Finance Charge*, *Amount Financed*, and *Total of Payments* mean the respective amounts identified in the Federal Truth-In-Lending (TIL) Statement disclosed on page 1.
- *Installment due date* means each date identified in the TIL Statement on which an installment payment is due.
- *This date* refers to the date on which you and we sign this Agreement.

2. PROMISE TO PAY. You promise to pay us the Amount Financed plus interest on the unpaid principal balance of this loan. We will begin charging interest on this date. We calculate interest on a daily basis by multiplying the daily rate times the unpaid principal balance of this loan. We figure the daily rate by dividing our contract interest rate of 360.00% by 365. You must pay each installment on its due date. We apply your payments first to interest (accrued as of the date the payment is received), then to principal (due as of the date the payment is received), and then to any other charges you owe us.

3. PREPAYMENT. You have the right to prepay this loan at any time. Because we calculate interest using the simple interest method, no prepayment penalty or unearned interest will be due if you pay this loan early.

4. LATE FEE AND DISHONORED ITEM FEE. If your Bank dishonors a Payment Item for any reason, then you must pay us a dishonored item fee in the amount of $35. We will charge and collect no more than one dishonored item fee per installment. If a payment is late 10 or more days, then you must pay us a delinquency fee equal to 5% of the delinquent payment.

5. EVENTS OF DEFAULT. A payment default occurs if you fail to pay an installment when it is due. If you default, then all money owing under this Agreement becomes immediately due and payable. By failing to accelerate the balance of this loan in one instance of your default, we do not waive any right or remedy we may have in a later instance of your default.

6. AUTHORIZATION TO SERVICE LOAN. Prior to an installment due date, you authorize us to call you during reasonable hours at home or work to remind you of the due date. Until you pay this loan in full, you further authorize us to obtain your bank account information to determine whether funds are available to pay an installment that is due. Finally, if you default on this Agreement, then you authorize us to call you at the home or work phone numbers listed in your credit application (during reasonable hours and subject to your right to instruct us not to call you), to leave a message with a person or voice-mail service at either location stating our name and phone number, to write you at home, and to acquire location information about you from the personal contacts whom you identify in your credit application.

7. RIGHT OF RESCISSION. You may rescind this loan at no cost by prepaying the loan in full and in immediately-available funds not later than our closing time on the business day immediately following this date.

8. PRIVACY STATEMENT. You acknowledge that you have received a copy of our privacy statement either on this date or within the last 12 months.

9. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

10. AFFIRMATIVE CONSENT TO RECEIVE COMMERCIAL E-MAILS AND PHONE CALLS. By signing this Agreement, you authorize us to send you commercial e-mail messages to the following e-mail address: [redacted]. You also authorize us to place pre-recorded or live phone calls to the following phone number(s), including any mobile phone number(s): [redacted].

11. COVERED BORROWER IDENTIFICATION STATEMENT. **Federal law provides important protections to active duty members of the Armed Forces and their dependents. To ensure that these protections are provided to eligible applicants, we require you to sign one of the following statements as applicable:**

_____________________________ **I AM** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer.

_____________________________ **I AM** a dependent of a member of the Armed Forces on active duty as described above, because I am the member's spouse, the member's child under the age of eighteen years old, or I am an individual for whom the member provided more than one-half of my financial support for 180 days immediately preceding today's date.

- OR -

/s/ E-signature on file
_____________________________ **I AM NOT** a regular or reserve member of the Army, Navy, Marine Corps, Air Force, or Coast Guard, serving on active duty under a call or order that does not specify a period of 30 days or fewer (or a dependent of such a member).

Warning: It is important to fill out this form accurately. Knowingly making a false statement on a credit application is a crime.

Date: 5/28/2013

ARBITRATION AGREEMENT

1. DEFINITION OF CLAIM. *Claim* means any claim, dispute, or controversy arising from or relating to this Agreement, this Transaction, any other agreement or transaction that you and we have ever entered into or completed, or any other conduct or dealing between you and us. A court or arbitrator interpreting the scope of this Arbitration Agreement should broadly construe the meaning of Claim so as to give effect to your and our intention to arbitrate any and all claims, disputes, or controversies that may arise between you and us. Consistent with this broad construction, Claim includes (but is not limited to) each of the claims, disputes, or controversies listed below.

- A Claim includes any dispute or controversy regarding the scope, validity, or enforceability of this Arbitration Agreement. For example, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because applicable usury, lending, or consumer protection laws render the underlying Transaction void or unenforceable. A Claim also includes any assertion by you or us that this Arbitration Agreement is unenforceable because it lacks fairness or mutuality of obligations,

conflicts with bankruptcy or other federal laws, improperly limits your or our remedies for the other's violation of laws, or unduly restricts your or our access to the court system. Finally, a Claim includes any assertion by you or us that this Arbitration Agreement is unenforceable because you or we did not receive notice of or understand its provisions, you or we need to discover the filing fees or administrative costs associated with commencing an arbitration proceeding, or you or we believe the arbitration firm or the arbitrator will be unfair or biased.

- A Claim includes any claim that you assert against a person or entity related to us – including our parent company, affiliated companies, directors, officers, employees, agents, and representatives – and any claim that we assert against a person or entity related to you. For the purpose of this Arbitration Agreement, references to *we*, *our*, and *us* and references to *you* and *your* include such related persons or entities. You and we agree that these related persons and entities may elect to arbitrate any Claim asserted against them even though they have not signed this Arbitration Agreement.
- A Claim includes any statutory, tort, contractual, or equitable (*i.e.*, non-monetary) claim. For example, a Claim includes any claim arising under the following: a federal or state statute, act, or legislative enactment; a federal or state administrative regulation or rule; common law (*i.e.*, non-statutory law based on court cases); a local ordinance or zoning code; this Agreement or another contract; a judicial or regulatory decree, order, or consent agreement; or any other type of law.
- A Claim includes (but is not limited to) any claim based on your or our conduct before you and we consummated this Transaction. For example, a Claim includes any dispute or controversy regarding our advertising, application processing, or underwriting practices, our communication of credit decisions, or our provision of cost-of-credit or other consumer protection disclosures.
- A Claim includes any request for monetary damages or equitable remedies, whether such request is asserted as a claim, counterclaim, or cross-claim.

2. MANDATORY ARBITRATION UPON ELECTION. Subject to your right to reject arbitration (explained on page 1 of this Agreement) and subject to the small claims court exception (explained below), you and we agree to arbitrate any Claim if the person or entity against whom a Claim is asserted elects to arbitrate the Claim. **Consequently, if the person or entity against whom a Claim is asserted elects to arbitrate the Claim, then neither you nor we may file or maintain a lawsuit in any court except a small claims court and neither you nor we may join or participate in a class action, act as a class representative or a private attorney general, or consolidate a Claim with the claims of others.** A person or entity against whom a Claim is asserted may elect to arbitrate the Claim by providing oral or written notice to the person asserting the Claim (*i.e.*, the claimant). Such notice need not follow any particular format but must reasonably inform the claimant that arbitration has been elected. For example, if you or we file a lawsuit against the other, then the other provides sufficient notice if the other orally informs the claimant that the other elects to arbitrate the Claim or if the other files a pleading (*i.e.*, a document filed in court) requesting the court to stay (*i.e.*, freeze) the court case and refer the Claim to arbitration.

3. SMALL CLAIMS COURT EXCEPTION. You and we may ask a small claims court to decide a Claim so long as no party to the small claims court lawsuit seeks to certify a class, consolidate the claims of multiple persons, or recover damages beyond the jurisdiction of the small claims court. If you file a small claims court lawsuit against us, then we lose the right to elect arbitration of your Claim (but not of other persons' Claims). In contrast, if we file a small claims court lawsuit against you, then you retain the right to elect arbitration of our Claim.

4. ARBITRATION FIRM. The American Arbitration Association ("*AAA*") (1-800-778-7879, www.adr.org) will administer the arbitration of Claims. The AAA will normally apply its Consumer Arbitration Rules then in effect to a Claim but may apply other types of procedural rules – such as the AAA's Commercial Arbitration Rules then in effect – if a party to the arbitration proceeding demonstrates that the application of such other procedural rules is appropriate. No matter what the arbitration firm's procedural rules provide, you and we agree that the arbitrator must issue a written decision and may award any type of remedy – including punitive damages and equitable relief – that a court or jury could award if the Claim were litigated. **You and we also agree that an arbitration firm may not arbitrate a Claim as a class action or otherwise consolidate the Claims of multiple persons.** You may request a copy of the AAA's Consumer Arbitration Rules and other procedural rules at the toll-free phone number or URL (universal resource locator) identified above. If you object to the AAA as the arbitration firm or if the AAA is unavailable, then the parties may agree to select a local arbitrator who is a retired judge or a registered arbitrator in good standing with an arbitration firm, provided that such local arbitrator must enforce all the terms of this arbitration agreement, including the class-action waiver. **The parties may not select a local arbitrator who refuses to enforce this arbitration agreement, including the class action waiver, because you and we waive any right to arbitrate a Claim on a class-action, representative-action, or consolidated basis.** When attempting to contact AAA or another arbitration firm, please recognize that phone numbers and URLs change frequently; you may need to update the contact information provided above with your own research.

5. PAYMENT OF ARBITRATION FEES; SELECTION OF FORUM. If you file a Claim with the AAA or another arbitration firm, the firm will usually ask you to pay a filing fee and may also ask you to pay in advance for some of the expenses the firm will incur when administering the arbitration proceeding. Upon your written request, we will pay to the arbitration firm any fees or advance administrative expenses that the arbitration firm requires you to pay as a condition to your filing a Claim with the firm. Additionally, we will pay any fees or expenses the arbitration firm charges for administering the arbitration proceeding, any fees or expenses the individual arbitrator or arbitrators charge for attending the arbitration hearing, and any fees a court charges you to file a lawsuit appealing the arbitration decision. We will pay these fees and expenses whether or not you prevail in the arbitration proceeding. Finally, we agree to hold the arbitration proceedings in the county of your residence or in any different location in the United States of your choice.

6. GOVERNING LAW. You and we acknowledge that this Transaction involves interstate commerce. Accordingly, you and we agree that both the procedural and the substantive provisions of the Federal Arbitration Act, 9 USC §§ 1-16, govern the enforcement, interpretation, and performance of this Arbitration Agreement. Any court with jurisdiction may enforce this Arbitration Agreement. Additionally, any court with jurisdiction may enforce an arbitration decision rendered under this Arbitration Agreement if that arbitration decision has been properly registered as a judgment.

7. SURVIVAL; BINDING EFFECT; SEVERABILITY. You and we retain the right to invoke this Arbitration Agreement and to compel the arbitration of Claims even after your and our respective obligations under this Agreement have been completed, defaulted, rescinded, or discharged in bankruptcy. This Arbitration Agreement binds the heirs, successors, and assigns – including any bankruptcy trustee – of both you and us. Finally, if a court or arbitrator determines that any part of this Arbitration Agreement is unenforceable, then you and we agree that the court or arbitrator must fully enforce the remaining provisions that have not been invalidated.

NOTICE-OF-GRIEVANCE AGREEMENT

If the person or entity against whom a Claim is asserted declines to arbitrate the Claim or if a court or arbitrator determines that the above Arbitration Agreement is unenforceable, then you and we agree that neither you nor we may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from or relates to a Claim until the claimant has provided the other party written notice of the asserted Claim and afforded the other party a reasonable period after the giving of the written notice to take corrective action. If applicable law provides a time period which must elapse before certain action can be taken, then that time period will be deemed reasonable for the purpose of the preceding sentence.

By signing below, you and we agree to the Arbitration Agreement and the Notice-of-Grievance Agreement, each of which is set forth above.

LENDER: Stephen Schaller

By: Stephen Schaller, Secretary

Date: 5/28/2013

CONSUMER:

Signature: /s/ E-signature on file

Print Name: lacey townsend

Date: 5/28/2013

VERIFICATION

I, Lacey Townsend, hereby verify that the foregoing *Verified Complaint* and the facts recited therein are true and correct to the best of my knowledge, information and belief. This verification is made under penalties of perjury.

By: Lacey Townsend

STATE OF Delaware)
)
COUNTY OF New Castle)

SWORN TO AND SUBSCRIBED before me this 9th day of August 2013.

Notary Public
My Commission Expires:

RICHARD H. CROSS
ATTORNEY AT LAW
1997
DELAWARE
NOTARIAL OFFICER

JS 44 (Rev. 12/12)

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. *(SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)*

I. (a) PLAINTIFFS
LACEY TOWNSEND,

(b) County of Residence of First Listed Plaintiff ______
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys *(Firm Name, Address, and Telephone Number)*
Richard H. Cross, Jr., Cross & Simon, LLC
913 N. Market Street, 11th Floor, Wilmington, DE 19801
(302) 777-4200

DEFENDANTS
EASTERN SPECIALTY FINANCE, INC. d/b/a CHECK 'N GO

County of Residence of First Listed Defendant ______
(IN U.S. PLAINTIFF CASES ONLY)
NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys *(If Known)*

II. BASIS OF JURISDICTION *(Place an "X" in One Box Only)*

- ☐ 1 U.S. Government Plaintiff
- ☐ 3 Federal Question *(U.S. Government Not a Party)*
- ☐ 2 U.S. Government Defendant
- ☒ 4 Diversity *(Indicate Citizenship of Parties in Item III)*

III. CITIZENSHIP OF PRINCIPAL PARTIES *(Place an "X" in One Box for Plaintiff and One Box for Defendant)*
(For Diversity Cases Only)

	PTF	DEF		PTF	DEF
Citizen of This State	☒ 1	☐ 1	Incorporated *or* Principal Place of Business In This State	☐ 4	☒ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated *and* Principal Place of Business In Another State	☐ 5	☒ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT *(Place an "X" in One Box Only)*

CONTRACT
- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excludes Veterans)
- ☐ 153 Recovery of Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☒ 190 Other Contract
- ☐ 195 Contract Product Liability
- ☐ 196 Franchise

REAL PROPERTY
- ☐ 210 Land Condemnation
- ☐ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

TORTS

PERSONAL INJURY
- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury
- ☐ 362 Personal Injury - Medical Malpractice

PERSONAL INJURY
- ☐ 365 Personal Injury - Product Liability
- ☐ 367 Health Care/ Pharmaceutical Personal Injury Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

CIVIL RIGHTS
- ☐ 440 Other Civil Rights
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 445 Amer. w/Disabilities - Employment
- ☐ 446 Amer. w/Disabilities - Other
- ☐ 448 Education

PRISONER PETITIONS

Habeas Corpus:
- ☐ 463 Alien Detainee
- ☐ 510 Motions to Vacate Sentence
- ☐ 530 General
- ☐ 535 Death Penalty

Other:
- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights
- ☐ 555 Prison Condition
- ☐ 560 Civil Detainee - Conditions of Confinement

FORFEITURE/PENALTY
- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 690 Other

LABOR
- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Management Relations
- ☐ 740 Railway Labor Act
- ☐ 751 Family and Medical Leave Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Employee Retirement Income Security Act

IMMIGRATION
- ☐ 462 Naturalization Application
- ☐ 465 Other Immigration Actions

BANKRUPTCY
- ☐ 422 Appeal 28 USC 158
- ☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS
- ☐ 820 Copyrights
- ☐ 830 Patent
- ☐ 840 Trademark

SOCIAL SECURITY
- ☐ 861 HIA (1395ff)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS
- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS—Third Party 26 USC 7609

OTHER STATUTES
- ☐ 375 False Claims Act
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizations
- ☐ 480 Consumer Credit
- ☐ 490 Cable/Sat TV
- ☐ 850 Securities/Commodities/ Exchange
- ☐ 890 Other Statutory Actions
- ☐ 891 Agricultural Acts
- ☐ 893 Environmental Matters
- ☐ 895 Freedom of Information Act
- ☐ 896 Arbitration
- ☐ 899 Administrative Procedure Act/Review or Appeal of Agency Decision
- ☐ 950 Constitutionality of State Statutes

V. ORIGIN *(Place an "X" in One Box Only)*

☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened ☐ 5 Transferred from Another District *(specify)* ☐ 6 Multidistrict Litigation

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing *(Do not cite jurisdictional statutes unless diversity)*:

Brief description of cause:

VII. REQUESTED IN COMPLAINT:

☒ CHECK IF THIS IS A **CLASS ACTION** UNDER RULE 23, F.R.Cv.P.

DEMAND $

CHECK YES only if demanded in complaint:
JURY DEMAND: ☐ Yes ☒ No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE ______ DOCKET NUMBER ______

DATE 8/9/13

SIGNATURE OF ATTORNEY OF RECORD [signature]

FOR OFFICE USE ONLY

RECEIPT # ______ AMOUNT ______ APPLYING IFP ______ JUDGE ______ MAG. JUDGE ______