

## **Develop Suitability Standard For Loans (Cash America)**

### **Whereas:**

Our company provides cash advances and consumer credit, but unlike many providers of financial services, our company makes little effort to ensure that its product is suitable for customers. Our company may not adequately know our customers.

According to the Cash America website, the annual percentage rate for a typical payday loan exceeds 400%, though a study found that nearly half of all borrowers believed that their rate to be under 30%.<sup>1</sup> The industry claims that these loans are for occasional short-term cash needs only, yet many borrowers obtain frequent payday loans. According to a study of Iowa consumers, the average borrower in that state received 12 such loans per year, suggesting that many people may be using cash advances to “roll over” earlier payday loans.<sup>2</sup> According to the Coalition for Responsible Lending, the average payday loan borrower pays \$800 to repay a loan of \$325.<sup>3</sup> Since most payday loan customers are of low or moderate income, frequent roll-overs of cash advances could result in a “debt trap” from which some would be unable to emerge.

Policymakers and opinion leaders are increasingly confronting payday lending. All four national banking regulators effectively prohibit banks under their supervision from marketing payday lending products.

The academic and political consensus is increasingly that payday loans do not serve the interests of working poor or military customers. The media has extensively covered the high financial and professional price military customers pay for payday loans, and the industry has been criticized for targeting military families for “predatory” loans.<sup>4,5</sup>

We are concerned that increased public scrutiny of our company’s practices may cause harm to its reputation and raise obstacles to the successful marketing of its products.

**Resolved:** That our company appoint a committee of the board to (1) develop standard of suitability for our company's products; (2) to develop internal controls relevant to the implementation of the suitability standard and (3) create a public reporting standard that assesses the company's success in providing loans that meet the suitability standard.

### **Supporting Statement**

Suitability standards commit financial service providers to providing products that are appropriate for customers’ needs and financial circumstances. They are an affirmative responsibility of companies to take reasonable steps to prevent harm to customers. Because suitability standards vary

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<sup>1</sup> Gregory Elliehausen and Edward C. Lawrence, *Payday Advance Credit in America: An Analysis of Customer Demand*, April 2001

<sup>2</sup> Iowa Banking Division, *Survey Summary of Payday Lenders*, April 13, 2003.

<sup>3</sup> Coalition For Responsible Lending, *CRL Factsheet: Predatory Payday Lending Traps Borrowers*, 2005

<sup>4</sup> William Welch, Pentagon sees risk in troops’ loan default, *USA Today*, August 31 2006; Guard soldiers from deadly fiscal warfare, *New York Daily News* (editorial), August 29, 2006;

<sup>5</sup> Christopher Lewis Peterson and Steven Graves, *Predatory Lending and the Military: the law and geography and payday loans in military towns,*” working paper, March 28, 2005.

by industry, the companies themselves, in collaboration with shareholders and customers, can best define appropriate suitability standards. We note suitability standards are widespread among financial service providers.

In reports to shareholders on results of the suitability standard, the company should include:

- Metrics to determine whether loans were consistent with the borrowers' ability to repay
- The results of our company's efforts to be transparent in disclosure of the terms of loan amounts; and
- An assessment of the reasonableness of collection procedures.

To be successful, suitability standards must be accompanied by thorough internal controls and public reporting to allow shareholders to evaluate the company's success in complying with its own standard. Current payday lending industry practices are vague; shareholders have no means of evaluating their effectiveness.