

Advance America and Payday Lending: Who Borrows and Why

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About Advance America

- Founded in 1997
- Leading non-bank provider of consumer financial services in the U.S., including cash advances
- Approximately 2,400 centers in 29 states

What is a Payday Advance?

A payday advance is an unsecured loan that allows consumers to cover relatively small, unplanned or periodic expenses. It involves a one-time fixed fee and must be paid back within a short time period, typically two weeks.

Financial Fragility

- Forty percent of Americans live paycheck to paycheck (Consumer Federation of America, 2012)
- Fewer than 1/3 feel financially comfortable (Consumer Federation of America, 2012)
- Almost half of all households, including a sizeable portion of the middle-class, reported they could “probably not” or “certainly not” come up with \$2,000 in 30 days (National Bureau of Economic Research, 2011)

Who Borrows?



Our Customers

Middle-Income Working Americans: Banked and Employed ⁽¹⁾

- Advance America demographics based on annual survey of approximately 385,000 customers across all states

	Advance America Customers ²	U.S. Census 2010 ⁴
Average Age (years)	42	39
Median Household Income	\$54,373	\$50,046
Percentage Homeowners ³	48%	65%
Percentage with High School Diploma or Higher	94%	85%

Notes:

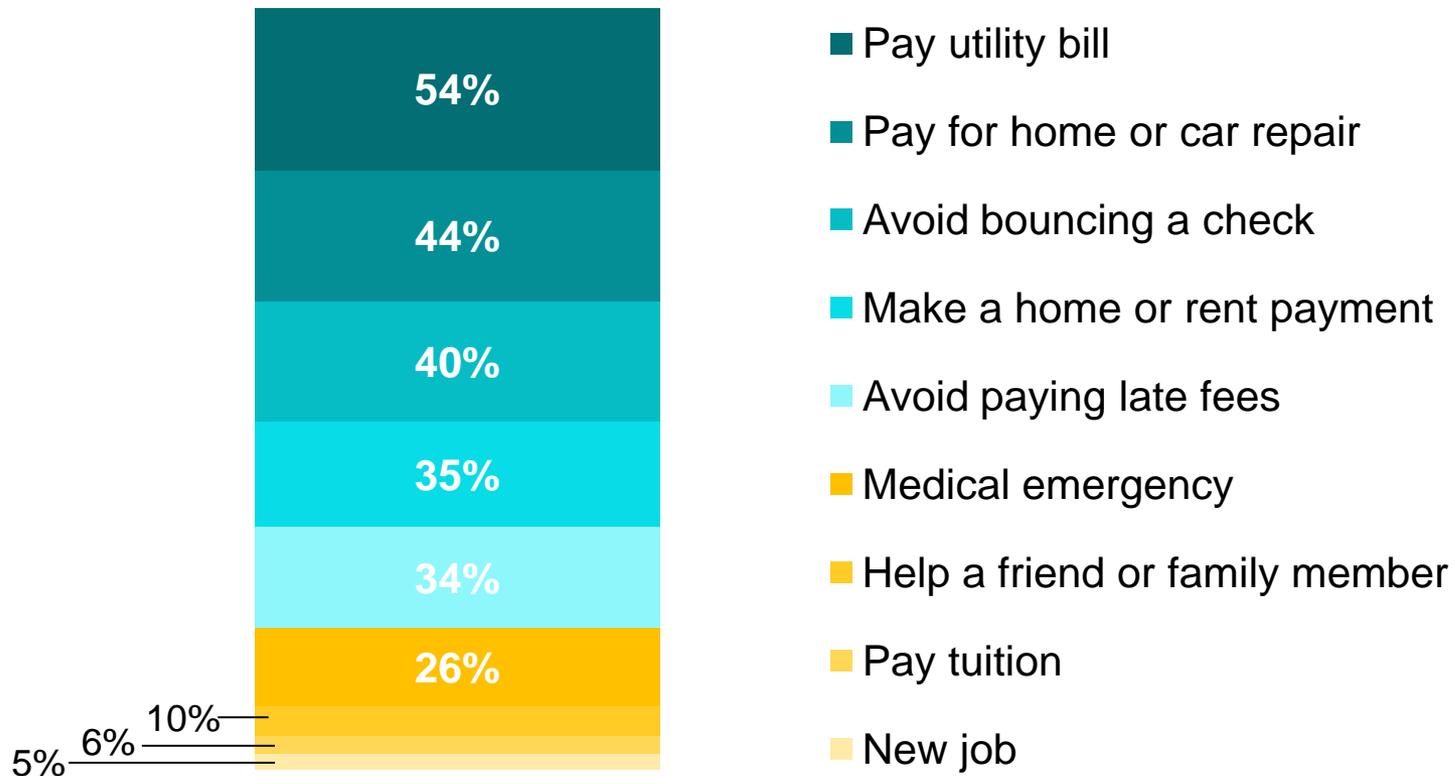
1. Client base also includes individuals with a regular source of income (e.g., Social Security)
2. Based on approximately 385,000 of our randomly selected customers across all states that performed a transaction between November 1, 2010 and October 21, 2011.
3. Percentage homeowners includes homeowners and probable homeowners.
4. Census Information from <http://factfinder.census.gov>

Why Do They Borrow?

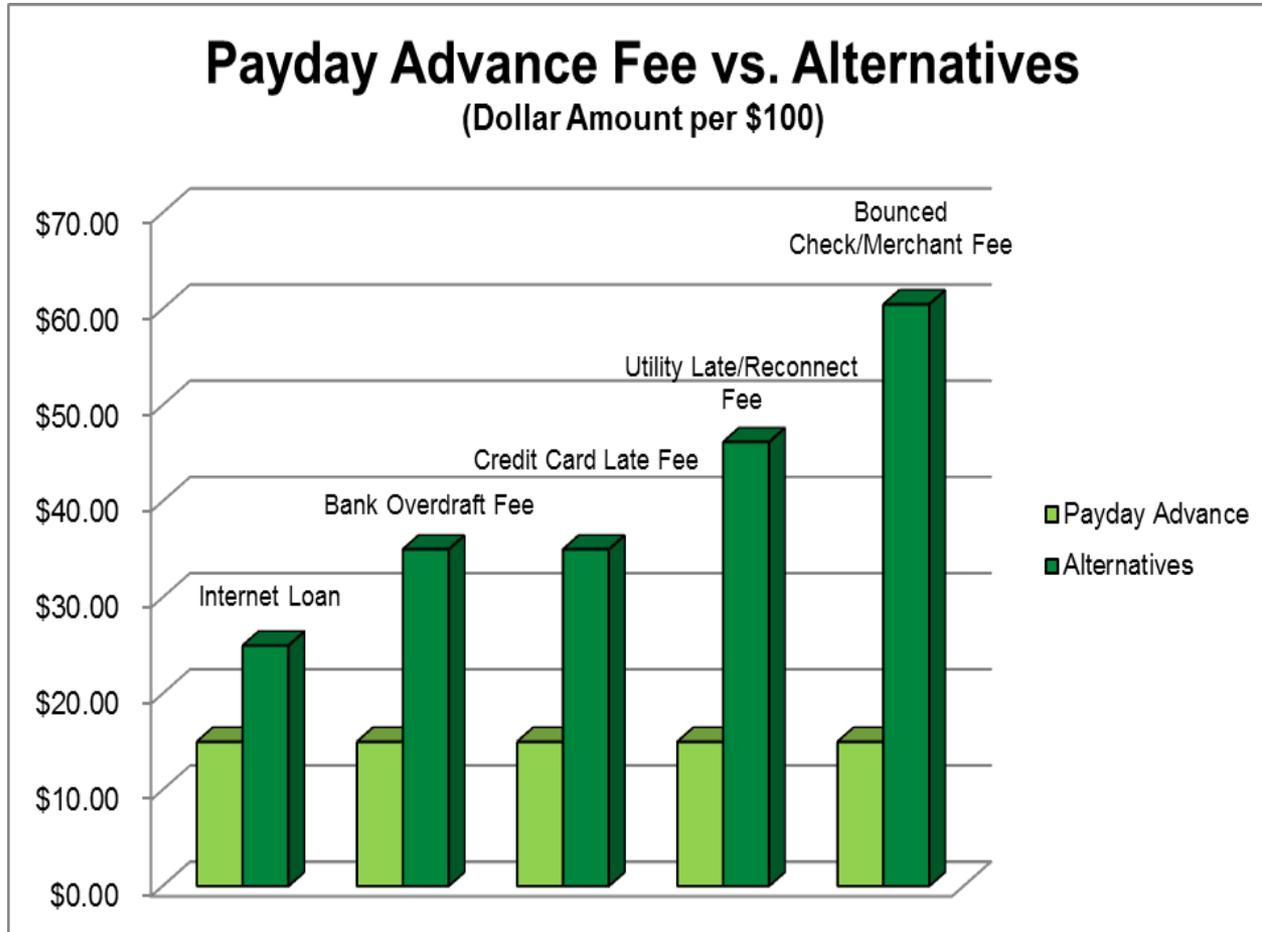


Why Customers Use Payday Loans

- Advance America customers use our service to cover a variety of expenses:



Why Customers Use Payday Loans



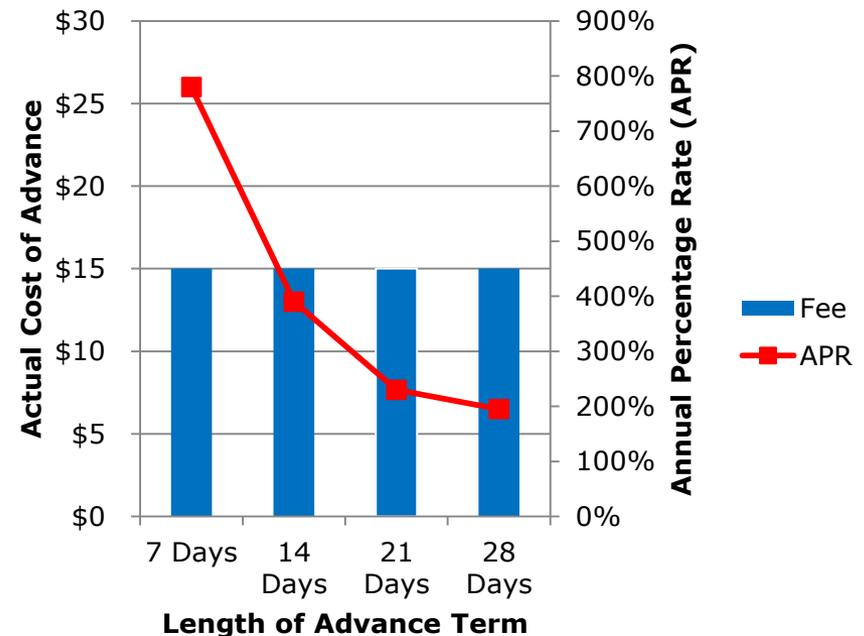
Sources: CFSAA.com; Stephens, Inc. 2011; Pew Health Group "Still Risky" Report 2012; Bankrate.com; Readex Research National Data on Short-Term Credit Alternatives 2006; Moeb's Services 2010 Financial Pricing Survey

One-Time Fee and APR

\$15 Typical Advance Fee (per \$100 Borrowed) **X 26** # of Consecutive 14-day Pay Cycles = **391%** Implied APR

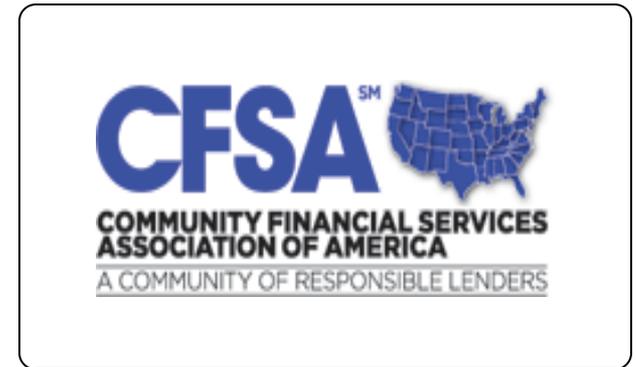
- One-time, flat fee disclosed as a dollar amount (typically \$15 per \$100) and implied APR
- APR equivalent to the cost of 26 consecutive payday loans
- Consumers decide based on actual cost but APR can help them compare options
- One-time, flat fee does not compound interest

Same Fee, Varying APR



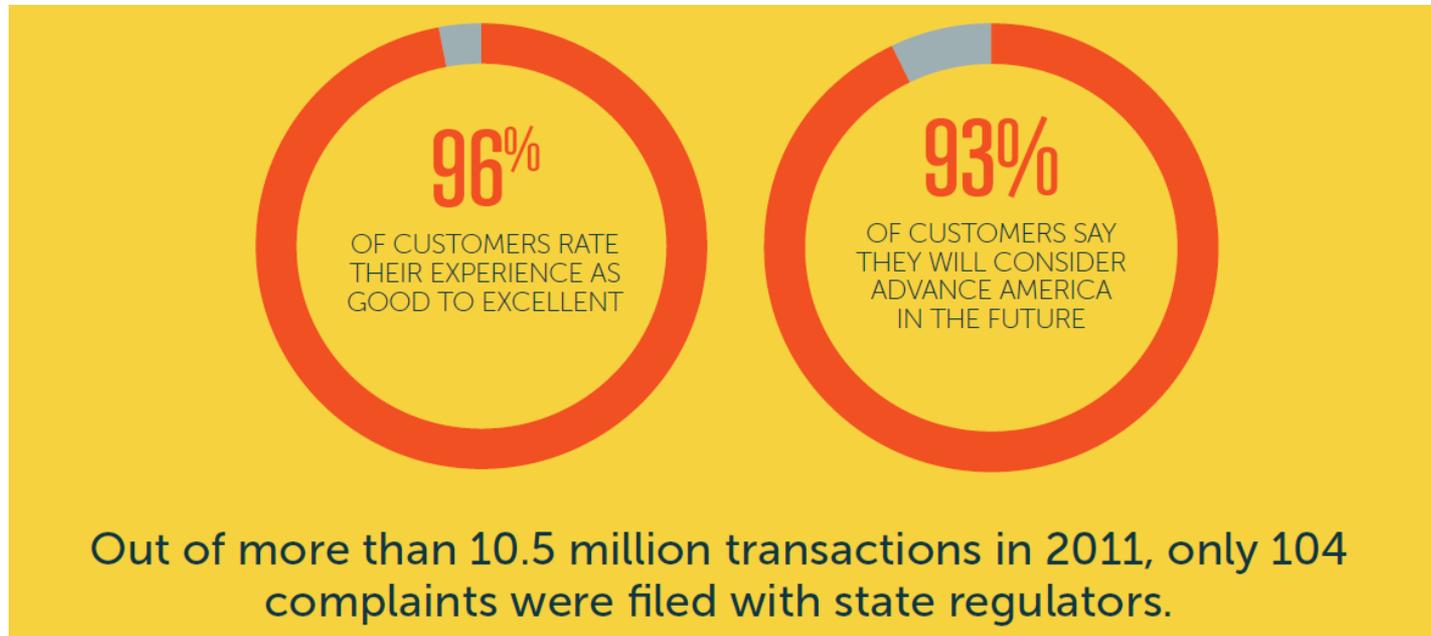
Consumer Protection

- Advance America is committed to responsible lending and to helping consumers be successful borrowers.
 - Exceptional customer service
 - Full Disclosure of all terms and fees, as a dollar amount and an implied APR
 - Truth in advertising
 - No criminal prosecution or aggressive debt collection practices
 - Right to rescind
 - Limits on rollovers
 - Extended payment plan



Customer Satisfaction

- Customers say they appreciate having access to short-term loans, and the flexibility these loans afford them to manage their financial obligations
- 97 percent of our customers pay us back



Regulation and Unintended Consequences



Regulated, Transparent Credit

- Consumers thrive in a competitive, regulated financial services environment
- Payday loans are regulated at the state level
 - Limits on fees
 - Restrictions on the maximum amount advanced
 - Loan renewal limits
- Consumer Financial Protection Bureau (CFPB) oversees federal laws
 - Federal Truth in Lending Act
 - Military Financial Services Protection Act
 - Fair Debt Collection Practices Act
 - Fair Credit Reporting Act
 - Equal Credit Opportunity Act

Good Actors and Bad Actors

- In absence of storefront lenders, regulators say consumers turn to online lenders, many operating outside state and federal law
- Industry analyst Stephens Inc. reports rapid growth in online lenders
- Offer none of the consumer protections of regulated retail lenders



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Unintended Consequences



Georgia and North Carolina: A staff study of the Federal Reserve Bank of New York reported that people “bounced more checks, complained more about lenders and debt collectors, and have filed for Chapter 7 (‘no asset’) bankruptcy at a higher rate” after payday lending was banned through interest rate caps in Georgia and North Carolina.



Oregon: One year after implementing a 36% interest rate cap, 75% of Oregon’s 360 short term lending stores closed their centers. Consumer complaints against unregulated Internet lenders greatly increased.



Washington State: In the first year under an eight-loan limit on payday advances, consumer complaints against payday lenders were up 50 percent, with half of the complaints against Internet lenders.



District of Columbia: An interest rate cap of 24% closed all lenders in the District, where officials report an increase in unscrupulous, unlicensed lenders charging as much as 2,000% interest, taking payments from a borrower’s checking account without authorization and initiating harassing telephone calls.

Conclusion

- Payday advances are a sensible financial choice personally and economically for managing financial difficulties
- Before choosing any lender, consumers carefully weigh their options, including credit cards, overdraft programs and cash advances from banks, credit unions and retail lenders
- Eliminating payday loans does not erase consumers' need for short-term credit or ease the challenges they face
 - Drives them to more expensive options such as unregulated lenders or into bankruptcy
- Legislators, regulators and lenders must partner to promote fairly regulated, competitive and innovative credit solutions
 - Ensure access to credit
 - Guarantee meaningful consumer protections

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