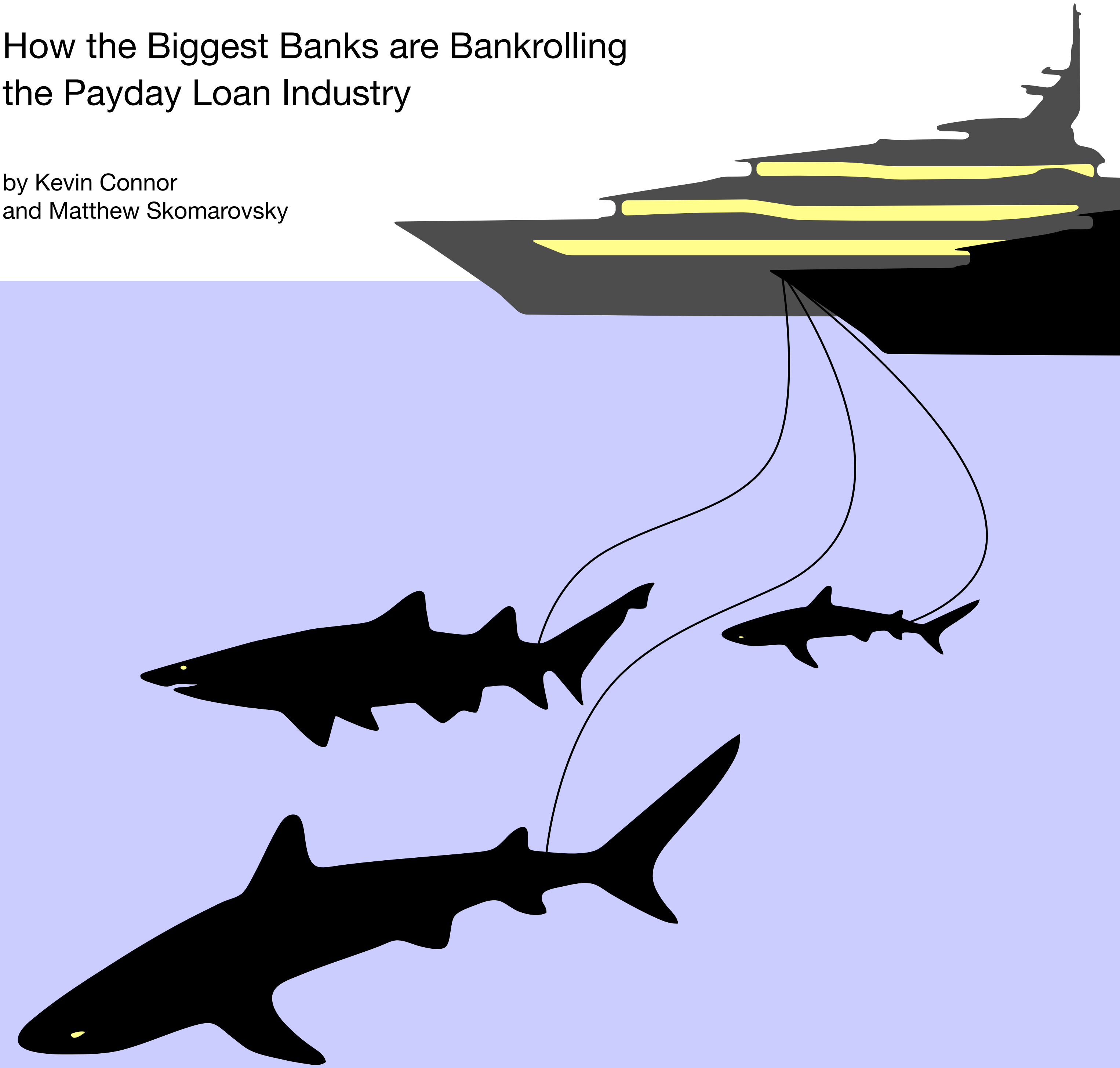
The Predators' Creditors

How the Biggest Banks are Bankrolling the Payday Loan Industry

by Kevin Connor
and Matthew Skomarovsky



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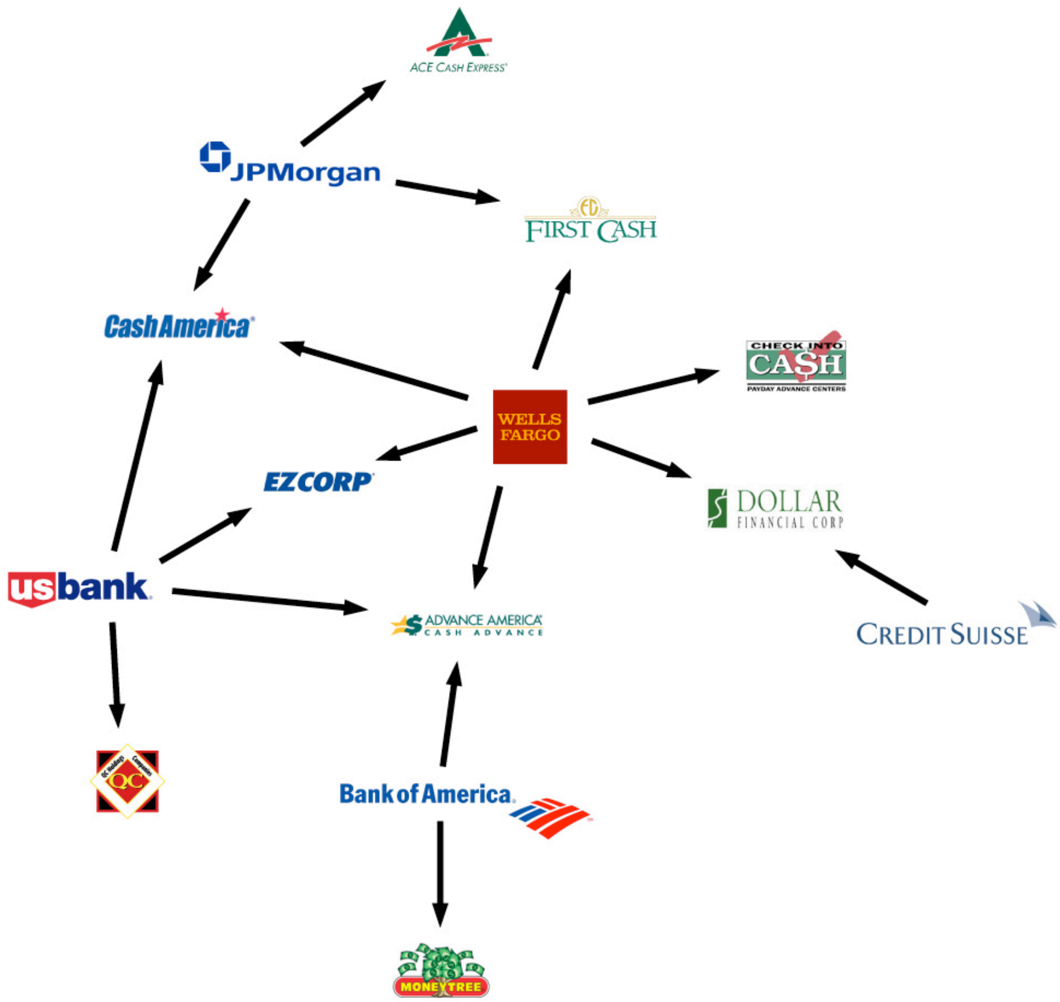

Major payday lenders rely heavily on financing from big banks bailed out during the financial crisis of 2008. Arrows indicate the direction of the loan, from big bank (such as Wells Fargo, Bank of America, and JPMorgan Chase) to payday lender (such as Advance America, Cash America, and ACE Cash Express). As the graphic illustrates, Wells Fargo lends to more payday loan companies than any other big bank.

Executive Summary

This report traces connections between the largest payday lenders and Wall Street banks, including financing arrangements, leadership ties, investments, and shared practices. The following are some of the report's key findings:

Payday loan companies depend heavily on financing from big banks, including Wells Fargo, Bank of America, and JPMorgan.

- Big banks provide $1.5 billion in credit to publicly held payday loan companies, and an estimated $2.5-3 billion to the industry as a whole.

- Wells Fargo finances more payday lenders than any other big bank – six of the eight largest payday lenders. Bank of America, JPMorgan Chase, and US Bank also finance the operations of major payday lenders. Bank of America and Wells Fargo provided critical early financing to the largest payday lender, Advance America, fueling the growth of the industry.

- Publicly traded payday lenders paid nearly $70 million in interest expense on debt in 2009 – a sign of how much banks are profiting by extending credit to these companies.

- Some banks do not lend to payday lenders due to "reputational risks" associated with the industry.

Many payday companies have strong ties to Wall Street.

- Two Bear Stearns executives guided the rise of payday lender Dollar Financial, and two Goldman Sachs executives sat on the company's board when it went public.

- Advance America's executives and board members have ties to Bank of America, Morgan Stanley, and Credit Suisse.

- Bank of America and its subsidiaries own significant stakes (more than 1%) in four of the top five publicly held payday lenders: Advance America, EZCORP, Cash America, and Dollar Financial.

Payday financiers are major bailout recipients, and continued to extend credit to payday lenders throughout the financial crisis and following the bailouts.

- Big banks financing major payday lenders received $105 billion in TARP funds in late 2008. Bank of America received $45 billion, and Wells Fargo and JPMorgan received $25 billion each. Big banks continued to negotiate and amend credit agreements with payday lenders throughout the financial crisis and after the bailouts.

- Two payday lenders, EZCorp and Cash America, used loans negotiated with JP Morgan and Wells Fargo and shortly after the bailouts to buy pawn shop chains in Las Vegas and Mexico.

Big bank financing of payday lending led to the rise of a powerful industry lobby which has successfully fought efforts to cap interest rates.

- Several payday lenders began dominating the industry in the late nineties on the strength of bank financing. These lenders formed a powerful lobbying group, the Community Financial Services Association, which has spent $11.3 million on federal lobbying efforts since its inception in 1999.

- Major payday lobbyists also lobby for financial institutions such as Morgan Stanley, Fitch Ratings, Visa, Blackstone Group, the Managed Funds Association, and the Private Equity Council. One lobbyist, Wright Andrews, was previously a major lobbyist for the subprime mortgage industry.

- A national interest rate cap of 36% would effectively put payday lenders out of business, according to Advance America's disclosure filings, but such a cap failed to gain traction during the financial reform process due to the clout of the financial industry's lobby.

There are signs that the payday lending business will expand in the future.

- Big banks such as Wells Fargo, US Bank, and Fifth Third are now offering new payday loan-style products. Called "checking advance" products, these short-term loans carry interest rates of up to 120%.

- Some Wall Street analysts believe that the industry will grow in 2011 as financially-stretched borrowers have increasing trouble securing credit cards. The industry is also predicted to continue expanding into pawn lending and other services, such as prepaid debit cards.

- Bank of America and Goldman Sachs are currently leading an IPO for prepaid debit card company NetSpend, which partners with many payday lenders and is owned by the owner of ACE Cash Express, JLL Partners.

Introduction

There are few industries more widely despised than the payday loan business. Over the past fifteen years, payday lenders have gained notoriety for lending money against future paychecks at annualized rates that average out at 455%. Their predatory practices have made the industry a favorite object of ridicule.

The *Washington Post* referred to payday lending as “legalized parasitism” in a 2008 editorial on Virginia’s payday loan industry.[1] Clarence Page, a syndicated columnist at the *Chicago Tribune,* recently wrote that “It's not really fair to refer to payday lenders as loan sharks. After all, loan sharks don't have their own lobbyists.”[2] Senator Dick Durbin called payday lenders “bottom feeders” on the floor of the Senate during the financial reform debate.[3]

Despite their toxicity, however, payday lenders do not work alone; they operate with quiet assistance from major Wall Street banks like Wells Fargo, Bank of America, JPMorgan, and US Bank. These banks finance the operations of the biggest payday lenders, including Advance America, ACE Cash Express, Check Into Cash, Check ‘N Go, Cash America, and Dollar Financial.

Some banks do not lend to payday lenders due to “reputational risks” associated with the industry. But even after they received taxpayer-funded bailouts in 2008, the big banks named in this report didn’t just continue financing payday lenders –they actually expanded several credit agreements with payday. Incredibly, two publicly-traded payday lenders received loans to buy pawn shop chains shortly following the bailout – one in Mexico and one in Las Vegas, ground zero of the economic collapse and foreclosure crisis.

Just as large Wall Street investment houses lurked behind the most predatory subprime lenders in the run-up to the financial collapse, these big banks have strong ties to the most predatory, usurious payday lenders. The following report traces these connections – financing arrangements, leadership ties, investments, and shared practices – to illuminate the high-rolling financiers behind the country’s most notorious loan sharks.

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[1] http://www.washingtonpost.com/wp-dyn/content/article/2008/02/13/AR2008021303100.html

[2] http://www.chicagotribune.com/news/columnists/ct-oped-0623-page-20100623,0,4670234.column

[3] http://minnesotaindependent.com/59522/how-payday-lenders-spent-millions-to-win-every-battle-%E2%80%94-only-to-lose-the-war

The Rise of the Payday Loan Industry

The payday loan industry was virtually non-existent 20 years ago, when some check-cashing companies began offering payday loans to customers. Today there are an estimated 22,300 payday loan stores making loans totaling $30 billion each year.[4] The erosion of usury laws placing limits on interest rates over the last thirty years have facilitated the industry's growth, as has the extension of generous financing to the industry's biggest players by Wall Street banks.

Payday loans are short-term cash advances that are repaid from a borrower's next paycheck. To obtain a loan, a borrower gives a payday lender a postdated personal check or authorization to make a withdrawal from the borrower's bank account. In return, the borrower receives cash, minus the lender's fees.

Quick Facts about Payday Loans

Average Interest Rate: **455%**

Average loan: **$300-400**

Average number of loans per borrower: **9/year**

Payday loans/year in US: **$30 billion**

Payday loan stores in US: **22,300**

Sources (listed in footnotes): Center for Responsible Lending, Advance America and QC Holdings 2009 10-Ks.

Payday loans are typically less than $400. Fees are $15-18 per $100 loaned.[5] Depending on the term of the loan, effective APRs can surpass even 1000% for shorter-term loans. This report estimates an average effective interest rate of 455%, based on a 14-day $300 loan to a borrower who takes out nine loans.[6] In this scenario, the borrower pays $475 in fees on the original loan, for a total of $775.

Research by the Center for Responsible Lending (CRL) has shown that the average payday borrower will take nine consecutive loans in a year, eventually paying more in fees than the original loan value.[7] Over 90% of the payday lending business is generated by borrowers with five or more loans per year.

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[4] Drawn from industry estimates discussed in the 2009 10-Ks of Advance America and QC Holdings:
http://www.sec.gov/Archives/edgar/data/1299704/000104746910001876/a2196777z10-k.htm
http://www.sec.gov/Archives/edgar/data/1289505/000119312510055063/d10k.htm

[5] CRL: http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf

[6] Calculated using the Missouri AG loan calculator (http://ago.mo.gov/cgi-bin/ConsumerCorner/calculators/payday.cgi), based on a $300 14-day loan with a fee of $17.50 per $100. CRL estimates an average effective interest rate, industry-wide, of 390%.

[7] http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.html

According to Christopher Peterson, a professor at the University of Utah who has studied predatory lending, payday lenders charge close to double the interest rates charged by mafia lenders during the 1960s – 455% as opposed to 250%.[8]

The 16 largest payday lenders are believed to operate one-half of the country's 22,300 payday loan stores. The three largest payday lenders are Advance America, Check Into Cash, and Cash 'N Go. Of those, only Advance America is publicly held, and it is by far the largest. Other large, publicly held payday lenders include QC Holdings, Cash America, Dollar Financial, EZCORP, and First Cash Financial. Of those, only QC Holdings is exclusively focused on the payday loan industry.

Table 1 – Major Payday Lenders

Company	**Stores**	**Payday Loan Total (2009)**	**Businesses**
Advance America	2553	$3.9 billion	payday
Check 'N Go*	1100	–	payday
Check Into Cash*	1000	–	payday
ACE Cash Express*	1200 (estimated)	–	check cashing, payday
Cash America	737	$2.3 billion	payday (store and internet), pawn, check cashing
QC Holdings	556	$1.2 billion	payday
Dollar Financial	358	$582 million	payday, pawn, check cashing
EZCORP	474	$217 million	payday, pawn, check cashing
Allied Cash Advance*	180	–	payday
First Cash Financial	163	–	pawn, payday, check cashing
Moneytree*	140	–	payday

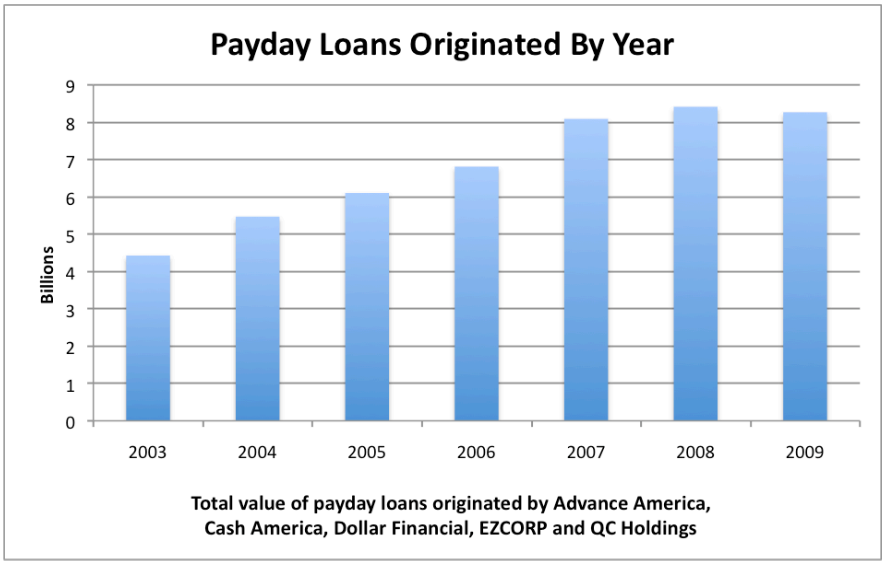
* privately held

Note: Loan totals drawn from SEC filings for publicly traded lenders; store totals for privately held lenders are drawn from their websites and competitors' estimates.

[8] http://today.law.utah.edu/2010/02/peterson-quoted-in-deseret-news-and-l-a-times/

The payday industry has undergone explosive growth in recent years. There were 2,000 payday stores in 1995; today, there are ten times that number. Rapid growth has continued in recent years, with payday loans by the largest publicly traded payday lenders nearly doubling from 2003 to 2007.

The below graph shows payday loans issued by the five largest publicly traded payday lenders (Advance America, QC Holdings, Cash America, EZCORP, and Dollar Financial).



Payday lending would not have become big business without big bank financing. This is perhaps best illustrated by the case of Advance America, the largest payday company by far, which secured $40-50 million in financing from Wells Fargo, Wachovia (now part of Wells Fargo), and NationsBank (now Bank of America) before it had even begun operating. The company's founders, William Webster IV and George Johnson, lined up this credit in the mid-nineties by "using their connections," according to Gary Rivlin's *Broke USA*:

> "We basically borrowed forty or fifty million before we made anything," Webster said. "We had an infrastructure for five hundred stores before we had even one."[9]

Advance America opened 300 stores in 1997 and was operating 1,400 by 2000. It now operates over 2,500. Shortly before Advance America went public, in 2004, it secured a $265 million line of credit from a group of banks led by Bank of America.

Other big banks played a critical role in financing payday lenders as they grew from small chains to dominant national corporations. NationsBank (now Bank of America)

[9] Gary Rivlin, Broke USA, p 120.

provided early financing to Check Into Cash, now one of the top payday lenders in the country.

The next section discusses these financing arrangements in greater depth.

How Big Banks Finance Payday

Big banks provide financing to payday lenders through various credit agreements, including revolving lines of credit and term loans, which the lenders use to fund their operations. Lenders can tap these lines of credit up to a certain ceiling in order to finance operations, or re-pay term loans over an agreed-upon schedule.

Today, big banks offer over $1.5 billion in credit to major, publicly traded payday lenders. Including privately held lenders and options to expand these agreements, big banks extend an estimated $2.5-3 billion in credit to the industry as a whole.[10]

Wells Fargo lends to more payday loan companies than any other big bank. In addition to being involved in financing agreements with five of six publicly traded payday lenders studied for this report, the bank also finances privately held payday lenders such as Check Into Cash.

Table 2 - Credit Agreements Between Publicly-held Payday Lenders and Banks

Payday Lender	Creditors (major in bold)	Last Amended	Expires	Revolving (Expandable)	Term Loan
ACE Cash Express[11]	**Wells Fargo**, JPMorgan, US Bank, Union Bank of California, KeyBank, Amegy, the Bank of Nova Scotia, Amegy, National City, Texas Capital, Allied Irish, LegacyTexas, North Fork	02/28/06	12/31/10	$275 (25) million	0
Advance America	**Bank of America**, US Bank, Wachovia, Wells Fargo, Union Bank of California, National City, National Bank of South Carolina, Bank of Oklahoma, Carolina First Bank	06/26/08	03/24/13	$270 (95)	0
Cash	**Wells Fargo, JPMorgan**, US	11/21/08	03/01/12	$300	0

[10] Details of credit agreements with private lenders are not available, but we estimate based on the credit lines of publicly-held competitors that privately-held lenders Check Into Cash and Check 'N Go have lines of credit worth $300-500 million; smaller privately-held lenders such as Moneytree, Americash, and PLS likely add $300-500 million. "Accordions" – options to expand existing credit lines – add $200 million.
[11] ACE Cash Express was taken private in 2006, and its lending arrangements may have changed since then, but it no longer needs to disclose these changes.

America	Bank, KeyBank, Union Bank of California, Huntington National, First Tennessee, Amegy, Texas Capital				
Dollar Financial	**Wells Fargo, Credit Suisse**	06/20/07	10/30/12	$100	$375
EZCORP	**Wells Fargo, Union Bank of CA**, US Bank, Guaranty, AIB	12/31/08	12/31/12	$80 (30)	$40
First Cash Financial	**Wells Fargo, JPMorgan**	04/30/10	04/30/12	$25 (25)	0
QC Holdings	**US Bank**	03/07/08	12/06/12	$45 (25)	$50
TOTAL				**$1.095 billion (+200 million)**	**$465**

Note: Lead lenders are bolded. Data for the above table drawn from credit agreements for each company available at SEC Edgar.[12]

In addition to the revolving credit facilities and term loans listed above, Wells Fargo arranged a $115 million offering of debt securities for Cash America in March of 2009, and Wachovia (now Wells Fargo) and Bear Stearns (now JPMorgan) arranged a $200 million offering of debt securities for Dollar Financial.

The below table sets forth some information on credit agreements between privately held payday lenders and banks (it is not comprehensive). This information is drawn from UCC filings, which do not disclose the size or details of the financing arrangement.

[12] Advance America: http://www.sec.gov/Archives/edgar/data/1299704/000104746908006297/a2184824zex-10_1.htm ACE Cash Express: http://www.sec.gov/Archives/edgar/data/849116/000095013406004139/d33613exv10w1.htm Cash America: http://www.sec.gov/Archives/edgar/data/807884/000095013409004054/d66566exv10w5.htm Dollar Financial: http://www.sec.gov/Archives/edgar/data/1271625/000089322007002258/w36502exv10w1.htm EZCORP: http://www.sec.gov/Archives/edgar/data/876523/000095013409000019/d65775exv10w1.htm QC Holdings: http://www.sec.gov/Archives/edgar/data/1289505/000119312507263832/dex101.htm First Cash Financial: http://www.sec.gov/Archives/edgar/data/840489/000092623610000016/exh10-5.htm

Table 3 – Credit Agreements Between Privately-held Payday Lenders and Big Banks

Payday Company	Bank (Creditor)	UCC Filing State
ACE Cash Express	JPMorgan Chase	TX
Check Into Cash	Wells Fargo	TN
Check 'N Go	National City	TN
Moneytree	Bank of America	WA
Americash	Banco Popular	IL
PLS Check Cashers	Banco Popular	IL

Note: Since UCC filings offer few details about these loans, it is not possible to determine details of the arrangements, such as the size of the loan.

Payday lenders depend heavily on these credit agreements to fund their operations. Throughout SEC filings, publicly held lenders disclose risks associated with a potential loss of bank financing (see chart following this section).

Though crucial for payday lenders' operations, this financing is not guaranteed -- some banks choose not to work with payday lenders because of "reputational risks" associated with the industry. Advance America notes this in its 10-K filing:

> Certain banks have notified us and other companies in the cash advance and check-cashing industries that they will no longer maintain bank accounts for these companies due to reputational risks and increased compliance costs of servicing money services businesses and other cash intensive industries.[13]

Despite these reputational risks, big banks continue to finance payday lenders, likely due to the profits involved. The major publicly traded payday lenders paid approximately $70 million in interest expense in 2009:

Table 4 – Interest Expense at Publicly-held Payday Lenders

Company	Interest Expense (2009)
Dollar Financial	$36.6 million
Cash America	$20.8 million

[13] http://sec.gov/Archives/edgar/data/1299704/000104746910001876/a2196777z10-k.htm

Advance America	$6.2 million
QC Holdings	$3.4 million
EZCORP	$1.4 million
Total	**$68.4 million**

Note: Data drawn from SEC 10-Ks for each company.

Because big banks are borrowing at such low interest rates, they are essentially pocketing this interest expense.

Payday lenders in their own words…

The following are statements drawn from publicly traded payday lenders' SEC filings regarding their credit needs:

Advance America: "We depend to a substantial extent on borrowings under our revolving credit facility to fund our liquidity needs, including cash dividends."[14]

QC Holdings: "We depend on borrowings under our revolving credit facility to fund loans, capital expenditures, smaller acquisitions, cash dividends and other needs. If consumer banks decide not to lend money to companies in our industry or to us, our ability to borrow at competitive interest rates (or at all), our ability to operate our business and our cash availability would likely be adversely affected…Certain banks have notified us and other companies in the payday loan and check cashing industries that they will no longer maintain bank accounts for these companies due to reputation risks and increased compliance costs of servicing money services businesses and other cash intensive industries."[15]

Cash America: "If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges and this, in turn, could adversely affect the Company's ability to advance its strategic plans."[16]

EZCORP: "We require continued access to capital. A significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our planned growth and operating results."[17]

Dollar Financial: "If the national and world-wide financial crisis continues, potential disruptions in the credit markets may negatively impact the availability and cost of short-term borrowing under our credit facility, which could adversely affect our results of operations, cash flows and financial condition."[18]

First Cash Financial: "Efficient access to these markets is critical to the Company's ongoing financial success; however, the Company's future access to the debt capital markets could become restricted due to a variety of factors, including a deterioration of the Company's earnings, cash flows, balance sheet quality, regulatory restrictions or overall business or industry prospects, a significant deterioration in the state of the capital markets or a negative bias toward the Company's industry by market participants. Inability to access the credit markets on acceptable terms, if at all, would have a materially adverse effect on the Company's financial condition."[19]

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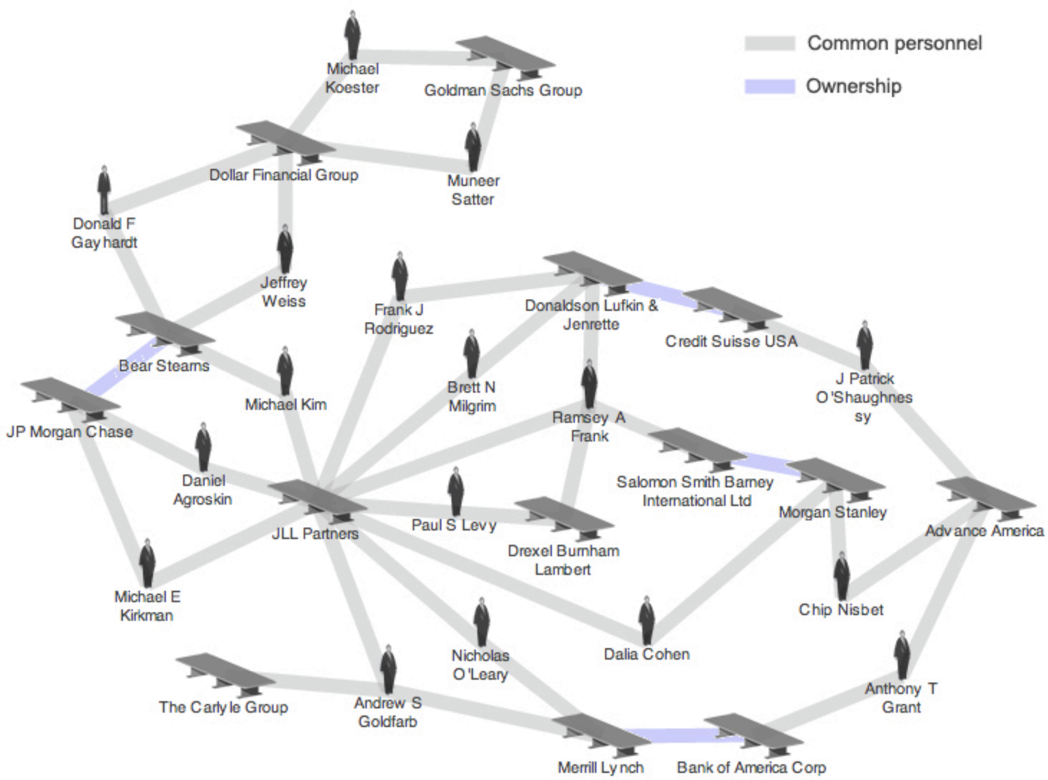
[14] http://sec.gov/Archives/edgar/data/1299704/000104746910001876/a2196777z10-k.htm
[15] http://sec.gov/Archives/edgar/data/1289505/000119312510055063/d10k.htm
[16] http://sec.gov/Archives/edgar/data/807884/000095012310017890/d71227e10vk.htm
[17] http://sec.gov/Archives/edgar/data/876523/000095012309070576/d70381e10vk.htm
[18] http://sec.gov/Archives/edgar/data/1271625/000095012309040898/w74935e10vk.htm
[19] http://sec.gov/Archives/edgar/data/840489/000092623610000010/fcf09q4.htm

Wall Street's Ties to Payday Lenders

The payday loan industry's easy access to financing would not have come without strong ties to Wall Street banks. Though payday lenders are often portrayed as occupying a separate sphere from the world of high finance, many current and former Wall Street bankers have led payday lenders either as executives or board members. Big banks have also brought major payday lenders public, and continue to own substantial stakes in payday loan companies.

Ultimately, the big banks that borrow at near-zero interest rates from the Federal Reserve are not far removed from the payday companies that lend money at 500%.



Payday lenders have ties to many Wall Street banks through personnel interlocks. Some payday companies are led by former Wall Street executives; others have current or former Wall Street executives on their boards; one, ACE Cash Express, is owned by a private equity firm which employs many former big bank employees. (graphic produced using visualization software at TheyRule.net)

Personnel Ties

Current and former executives at major Wall Street banks have played important leadership roles at some of the largest payday lenders:

- Two **Bear Stearns** (now part of **JPMorgan Chase**) executives guided the rise of Dollar Financial Group. Bear Stearns executives Jeffrey Weiss and Donald Gayhardt took charge of Dollar Financial after a Bear Stearns affiliate acquired the company in 1990.[20] Both left Bear Stearns in 1993. Weiss still serves as CEO.

- **Goldman Sachs** was a 10% owner of Dollar Financial Group at the time of its IPO.[21] Goldman Sachs vice president Michael Koester and managing director Muneer Satter were Dollar Financial board members, as well, but each left the board following the company's IPO.

- The board of Advance America includes former executives at **Bank of America, Morgan Stanley,** and **Donaldson, Lufkin, & Jenrette** (now **Credit Suisse**). Anthony T Grant was formerly president of a banking group handling high-net worth clients at Bank of America. W. Olin Nesbit, currently a partner at Lions Gate Capital, was previously executive director of investment banking at Morgan Stanley. J. Patrick O'Shaughnessy was an investment banker at Donaldson, Lufkin, & Jenrette and Credit Suisse.[22]

- In 2006, ACE Cash Express was taken private by JLL Partners, a private equity firm founded by a former managing director at **Drexel Burnham Lambert**. JLL Partners employees also have ties to **Donaldson Lufkin Jenrette** (now **Credit Suisse**)**, Smith Barney** (now **Morgan Stanley**)**, Bank of America/Merrill Lynch,** and **Bear Stearns**.

Initial Public Offerings (IPOs)

Several payday lenders went public through initial public offerings (IPOs) of stock in the past ten years. In each case, a major Wall Street investment bank guided the company through the offering.

[20] Dollar Financial S-1 registration statement, 2004: http://www.sec.gov/Archives/edgar/data/1271625/000104746904007741/a2130525zs-1.htm
[21] Dollar Financial S-4, 2004: http://www.sec.gov/Archives/edgar/data/1028643/000104746904022607/a2139664zs-4.htm
[22] http://investors.advanceamerica.net/directors.cfm

- Advance America, by far the largest payday loan company in the country, was taken public by **Morgan Stanley**.[23]
- Dollar Financial Group was taken public by **Citigroup**.[24]
- QC Holdings was taken public by **Ferris, Baker Watts**.[25]

Investments

Major banks own significant stakes in some of the top payday lenders (data as of June 30, 2010):

- **Bank of America** and its subsidiaries (mainly BlackRock) own significant stakes in four of the top five payday lenders: Advance America, Cash America, EZCorp, and Dollar Financial (9.8%, $47 million).
- **Goldman Sachs** owns a significant stake in **Advance America.**[26]
- **Wells Fargo** owns a significant stake in **Dollar Financial** (10.78%, $52 million)**.**[27]

[23] http://sec.gov/Archives/edgar/data/1299704/000104746905008577/a2154213z10-k.htm
[24] http://sec.gov/Archives/edgar/data/1271625/000104746904007741/a2130525zs-1.htm
[25] http://sec.gov/Archives/edgar/data/1289505/000119312504082114/ds1.htm
[26] http://finance.yahoo.com/q/mh?s=AEA%20Major%20Holders
[27] http://finance.yahoo.com/q/mh?s=DLLR+Major+Holders

Creditors' Bailout

The biggest payday lenders are financed by a number of large banks which received billions of dollars in taxpayer-funded bailouts from the US Treasury Department under TARP's Capital Purchase and Targeted Investment Programs.

Treasury injected hundreds of billions of dollars to these banks between October and December of 2008 to increase their capacity to lend to US businesses and consumers, in order to prop up the struggling economy.[28]

Table 5 – TARP Bailouts to Payday Company Creditors

Bank	**TARP Bailout**[29]	**Financed Payday Lenders**
Bank of America	$45 billion	Advance America, Moneytree
JPMorgan	$25 billion	ACE Cash Express, Cash America, First Cash Financial
Wells Fargo	$25 billion	ACE Cash Express, Advance America, Cash America, Check Into Cash, Dollar Financial, Express Title & Payday Loans, EZCORP, First Cash Financial
US Bank	$6.6 billion	ACE Cash Express, Advance America, AmeriCash Cash America, EZCORP, QC Holdings
KeyBank	$2.5 billion	ACE Cash Express, Advance America
Banco Popular (Popular)	$935 million	AmeriCash, Payday Loan Corp, Payday Loan Store
Total	$105 billion	

While small businesses and individuals have struggled to get affordable loans in the wake of the taxpayer bailouts, payday lenders have received new and amended credit agreements from Wall Street.

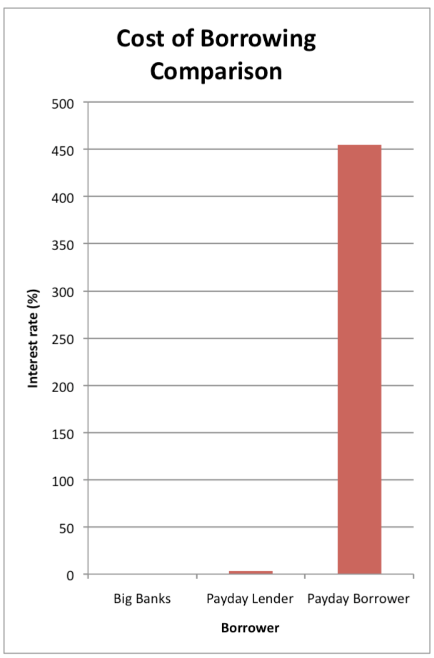
[28] http://www.financialstability.gov/roadtostability/capitalpurchaseprogram.html
[29] Bailout data from ProPublica's database of TARP recipients: http://bailout.propublica.org/list/index

In the wake of the bailouts…

- **Cash America buys a pawnshop chain in Mexico with a big bank loan.** Just weeks after the bailout, banks including Wells Fargo and JPMorgan extended Cash America up to $75 million in new credit to acquire Creazione Estilo, a chain of pawnshops in Mexico.[30]

- **Wells Fargo extends credit to Check Into Cash.** Check Into Cash, one of the largest private payday lenders, amended its credit agreement to include Wells Fargo as a creditor only days after the bank received $25 billion in TARP funds.[31]

- **Wells Fargo finances Las Vegas pawnshop chain purchase.** In late 2008, Wells Fargo tripled the size of its credit line to EZCORP from $40 million to $120 million to help finance EZCORP's acquisition of pawn shop chain Value Financial Services and eleven pawn shops in Las Vegas.[32]



Note: Federal funds rate is 0.25% for banks; Advance America's average interest rate is 3.3%; payday borrowers pay 455%.

Nearly-free credit made available to major banks by the Federal Reserve is trickling down to the financially-pinched public in the form of payday loans with interest rates over 400%.

Since the onset of the Great Recession, the Federal Reserve has lowered lending rates to major banks, reaching as low as 0%, and has extended the "overnight" borrowing period to a one-month term. This has allowed banks to access large amounts of capital at almost no cost. Banks in turn can invest this capital in Treasury bonds, or lend it out at significantly higher rates as home mortgages or, in this case, to businesses such as payday lenders.[33]

Rather than using taxpayer bailouts to lend to struggling Americans and small businesses at affordable rates, the country's largest banks have chosen to finance predatory lenders with an attractive bottom line.

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[30] http://www.sec.gov/Archives/edgar/data/807884/000095013409004054/d66566exv10w5.htm

[31] http://www.scsos.com/index.asp?n=17&p=4&s=17&instrument=1250555&uccid=081031-1302311

[32] http://sec.gov/Archives/edgar/data/876523/000095013408022121/d65552e10vk.htm

[33] http://showdowninamerica.org/files/Payday_Lender_Financing_Facts_FINAL_4-26-10.pdf

The Payday Lobby

The big bank financing that enabled the payday loan industry's rapid growth over the past 15 years also facilitated the rise of a powerful industry lobby that has thwarted efforts to regulate payday lending.

The industry's main lobby, the Community Financial Services Association (CFSA), was formed by the largest payday lenders in 1999. Founders include Allan Jones of Check Into Cash and Advance America founder William Webster IV, a former Clinton administration official.

The CFSA has spent $11.3 million on federal lobbying efforts since its inception in 1999, including $3.8 million during the financial reform process (2009-2010).[34] Advance America, ACE Express, Check 'N Go, and Cash America also conduct lobbying outside of the CFSA.

Lobbyists working for the payday loan industry during the financial reform battle also lobbied for a range of other financial interests and big banks, including Morgan Stanley, Fitch Ratings, Visa, the Blackstone Group, the Managed Funds Association, the Electronic Payments Coalition, and the Private Equity Council.

One leading payday loan lobbyist, Wright Andrews, was also a major subprime mortgage industry lobbyist during the years leading up to the financial crisis.[35]

Payday loan industry heavyweights also contribute generously to influential members of Congress on both sides of the aisle, including Bob Corker (R-TN), Tim Johnson (D-SD), Chris Dodd (D-CT), Richard Shelby (R-AL), and Kendrick Meek (D-FL).[36] Advance America's Webster donated $30,800 to President Barack Obama's victory fund in October 2008.[37]

The payday industry's political clout has allowed it to fight common sense reforms that would have curtailed their ability to operate.

The regulatory solution to the payday loan industry's predatory practices is relatively simple: institute a reasonable cap on interest rates. The Center for Responsible

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[34] Data drawn from OpenSecrets, http://www.opensecrets.org/lobby/clientsum.php?lname=Community+Financial+Services+Assn&year=2010

[35] Glenn Simpson, "Lender Lobbying Blitz Abetted Mortgage Mess," *Wall Street Journal*, 12/31/2007. http://online.wsj.com/article/SB119906606162358773.html

[36] For more on payday lender lobbying, see CREW's report on the subject: http://www.citizensforethics.org/node/39053

[37] http://images.nictusa.com/cgi-bin/fecimg/?28992940867

Lending, a longtime critic of the industry, advocated for a 36% interest rate cap during the recent financial reform battle. CRL conducted one poll that showed that three out of four Americans favored such an interest rate cap. In its 2009 10-K, Advance America reported that this would essentially put it out of business:

> "Any federal law that would impose a national 36% APR limit on our services, if enacted, would likely eliminate our ability to continue our current operations."[38]

Despite various attempts to introduce rate caps during the recent financial reform process, however, no such measure was included in the final bill.

Senator Bob Corker also led the fight against a financial reform provision that would have allowed the newly formed Consumer Financial Protection Bureau to police payday lenders. Senator Chris Dodd, another recipient of payday industry cash, agreed to a compromise wherein the CFPB would need to appeal to a body of regulators in order to enforce rules against payday lending abuses.[39]

The industry has also waged heated lobbying battles on the state level to fight rate caps and other payday lending reforms.

Without the consolidation and growth facilitated by the banks' extension of easy credit, payday lenders would not be able to exercise this kind of political influence. The industry would have remained highly fragmented, poorly organized, and unable to wage the political battles that allow it to continue its usurious practices unchecked.

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[38] http://sec.gov/Archives/edgar/data/1299704/000104746910001876/a2196777z10-k.htm

[39] Sewell Chan, "A Consumer Bill Gives Exemption on Payday Loans," *New York Times*, 3/9/2010.

The Future of Payday

There is a significant degree of uncertainty about the future of the payday loan industry, given the potential for regulatory crackdowns and negative public perceptions of the industry.

- **Checking Advance products:** According to a recent brief from the Center for Responsible Lending, some banks, including Wells Fargo and US Bank, are getting into the payday business by offering "checking advance" products.[40] These short-term loans carry effective interest rates of up to 120% and "closely mirror the traditional payday loan product." Incoming direct deposits are used to repay the loan. The banks can also overdraw the customer's account in order to repay the loan, costing the customer additional fees. CRL believes that checking advances may grow in the future.

- **A Rebound?** Payday stocks took a hit during the financial reform process, but some Wall Street analysts think the prospects for the industry are bright. An *American Banker* article recently asked, "Are payday lender shares due for a rebound?"[41] The article noted a recent surge in Dollar Financial's stock and quoted several analysts with favorable views of the industry, and also noted that Advance America had performed well outside of states where it had been affected by new regulatory measures

- **New Products:** Lenders are also continuing to expand into other businesses targeting the "underbanked," such as pawn lending and prepaid debit card services. NetSpend, a prepaid debit card company which partners with a number of leading payday lenders, is preparing for an initial public stock offering (IPO) that is being co-led by **Bank of America** and **Goldman Sachs**.[42] NetSpend is currently owned by JLL Partners, which took payday lender ACE Cash Express private in 2006. Prepaid debit cards have come under fire for punitive fee structures, but largely escaped regulation in the recent financial reform process.[43]

Instead of wading further into the business of predatory payday lending, big banks need to stop financing these lenders and instead lend to businesses and individuals that create wealth, rather than destroy it.

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[40] http://www.responsiblelending.org/payday-lending/policy-legislation/regulators/

[41] http://www.americanbanker.com/bulletins/-1024875-1.html
[42] http://www.sec.gov/Archives/edgar/data/1299704/000110465910042749/a10-12627_110q.htm
[43] http://www.huffingtonpost.com/2010/06/21/swipe-fee-deal-merchants_n_619903.html

The payday industry's road to change could go through Washington. The newly created Consumer Financial Protection Bureau is considered to be a possible threat to the industry (see the appendix for policy recommendations).[44]

But the road to change could also go through Wall Street: the same big banks that received billions of dollars in taxpayer bailouts in 2008 have the power to cut off credit to some of the biggest payday lenders**. These banks need to stop financing payday lending at usurious rates and predatory terms.**

[44] http://seekingalpha.com/article/202029-payday-lenders-in-danger-from-financial-reform-bill

Appendix I: Recommendations

There is a need to eliminate the usurious and destructive payday lending industry and other high cost, short-term lending operations such as car-title lending, abusive stored value cards, direct deposit advance programs and tax refund anticipation loans.

There is also clearly an unmet community need for short-term, affordable loans under $2,500. Banks should be meeting this need both to meet their legal obligation to meet community credit needs under the Community Reinvestment Act and out of their own self-interest to drive customers to their institutions.

In order to achieve these goals, the following needs to happen:

- Community Reinvestment Act examinations should reward banks that work with the community to craft easy to access, affordable, short-term loan programs.

- Banking regulators, chiefly the Office of the Comptroller of the Currency as the primary regulator for national banks, must clearly identify payday lending and other high cost short-term lending as fundamentally unsafe and unsound and bar banks from investing and participating in these schemes outright.

- The soon to be formed Consumer Financial Protection Bureau must act quickly on its authority to regulate the industry by restricting the most abusive practices such as backdating checks, the ability to roll-over loans and the frequency with which as consumer can take out a payday loan.

- Congress must enact common sense interest rate caps and usury laws to limit interest rates to a reasonable 36% level.

- In the interim, States and localities should enact their own interest rate caps, limit the geographic concentration of payday storefronts and impose moratoriums on the establishment of new payday shops and storefronts.

- Big banks should completely discontinue financing of payday lending companies offering usurious rates and predatory terms.