



Credit Union National Association

# ***CUNA Issue Summary***

## **PAYDAY LENDING**

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**ISSUE:** Payday lending refers to single-payment, short term (13-17 days), small loans (\$100-\$500) based on personal checks or share drafts. In a typical payday loan the consumer writes a personal check drawn on a financial institution (which is held by an unregulated finance company or other payday lending institution) for the amount borrowed plus a fee. The fee, stated as a percentage of the check or of the loan, generally \$15/\$100, usually translates into triple digit annual interest rates.

The lender agrees to not deposit the share draft until the consumer's next payday. When the loan is due, the borrower can redeem the share draft for cash, allow the share draft to clear through the credit union, or pay another fee, again \$15/\$100 to extend the loan for another two week period.

It has been estimated nationally that approximately 20% of payday loan customers are within the field of membership of at least one credit union.

**LEGISLATION:** On June 26, 2007, Rep. Tom Udall (D-NM) introduced the [Payday Loan Reform Act of 2007 \(H.R. 2871\)](#). This bill amends the *Truth in Lending Act* and the *Federal Deposit Insurance Act* to prohibit payday loans based on checks drawn on, or authorized withdrawals from, depository institutions and to prohibit insured depository institutions from making payday loans, and for other purposes.

**CUNA POSITION:** CUNA and its member credit unions are committed to providing a safe and affordable alternative to predatory payday lenders. CUNA supports federal legislation regarding the exportation of interest rates – which “payday lenders” are currently using to circumvent state laws – that would prohibit depository institutions from making any deferred deposit loans, either directly or through any affiliate of agent.

**OPPOSING VIEWS:** The payday lending industry argues that fees on a short-term loan are cheaper than the fees a financial institution would charge for a bounced check. The industry also claims that a short-term “convenience” loan should not be held to the same standard and APR rate as a regular loan. Additionally, one of the primary reasons payday borrowers give for choosing a high cost payday lender over a traditional financial institution is the convenience of hours of operation and location.

**IMPACT ON CREDIT UNIONS:** Credit unions across the country have implemented various programs in order to provide individuals in their communities an alternative to the high-priced payday lenders. Additionally, allowing credit unions to provide check cashing services to non-members within their field of membership has given credit unions the opportunity to bring the unbanked and underserved communities into a mainstream financial institution, providing access to other services such as savings and lending.

**STATUS/OUTLOOK:** CUNA will continue to monitor any developments regarding payday loans, including the [Payday Loan Reform Act of 2007, \(H.R. 2871\)](#). In addition, H.R. 5519, the *Credit Union Regulatory Relief Act* (CURRA), would allow all federal credit unions to offer payday loan alternatives to non-members within their field of membership.

On July 15, 2008, Federal Reserve Chairman Ben Bernanke acknowledged credit unions for their products that provide alternatives to high-cost payday loans. At a Senate Banking Committee hearing on monetary policy, Bernanke was queried by Senator Daniel Akaka (D-HI) about what must be done to protect consumers from high-cost payday loans and encourage the development of affordable payday loan alternatives. The Fed chairman responded that he believes competition is the best solution, but then gave the nod to credit unions: "And I think banks and credit unions--I give particular credit to credit unions. They have done some particularly good work in terms of providing remittance services to allow people to get money back to their families without exorbitant costs."

On July 31, 2008, Senator Daniel Akaka (D-HI) introduced the *Improving Access to Mainstream Financial Institutions Act of 2008*. When introducing the bill, Senator Akaka said: "About 45 million Americans do not have a bank or credit union account, denying them access to basic financial services. With these federal resources, mainstream institutions will be better able to bank the unbanked. This bill will also encourage banks and credit unions to provide an affordable alternative to predatory payday loans which typically carry exploitative fees. Several credit unions have developed similar products, including the Windward Community Federal Credit Union in Kailua (Hawaii), which used a federal grant to develop an affordable alternative to help the U.S. Marines and others they serve. More working families need access to affordable small loans." The bill creates two grant programs within the Department of the Treasury. The first authorizes grants to assist low and moderate income unbanked individuals establish bank or credit union accounts. The second provides consumers with a lower cost, short term alternative to payday loans by encouraging the development of affordable payday loan alternatives at banks and credit unions. Loans extended to consumers under the grant would be subject to the annual percentage rate promulgated by the National Credit Union Administration's (NCUA) Loan Interest Rates, currently capped at an annual percentage rate of 18 percent.

**CONTACT:** [Ryan Donovan](#), (202) 508-6750, [rdonovan@cuna.coop](mailto:rdonovan@cuna.coop)

**RELATED DOCUMENTS:**

[June 5, 2008: Testimony of Darwin Brokke on Behalf of CUNA regarding Predatory Lending in Indian Country before the Senate Committee on Indian Affairs](#)

[Payday Lending: Report of the State Issues Subcommittee of the Government Affairs Committee](#)

[Payday Lending: Myths & Realities](#)

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