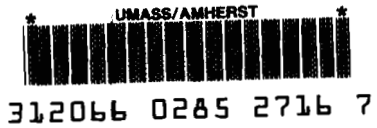


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COMMONWEALTH OF MASSACHUSETTS

DIVISION OF BANKS

INTERNET PAYDAY LOANS – RISKY BUSINESS

MAY 30, 2000

DIVISION OF BANKS

INTERNET PAYDAY LOANS – RISKY BUSINESS

The Division of Banks' (the "Division") mission is to maintain a safe and sound, competitive banking and financial services environment throughout the Commonwealth and ensure compliance with community reinvestment and consumer protection laws by chartering, licensing and supervising state regulated financial institutions in a professional and innovative manner.

The Division's 180 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, electronic data processing, and trust examinations of over 300 state-chartered banks and credit unions holding total combined assets in excess of \$140 billion. Therefore, the Division plays a key role in maintaining depositor confidence in the state's banking system and fostering a positive impact on the Commonwealth's economy.

The Division also licenses and examines over 2,500 non-bank financial entities, including mortgage lenders and brokers, check cashers and sellers, automobile sales finance companies, collection agencies, foreign transmittal agencies, insurance premium finance companies, retail installment sales finance companies, and small loan companies. These organizations are also regularly examined for financial safety and soundness and/or compliance with various consumer protection laws and regulations.

DIVISION OF BANKS

INTERNET PAYDAY LOANS – RISKY BUSINESS

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
I. What is a Payday Loan?	3
II. Massachusetts Law Governing Small Loans Under \$6,000	3
III. The Cost of Credit	3
IV. Questionable Practices	4
V. Summary of Internet Payday Lender Survey	4

I. WHAT IS A PAYDAY LOAN?

Payday lending is a relatively new phenomenon. Its frequency is growing at a startling rate, especially in states that do not have usury caps on interest rates. A payday loan is simply an advance on your paycheck. Payday loans are typically made in amounts of less than \$500. These loans are also made for very short terms. Generally, payday loans are required to be repaid within 5 to 15 days. These loans carry extremely high interest rates.

Generally, upon completion of an internet payday loan application, a payday lender will electronically transfer funds into a consumer's checking account. At the close of the term, usually following the deposit of the consumer's next payroll check, the payday lender will automatically deduct the loan amount and interest charged from that account.

Payday lenders most often provide loans to individuals that have difficulty making ends meet. Unfortunately, individuals that take out payday loans often have to take out future loans to simply recover from the loss of funds required to pay off the high interest rates and/or fees charged for the original payday loan.

Accordingly, many individuals get trapped taking out payday loan after payday loan. For this reason, as well as information which follows in this report, consumers are strongly cautioned to avoid internet payday lenders.

II. MASSACHUSETTS LAW GOVERNING SMALL LOANS UNDER \$6,000

In Massachusetts, G.L.c.140 §96 prohibits businesses from making loans of \$6,000 or less with interest rates of 12% or greater unless they are licensed by the Division of Banks. The maximum annual interest rate which can be charged on such loans is currently capped at 23% with an administrative fee of \$20. This small loan statute was originally enacted during the late 19th century to combat the practice of loan sharking.

As a result of the Commonwealth's Small Loan Law's usury cap on small loans, no payday lenders are physically located in the Commonwealth. A substantially growing number of companies, however, offer payday loans over the internet. These companies are not licensed by the Division of Banks and as a result are subject to little or no regulation. Unlike a bank, credit union, or a Massachusetts licensed lender, consumers may have little or no recourse if they should run into trouble while doing business with an unlicensed internet payday lender.

III. THE COST OF CREDIT

State and federal truth-in-lending statutes require lenders to disclose the true cost of credit in the form of an Annual Percentage Rate (APR) prior to the actual extension of credit. APR disclosures permit consumers to readily compare credit costs. Fee information provided on internet payday loan web sites is often difficult to find. In addition, this information is provided

in varying formats. Often only contract interest rates are quoted, as opposed to the APR. This has the effect of misleading consumers into believing the cost of credit is less expensive than it actually is. The Division's survey of internet payday lenders found that APRs typically ranged from 300 to 500% and in one instance as high as 6,205%! Most frequently, however, internet payday lenders appear to emphasize fees as a dollar amount rather than an APR.

IV. QUESTIONABLE PRACTICES

The most startling aspect of internet payday lenders is the little amount of information several companies provide about themselves and the amount and type of information that they require from their consumers.

Many internet payday lenders provide little or no identifying information about themselves. With transactions completed over the internet or phone, often e-mail addresses and toll free telephone numbers are the only means of contacting these companies. Without information relative to where the company is physically located, it will likely be impossible to track down a company that a consumer is having difficulty with.

Most disturbing, however, is the amount and type of personal and financial data that many of these companies require through their on-line payday loan applications. Typically, payday lenders require a consumer to provide a photo ID, cancelled check, and a payroll check in order to process a payday loan. A review of internet payday loan web sites found lenders seeking information far beyond what is typically required by a lender to make a credit decision. Examples of the type of information sought by some internet payday lenders include a consumer's ATM PIN (personal identification number), license plate number, social security number, date of birth, mother's maiden name, height, weight, and eye color. Consumers should **never** provide such information to a company that they are not 100 percent certain is reputable. Your PIN should never be shared with anyone! This information is certainly not required to make payday loans. Given the lack of identifying information about these companies and the requirements to submit significant personal and financial information, consumers should be greatly concerned that these companies may be engaging in fraudulent activities or even identity theft.

In one instance, an internet payday lender noted that all of its loans are provided by an FDIC insured institution. The web site did not disclose the name of the bank.

V. SUMMARY OF INTERNET PAYDAY LENDER SURVEY

Below are the findings of a survey of internet payday lenders completed as of May 19, 2000. The internet payday lenders listed below were found through the utilization of a variety of search engines. This list is not necessarily an inclusive listing of all internet payday lenders. The majority of internet payday lenders that feature on-line applications require a great deal of information. The information listed below is information which is required in addition to

typically required information (i.e. name, address, phone, employer information, and bank information).

Company Name: Americash Advance
Web Site: <http://fedpayday.com>
Location Identified: Yes
Fees: APR over 486 percent
Info. Collected: date of birth, driver's license number, social security number

Company Name: Americash Loans, LLC
Web Site: www.americashloans.net
Location Identified: Yes
Fees: Not disclosed
Info. Collected: date of birth, sex, type of car owned, license plate #, spouse information

Company Name: Cash 'Til Payday Loans
Web Site: www.cashtilpayday.com
Location Identified: No
Fees: Not disclosed
Info. Collected: No on-line application (toll free telephone number)

Company Name: Check Advance
Web Site: www.check-advance.com
Location Identified: Yes
Fees: Not disclosed
Info. Collected: No on-line application

Company Name: Check Masters
Web Site: www.check-masters.com
Location Identified: Yes
Fees: \$15 per \$100 advance
Info. Collected: date of birth, social security number, spouse data

Company Name: EZ Payday Advance & Auto Title Lenders
Web Site: www.ezpaydayadvance.com
Location Identified: Yes (Only accepts applications from Northern Illinois and Southern Wisconsin)
Fees: Not disclosed
Info. Collected: No on-line application

Company Name: EZcashnow.com
Web Site: <http://ezcashnow.com>
Location Identified: No
Fees: \$10 application fee; APR up to 390 percent; late fees can result in additional 120 percent APR
Info. Collected: PIN, date of birth, driver's license number social security number, cell phone number/pager

Company Name: Fast Buck\$
Web Site: www.fastbucks.net
Location Identified: Yes
Fees: Not clear
Info. Collected: driver's license number, social security number, copy of telephone bill

Company Name: Moneymart.com
Web Site: www.checkloan.com
Location Identified: Yes
Fees: Not disclosed
Info. Collected: No on-line application (toll free phone number)
Other: Claims loans are provided by an unidentified FDIC insured institution

Company Name: My Payday Loan.com
Web Site: www.mypaydayloan.com
Location Identified: No
Fees: \$20 fee; disclosed 25 percent charge is inaccurate as it does not include the fee and is not an APR (25 percent charge for 15 days equals an APR of over 608 percent, not including the \$20 processing fee
Info. Collected: date of birth, driver's license number, social security number, eye color, height, weight, sex, mother's maiden name

Company Name: PayAdvance.Com
Web Site: www.payadvance.com
Location Identified: Yes
Fees: \$35 per transaction, APR from 296% to 6,205%
Info. Collected: date of birth, driver's license number, social security number

Company Name: Payday Advances
Web Site: www.wiretome.com
Location Identified: Yes
Fees: Not clear
Info. Collected: date of birth, driver's license number, social security number, mother's maiden name

Company Name: Payday and Paycheck Loans.com
Web Site: www.paydayandpaycheckloans.com
Location Identified: No
Fees: Not disclosed
Info. Collected: On-line application connects user to www.wiretome.com site.

Company Name: Payday Loans Payday Advances
Web Site: www.200cashnow.com
Location Identified: No
Fees: \$35 per transaction
Info. Collected: date of birth, birthplace, driver's license number, social security number, mother's maiden name

Company Name: Paydayloan.com
Web Site: www.paydayloan.com
Location Identified: Yes
Fees: APR of 378.96 percent
Info. Collected: On-line application was not accessible

Company Name: Short Term Loans, LLC
Web Site: www.shorttermloans.com
Location Identified: Yes
Fees: Not disclosed
Info. Collected: No on-line application