ECONOMIC IMPACT STUDY JANUARY 2009

Study Confirms Economic Contributions of Payday Advance Industry

High-Quality Jobs, Millions in Payroll and Tax Revenues Just Part of Payday Advance Benefits

A recent study conducted by economic research firm Colorado Strategies (headed by former director of the Office of State Planning and Budgeting Henry Sobanet) shows that Colorado's payday advance industry provides major benefits to the state's economy, and that the loss of the industry would exacerbate the state's growing economic and fiscal crises.

ECONOMIC VALUE OF PAYDAY ADVANCE INDUSTRY TO COLORADO

- Direct Payroll/1666 Full-Benefit Jobs = $44,000,000
- Lease Revenue Paid to Landlords = $20,000,000
- Loan Volume = $639,000,000+
- Unemployment Compensation Liability = $13,000,000
- Value of Payroll Multiplier = $70,000,000

"The takeaway on the study is clear as day," said Ron Rockvam, President of the Colorado Financial Service Centers Association (COFISCA). "Coloradans need every job and every credit option they can get. Proponents of 'predatory regulation' designed to wipe out the payday industry put thousands of jobs and millions of dollars in economic value at risk when we can least afford it."

Jobs provided by payday advance operators are nearly all full-time/full-benefit (including health care) positions. The economic study identified an academically validated multiplier that when applied to the payday lending industry puts the total value of the payroll in Colorado at $70,000,000.

The loan volume of $639,000,000 represents a significant amount of credit introduced into Colorado's economy that flows directly to businesses of all types and sizes throughout the state. The loss of this revenue means consumers are forced to utilize less desirable credit choices (overdraft fees, late fees, etc.) or forego necessary expenses altogether. Depriving consumers of ready access to this sizable amount of credit means Colorado's economy overall would take a serious hit.

In addition to jeopardizing major economic benefits, so-called "reforms" aimed at eliminating the industry in Colorado would cause serious additional negative consequences to state and local governments.

(over)

<u>NEGATIVE IMPACTS OF LOSS OF PAYDAY INDUSTRY ON REVENUES</u>

- **Increased unemployment claims and thus benefit payments from the State Unemployment Insurance fund**
- **Reduced solvency in the State Unemployment Insurance Fund**
- **Lower tax revenue at all levels of government**
- **Increased commercial property vacancy rates**

The study utilized comprehensive data collected from over 340 of the 555 payday advance stores in the state (as of the last quarter of 2008) as well as the most recent (2007) Deferred Deposit Lender's Annual Report issued by state Office of Attorney General. Colorado Strategies examined a variety of factors in assessing the impact of the payday advance industry, using standardized statistical methods. Some of the figures used in this report represent the upper ranges of figures sited in the Economic Study.

The economic study was sponsored by a coalition of payday advance companies with operations throughout Colorado.

A Comparative Analysis of 2007-2008 Activity in the Colorado Deferred Deposit Lending Industry

Prepared by
Henry Sobanet, President

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www.coloradostrategies.com

This report is in response to a request from the Community Financial Services Association of America (CFSA) and the Colorado Financial Service Centers Association (COFiSCA) for an analysis of loan activity from Colorado Deferred Deposit Lenders (DDL) or "payday advance" industry in Colorado. We used the responses to the Colorado Uniform Consumer Credit Code DDL Annual Reports for 2007 and 2008.

The purpose of the study was to interpret and compare pertinent data from 2008 individual company filings with a comparison to the 2007 filings from the same companies to understand how the industry performed and to identify trends. Respondent companies represent a significant sampling for the DDL industry in Colorado.

Colorado Strategies received responses from 27 operators, representing 408 licenses in 2007. There were some inconsistencies with a few respondents. Those that we were not able to rectify were excluded from the analysis. Thus, Table 1 at the end of the memorandum represents a comparison of 2007 and 2008 data from those respondents with consistent data. Given that we received a high response rate from the largest operators, we are confident in the *general direction* of the percent changes in the categories, but there could be some variation in the *magnitude* of the percent changes when the Colorado State Office of the Attorney General tabulates the final results.

Summary Statistics

Colorado Strategies analyzed and compiled responses to Questions 1, 3, 8, and 9 from the 2007 and 2008 annual reports. These questions encompass the most pertinent data regarding trends in the payday advance industry including: store count, loan volume and amount, loan terms, and the effectiveness of the Extended Payment Plan program. All of the comparative statistics for 2008 are based on the respondents' reported performance in 2007. We did not compare the 2008 respondents' reported performance with the summary 2007 report as prepared by the State Office of the Attorney General.

Based on the number of stores reported for 2007 (408), the respondents in this study represented 66% of the 618 stores reported by the State Office of the Attorney General in the 2007 UCCC DDL Annual Report. The 2008 data from the respondents to this study indicate a drop of 35 stores (8.6%).

Question 1: Loan volume and number. Despite the number of stores dropping by 8.6%, loan volume (total dollars) was down only 1.4% and the number of loans was down 3.3%. Because the number of loans fell by a greater percentage than total dollars, the average loan size actually increased by 1.9%. (See discussion of Question 3 for more explanation and discussion.)

Question 3: Averages. The averages in the table represent simple averages of all the reported data and are not weighted by each respondent's size. (This is the same methodology used by the Attorney General's Office.) Using the data from Question 1, we find that the average loan size in 2007 was $373.10; in 2008 it was $380.32, an increase of 1.9%. The average Annual Percentage Rate shows a decrease of 3.2% and the average loan term increased by one day (3.9%)

Question 8: Consumers with loans. The number of consumers to whom DD loans were made in 2008 increased by 8.5%. However, there were dramatic changes in the sub-categories of this question. The number of consumers with 6 or less loans increased by 20% and the number of consumers with 13 or more loans **decreased by 44%.** Meanwhile, consistent with this reporting, for 2008, the average number of loans per customer decreased to 4.51 from 5.06, an 11% drop (calculated via Question 1 and Question 9).

Question 9: Extended Payment Plan. With respect to Question 9, we find that there was a substantial increase in use of the Extended Payment Plan in 2008. Based on information provided to Colorado Strategies, the 2007 data represented approximately one quarter of EPP availability. Specifically, the number of consumers eligible to receive an EPP notice increased 78.5%, the number of consumers entering into an EPP agreement increased 89.7%, and the number of consumers successfully completing a plan agreement increased 175.9%. So, while the growth rates in EPP are substantial, they do not represent the expected growth if they were annualized. (We note that seasonal variation in loan activity for loans may affect this expectation). Meanwhile, two respondents effectively reported zero activity in EPP for both years.

Conclusion

Based on the respondents' data, there has been some measure of consolidation in the Colorado DDL industry as evidenced by a nearly nine percent drop in the number of active stores. However, loan volume and number did not drop by a commensurate amount. In addition, the average loan size increased slightly. The results of this survey show that through 2008 the demand for DDL services remained steady; indeed the total number of consumers to whom loans were made increased 8.5%. To the extent policy changes have tried to reduce the frequency of use of the payday loan product, we see a substantial decline in the number of consumers with 13 or more loans in a given year; respondents reported a 44% drop in this category. Also, respondents reported a nearly 90 percent increase in the number of consumers in 2008 entering into a EPP agreement .

Table 1: Summary of Respondents' Data

DATA - line item #'s from DDL Annual Reports-Colorado	2007	2008	Percent Change
STORE COUNT			
Top: Total # of Active Licenses as of 12/31	408	373	-8.6%
LOAN VOLUME, AMOUNT, APR, TERMS			
Q #1: Total DDL's Made, arranged or taken by assignment in given year			
Number	1,071,192	1,035,670	-3.3%
Dollar Amount	$ 399,656,591	$ 393,887,943	-1.4%
Q# 3: DDL's:			
b. Average loan amount & finance charge			
Avg. Loan Amount	$ 351.11	$ 357.11	1.7%
Avg. Finance charge	$ 59.24	$ 58.94	-0.5%
c. Average annual percentage rate (APR)	340	329	-3.2%
d. Average loan term (average number of days)	20	21	3.9%
CONSUMERS WITH LOAN #'s			
Q # 8: Total # of consumers to whom DDL's were made in given year	211,791	229,840	8.5%
Q # 8 a: Number of consumers with 6 or less loans in given year	139,597	167,574	20.0%
Q # 8 b: Number of consumers with 7 to 12 loans in given year	48,989	49,258	0.5%
Q # 8 c: Number of consumers with 13 or more loans in given year	23,208	12,998	-44.0%
CONSUMERS & EFFECTIVENESS OF EPP			
Q # 9 a.: Total # of Consumers eligible to receive Payment Plan Notice	52,033	92,895	78.5%
Q # 9 c: Total # of Consumers entering into a Payment Plan Agreement	32,491	61,625	89.7%
Q # 9 e: Total # of Consumer successfully completing a Payment Plan Agreement	17,318	47,776	175.9%