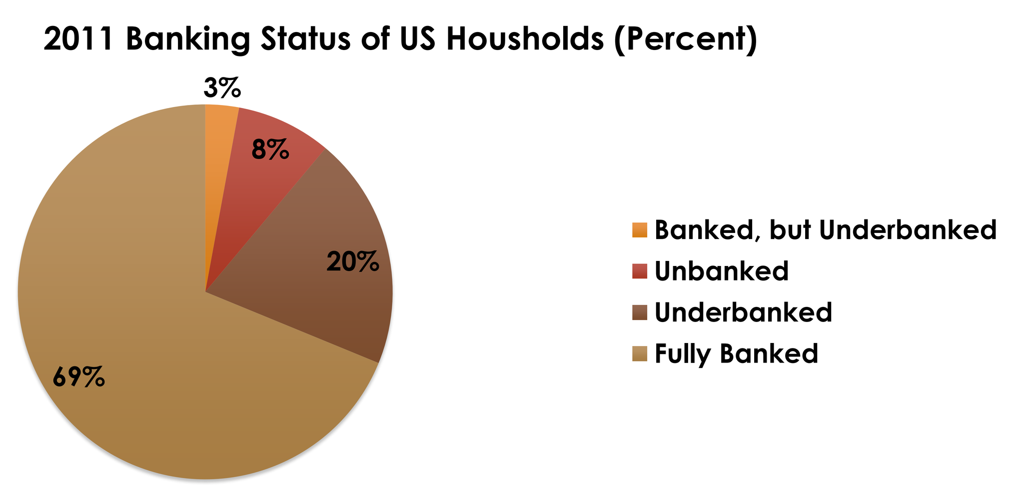
A New Approach to Payday Lending

Sielle Mitchell, MBA and Shantell White, MBA

Abstract

- There are millions of working class Americans contributing to the economy who are labeled as unbanked or under banked, and are compelled to rely on alternative financial products to resolve their short term liquidity needs.
- The unbanked and under banked represent approximately 28.3% of the American population and 28.4% of the Florida population according to the FDIC 2011 National Survey of Unbanked and Under banked Households.
- Research conducted by the Center for Financial Services Innovation shows that this financially underserved market generated almost $21.4 billion in fees and interest revenues in 2012 from "Very Short Term Credit" products. Pawn shops, check-cashers, and payday lenders have greatly benefited from addressing the needs of this market.
- Payday lenders have traditionally marketed their low eligibility requirements and readily available loans to consumers while charging interest rates averaging over 300%, with no opportunity to build and reestablish credit. Based on these statistics, Americans continue to fall into debt traps without having other opportunities to fulfill their short term liquidity needs.
- This research will focus on the viability of creating a sustainable short term loan product and feasibility of establishing an innovative solution, a community lending company that will strengthen family's financial resolve, by offering reasonably priced loans, credit building systems, and cash saving with the support of consumer financial protection bureau.

Facts on Payday Lending



- According to paydayloan.com, the pay day loan industry added $10.2 billion to the United States' economy, had a $2.9 billion labor income impact and a $2.6 billion in taxes.
- In the U.S., 12 million people borrow nearly $50 billion a year through payday loans.
- The rates charged on payday loans can be up to 35 times those charged on credit card loans and 80 times the rates charged on home mortgages and auto loans. Most borrowers owe payday lenders for five months out of the year and typically end up paying $800 for a $300 loan.

Literature Cited

- CFSI, 2012 Financially Underserved Market Size Study
- Fannie Mae Foundation, Innovations in Personal Finance for the Unbanked
- Business Insider http://www.businessinsider.com/outrageous-facts-about-payday-loans-2013-10

The Impact of Financial Literacy

- Research shows that most borrowers are not financially literate .
- Borrowers fail to make correct decision when they have not received a sound personal finance education.
- 1,770 households nationwide were tested on their financial knowledge and found an average correct score of 42%. This results show that households financial decision makers do not have a good grasp of basic finance concepts.
- The lack of education has resulted in serious financial illiteracy found in the American public. The illiteracy and its costly consequences have made individuals worry about their finances to the extent that their productivity in workplaces are affected.
- Less knowledgeable borrowers pay about 50% higher fees than the average cardholder. Moreover, even when using very conservative assumptions, we find that as much as one-third of the charges and fees paid by the less knowledgeable are related to lack of knowledge versus other observable demographics.
- The less financially literate are to be found less likely to plan for retirement, to accumulate wealth and participate in the stock market
- Self-reported surveys have stated that financial literacy also increases steadily with income. However, individuals with less income are more accustomed to borrowing.
- Financial literacy training has been shown to improve spending and borrowing behaviors

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Conclusion

Alternative to Traditional Payday Lending

- Payday Alternative Loan Basic (up to $500)
- Payday Alternative Loan Plus ($500-$1500)

	Branch Operating Fund
Government Grant Request	$200,000.00
Operating Expenses	($189,163.44)
Revenue Mark-up	20%
Desired Revenue	$226,996.13
Operating Reserve	26,996.13
Number of Loans to Break Even	751
Number of Loans to Reach Desired Revenue	901

	Annual Loan Capital
Projected Number of Loans	720
Average Loan Amount	$700
Required Loan Capital	$504,000.00

	Market Share
Florida Sales Volume	$1,700,000,000
Required Market Share	0.01176%
Forecasted Revenue Growth	10%

Further Information

Benefits to Target Market:

- Solve short term financial needs without the risk of overbearing interest rates
- Access to financial resources in an expedited time period by avoiding extensive credit checks
- Avoid falling into debt traps
- Potential opportunity to build credit through partnerships with community banks
- Provide consumers with the necessary tools and knowledge to become financially literate

Abstract/Introduction