

# The Wal-Mart Effect: When Might It Be A Good Thing?

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RIT – November 20, 2008

# Competitors in Financial Services for low-mod & FMC (formerly-middle-class)

- The “Good Guys”

(sometimes )

- Banks

- Credit Unions

- Deposit accounts

- Credit cards

- The Exploitation Guys

- Payday lenders

- Check cashers

- Rent-to-own (RTO)

OD'ing on ODs

Overdosing on  
Overdraft

# Playing the payday game

- \$17.5 Billion fees paid for \$15.8 Billion in overdraft loans
- \$4.5 Billion paid by over 55 crowd
- \$1 Billion paid by folks heavily or entirely dependent on Social Security
- Heavily dependent on the treadmill folks
  - 71% by 16%
  - More likely to be under \$50K and non-white

# Great Value???

AVERAGE LOAN AMOUNT		FEE
Debit	\$17	\$34
ACH	\$28	\$34
Check	\$41	\$34

# Overdraft fees beget overdrafts

2 Months in Mary's Social Security Life months

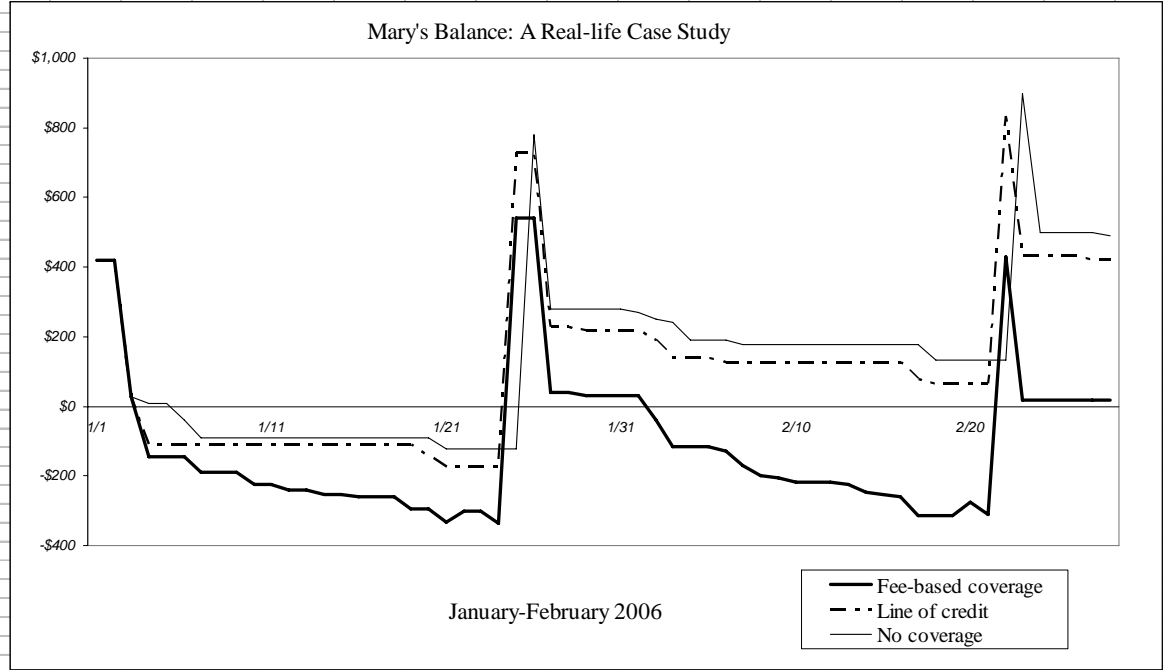
	Fees	End of mo 2 bal
OD	\$448.00	\$ 18.48
18% L/C	\$ 1.00	\$420.00
No program		\$489.00

(assumes she paid NSF & late fees for the  
3 denied.

W/out OD – would have had 1 mo utility pmt denied

W/ OD – had next month's utility payment denied, too.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
420.56	420.56	28.05	-143.95	-143.95	-143.95	-190.97	-190.97	-190.97	-224.97	-224.97	-238.97	-238.97	-252.97	-252.97	-259.97	-259.97	-259.97
420.56	420.56	28.05	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95
420.56	420.56	28.05	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95
420.56	420.56	28.05	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95	-109.95
420.56	420.56	28.05	8.05	8.05	-40.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95	-89.95



A Fair Credit Card:  
“Priceless” – and Rare?

# The Credit Card Penalty Box

- \$8500 balance
- Payment: Interest + 1% of principal
  - @ 13%: \$ 92.08 + \$85 = \$177.08
  - @ 25%: \$177.08+ \$85 = \$262.08
- 12 months in penalty box = **\$966 extra**

# 4 years down the drain

Average Income Gains 2002-2006	
<b>“Bottom” 90%</b>	<b>\$1000 (3%)</b>
Top 1%	\$335,000 (44%)
Top .1 of 1%	\$1.9 million (60%)

# PAYDAY

Not the bank knock-off...

# Payday Lending 101

- Small, short-term loan secured by borrower's personal check
- \$15-16 per \$100 borrowed (400% APR)
- Only need a source of income and a checking account to qualify
- Most likely borrowers: women, people of color, renters, slightly less than median income, those with a high school diploma but no four-year college degree

# The problem with payday loans...

1. High cost (triple-digit APR)
  2. Two-week balloon payment
- Most borrowers pay their loans off when they are due BUT, there's not enough left over for basic necessities and the borrower must take out another payday loan either immediately or a few days later

# Why can't a borrower pay back their loan when due?

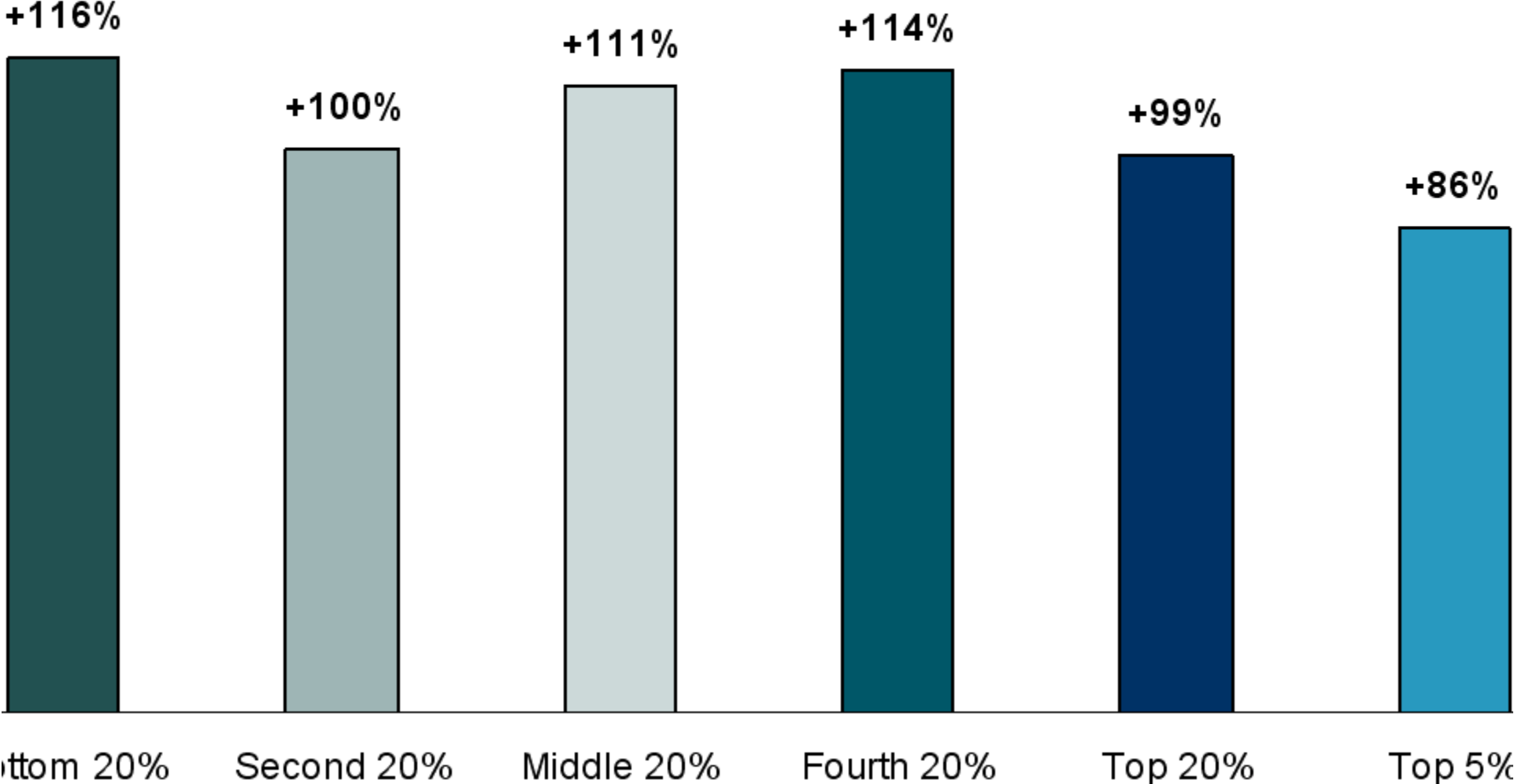
	\$35,000 Salary
Before tax income (2 weeks)	\$1346
Minus taxes*	-\$120
After tax income	\$1226
Minus two week expenditures on food, housing, transportation, and healthcare*	-\$963
Money left over	\$263
Payday loan payment due on \$325 loan	\$377
<b>Deficit</b>	<b>-\$114</b>

\*Source: BLS, Consumer Expenditure Survey

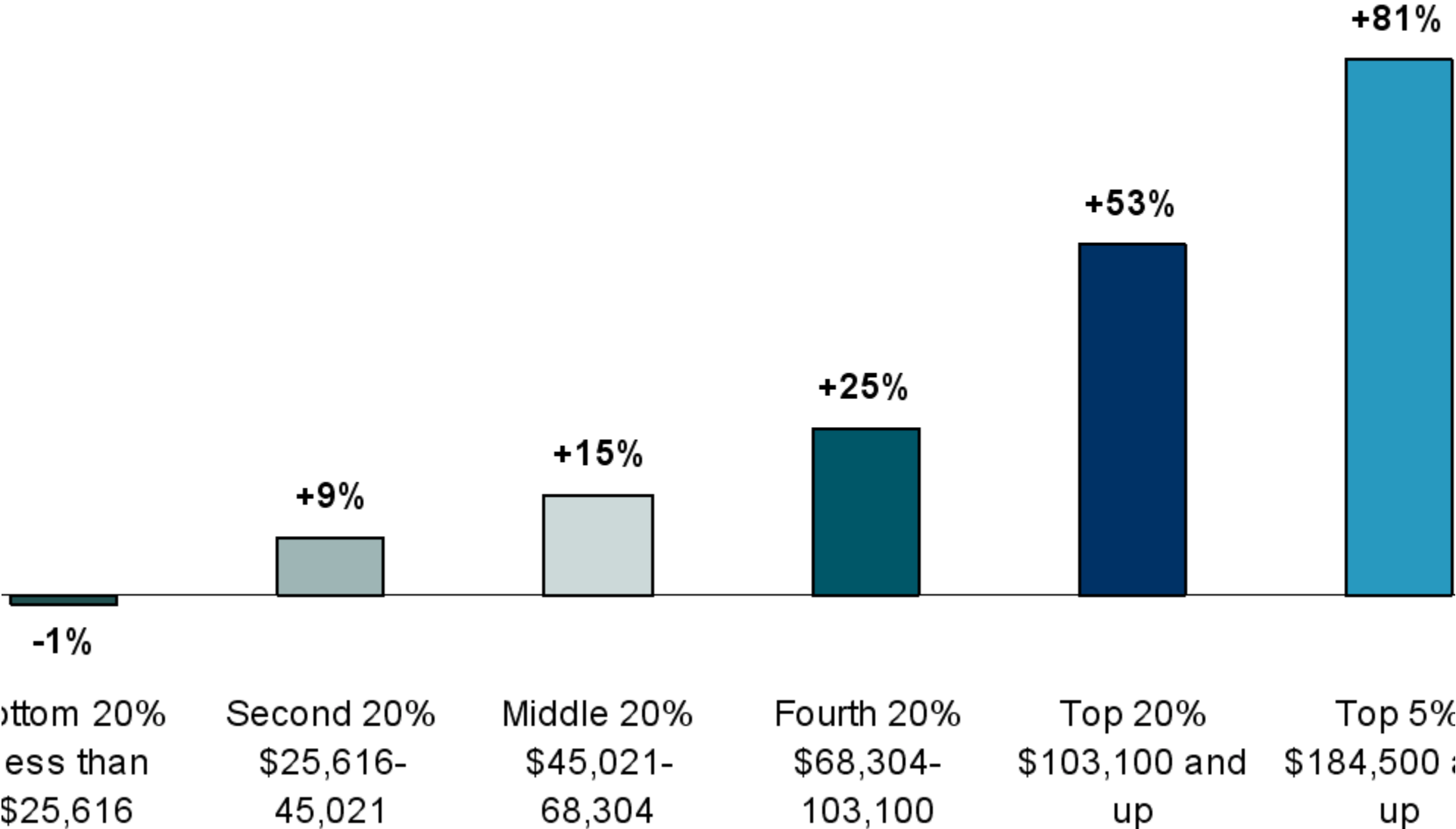
# Payday Lenders depend on trapped borrowers

- 90% of payday loan business is generated by borrowers with five or more loans a year
- Over 60% of business is generated by borrowers with at least one loan a month.
- Just **two percent** of loans are taken by borrowers who can pay it back and walk away from payday lending for the rest of the year....

# Change in Real Family Income by Quintile and Top 5% , 1947-1979



# Change in Real Family Income by Quintile and Top 5% , 1979-2005



# About that drying up credit

	1975	1998	<b>2006</b>
Agg Ann inc	\$2.7 T	\$5.4 T	<b>\$ 7.7 T</b>
Agg debt	\$734.3B	\$5.9 T	<b>\$12.9 T</b>
Ratio	27.2%	110%	<b>168%</b>