



Key Findings from *Fraud and Abuse Online: Harmful Practices in Internet Payday Lending*

A fast-growing industry

Online lending revenue tripled from \$1.4B in 2006 to \$4.1B in 2013
1 in 3 payday loans originates online, with rates as high as 700% APR or more



Long-term indebtedness

1/3 of online borrowers had loans that were structured to automatically renew, withdrawing only the fee on the next payday.

Other loans are set up as installment loans, but not all payments reduce principal. For example, a \$500 loan from one lender included five interest-only payments, totaling \$875 after which the borrower still owed the full \$500.



The first three payments, they'll just take the financing, the servicing, and they don't even start paying down on it."

—New York online borrower

Abusive practices



30%



39%



32%

of online borrowers report that they experienced:

Threats

Threats include contacting borrowers' families, friends, or employers, and arrest by the police.

Fraud and dissemination of personal information

Personal or financial information was sold to a third party without borrowers' knowledge.

Unauthorized transactions

Borrowers experienced unauthorized withdrawals in connection with online payday loans.

“When he started calling my work I thought I was going to lose my job.”

—New Hampshire online borrower

Bank account problems

46% of online borrowers report that a lender made a withdrawal that overdraw their checking account, twice the rate of storefront borrowers.

22% report closing a bank account or having one closed by their bank in connection with an online payday loan.



“I was told by my bank there was really no way that I can stop them from taking it out. ...They closed that account, and they opened up another one.”

—Missouri online borrower

Consumer complaints



9 in 10

payday loan complaints made to the Better Business Bureau in 2011 were against online lenders; most concerned a small group of companies operating through multiple websites.



7 in 10

complaints against online payday lenders were about “billing or collection issues,” including unauthorized withdrawals and improper collection practices.



I closed off my [bank] account because they were taking out more than they should have taken out, without my permission.”

—New Hampshire online borrower

Policy recommendations

Financial regulators, most urgently the Consumer Financial Protection Bureau, have a historic opportunity to create new rules to promote a safer and more competitive small-dollar loan market. These rules should apply to all small-dollar cash loans including storefront payday loans, online payday loans, and similar installment loans from banks and nonbanks.

- ➔ Ensure that the borrower has the ability to repay the loan as structured.
- ➔ Spread loan costs evenly over the life of the loan.
- ➔ Guard against harmful repayment or collections practices.
- ➔ Require concise disclosures of periodic and total costs.
- ➔ Continue to set maximum allowable charges.

For further information, please visit:

pewtrusts.org/small-loans

Contact: Mark Wolff, communications director **Email:** mwolff@pewtrusts.org **Phone:** 202-540-6390

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