Online and Storefront Payday Lenders are More Alike than Different, Report Shows

Some payday lenders do business through storefronts; others operate online. This new CFPB report puts one more nail in the coffin of the idea that either is a safe form of credit in the current regulatory environment.

Previous research, including studies by the CFPB, showed that most payday loan customers end up in high-cost long-term debt, often paying more in fees than the sums they borrowed. The new report, which looks at the way online lenders collect payments, exposes a set of tactics that saddle borrowers with heavy bank fees on top of the triple-digit interest rates charged by the lenders themselves.

About half of all online payday loan customers end up paying fees ($185 is the average amount) triggered by failed debit attempts. Some lenders keep on trying to collect in even when there is likely to be no effect other than to increase the cost to the borrower. Some companies will even break a payment into multiple smaller amounts, submitting three $100 requests, for example, instead of one $300 request. A third of the customers hit with such penalties end up having their bank accounts closed involuntarily.

Payday lending, in short, is an ugly business with or without the Internet. And it's a business badly in need of tough rules that can reach across state lines as well as the border between physical and online commerce.