Americans for Financial Reform Education Fund

February 2020

Private Equity-Owned Payday Lenders Profit by Trapping People in Debt

Private equity firms have pushed into the high-priced consumer loan industry, offering payday and other consumer loans that profit off trapping borrowers in a cycle of debt. Private equity (PE) firms own over 5,000 storefront payday and online lenders that make loans at 300% annual percentage rates (APR) and more.[1] Some of the largest and most well-known payday lending companies, like ACE Cash Express, Speedy Cash, Money Mart and the Check Cashing Store, have been owned by private equity firms.[2]

Payday and car title loans create a long-term debt trap that causes serious financial harm, including increased difficulty meeting basic household needs, loss of a vehicle, and bankruptcy. Payday and car title lenders extract nearly $8 billion in interest and fees from consumers every year.[3] And 8 in 10 payday loans go to pay off another payday loan.[4] About one in 25 families take out a payday loan each year and African American and Latinx consumers are over twice as likely to have a payday loan.[5]

PE-owned payday lenders evading state consumer protection laws: PE firm FFL Partners bought Curo Financial, owner of Speedy Cash and Rapid Cash in 2008.[6] In 2018, Speedy Cash paid $750,000 to settle allegations that it dodged California rate-cap rules and had to repay 6,400 borrowers.[7] Although Curo became public after California's suit, FFL Partners still held a 20 percent stake in the predatory lender.[8] Curo recently told investors that it planned to evade California's new interest rate cap through a sham bank partnership.[9]

PE controlled online payday lender dodges state usury laws, goes bankrupt from lawsuits: Another PE partnership backed an early internet lender, Think Finance that pushed high-cost loans that posed the same risks as storefront payday lenders.[10] Many of its loans illegally charged interest rates higher than what the states they were made in permitted.[11] The Consumer Financial Protection Bureau found that it collected $86 million from loans that were void under state laws.[12] It settled a raft of lawsuits by paying nearly $40 million to 21 million borrowers for loans that could have interest rates over 400 percent and cost $1,800 for borrowing $500.[13] In 2017, Think Finance went bankrupt in part because of these lawsuits.[14]

Notes: [1]AFR and Private Equity Stakeholder Project. "Private Equity Piles into Payday Lending and Other Subprime Consumer Lending." December 2017

[2] Whoriskey, Peter. "'A way of monetizing poor people': How private equity firms make money offering loans to cash-strapped Americans." *Washington Post.* July 1, 2018.

[3] Standaert, Diane et al. Center for Responsible Lending. "Payday and Car-Title Lenders Drain Nearly $8 Billion in Fees Every Year." April 2019 at 3.

[4] Burke, Kathleen et al. CFPB's Office of Research. "CFPB Data Point: Payday Lending." March 2014 at 4 to 5.

[5] Bricker, Jesse et al. "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin.* September 2017 at Table 5 at 27; Burhouse, Susan et al. Federal Deposit Insurance Corporation. "2013 FDIC National Survey of Unbanked and Underbanked Households—Appendices." October 2014 at Table 12A at 83

[6] FFL Partners. Portfolio Companies: Speedy Cash. Internet Archive December 2008. Accessed November 2019.

[7] California Department of Business Oversight. [Press release]. "DBO continues crackdown on interest rate cap avoidance entering consent order with California check cashing stores." January 22, 2019.

[8] Dugan, Kevin. "Payday lender's IPO gets a 'meh' from Wall Street." *New York Post.* December 7, 2017; CURO Group Holdings Corp. SEC form DEF-14A. April 16, 2019 at 16.

[9] National Consumer Law Center. [Press release]. "Advocates Urge FDIC, OCC, Federal Reserve to Stop Banks from Helping Payday Lenders Evade State Interest Rate Limits." November 7, 2019.

[10] Rao, Leena. "Sequoia-backed Think Finance gets a $90 million credit line to help serve 'the unbanked.'" *TechCrunch.* September 23, 2010; Shubber, Kadhim. "Why this subprime lender funds loans through the Cayman Islands." *Financial Times.* January 19, 2016; Brickley, Peg. "Think Finance bankruptcy exposes fallout with Victory Park Capital." *Wall Street Journal.* October 24, 2017.

[11] Howland, Jack. "Fort Worth firm allegedly violated payday loan laws for years. Now it's paying $39.7M." *Fort Worth Star-Telegram.* June 28, 2019.

[12] CFPB. CFPB v. Think Finance, LLC. Complaint. U.S. District Court of Montana, Great Falls Division. November 15, 2017 at 25.

[13] Howland (2019); Tompor, Susam. "Westland woman had 350% interest rate on $1,200 loan and a loophole allows it." *Detroit Free Press.* July 12, 2019.

[14] Tompor (2019).