

*Fordham Journal of Corporate & Financial Law:*  
**Payday Lending: Do Outrageous Prices Necessarily Mean Outrageous Profits?**

An article published in the *Fordham Journal of Corporate & Financial Law* concludes payday lending fees do not deliver high profits to lenders and advises state legislators to “refrain from acting in haste” when enacting payday lending legislation, stating, “legislators would be wise to carefully consider and study the industry's explanations of its operating costs and profitability.”

The article supports the position that payday advance fees are in line with the high costs of operating a payday loan business. Calling for additional research, the author writes, “If more unbiased information were available, legislators would be presented with a true picture of both payday borrowers and the payday lending industry... This information could lead the payday lending industry and government to cooperative guidelines for providing this necessary service.”

The full article can be read at <http://www.cfsa.net/Fordham.html>.

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*Noted in the article:*

***Payday lending fees do not generate enormous profits, profit margins much lower than other institutions***

“Calls for regulating the industry are based partially on an assumption that payday lenders generate enormous profits from the high cost of borrowing. High profits for payday lenders, however, may be more myth than reality.”

“This study finds that the industry's proffered justifications for high service fees, and by extension high APRs, may be justified by both high store expenses and high loan losses. In addition, this study finds that payday lender profit margins are less than half that of their mainstream lending counterparts.”

“These figures indicate that arguments against payday lending, couched in terms of preventing excessive profits, are unfounded. If companies should be limited to a certain profitability measure, citizens would be better off fighting Starbucks than their local payday lender.”

“These figures indicate that payday lenders are not overly profitable organizations. Contrary to conventional wisdom, these firms fall far short of profits for mainstream commercial lenders. In addition, profit margins of payday lenders are far below those of Starbucks.”

“In order to provide a valuable service, payday lenders choose to keep longer business hours and operate a higher density of stores than traditional lenders such as banks. The cost of convenience is lower profitability.”

***Payday lending can be a good choice for short-term credit needs***

“A common analogy is to compare payday lending to a taxi cab ride: A taxi provides a very cost-effective method to travel between short distances, but can be alarmingly expensive for longer trips. Similarly, payday lending is effective for short-term borrowing, but can lead to objectionable results if used as a longer-term credit crutch.”

“Depending on the borrower's situation, each of these alternatives [bounce protection, borrowing from family] may come with its own set of monetary or other social costs. In the end, choosing a payday loan may be the most convenient and cost-effective alternative for some people...Unfortunately, there are not many viable alternatives to payday lending.”