



White Paper Analysis
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Report: Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year

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Introduction

The Center for Responsible Lending (“CRL”) recently published a policy paper with significant conclusions about consumer usage of payday loan products and public policy impact (“CRL Report”). The CRL Report highlights the need for effective public policy and enforcement of consumer protections from the many potential abuses associated with the payday loan product. Several of the findings and conclusions reflected in the CRL Report are based on information from various sources including reports published by Veritec Solutions LLC (“Veritec”) as part of Veritec’s contractual relationship with various state agencies.

Veritec is concerned that certain conclusions derived in the CRL Report are a misinterpretation of statistical information published by Veritec as referenced. Veritec is concerned that these conclusions inaccurately reflect the effectiveness of regulatory programs supported by our firm.

The purpose of this report is to clearly identify the conclusions in question and provide a more accurate interpretation of the information published by Veritec.

Background

Veritec Solutions LLC is a regulatory services company that manages the statewide lender compliance programs in the four states with statewide databases and related limits included in their respective payday lending (aka deferred presentment, deferred deposit) statutes. Veritec helps state agencies regulate payday lending statutes through management of these programs. Veritec does not supply any goods or services to the payday lending industry and its primary customers are state regulatory agencies. Veritec and its parent company have been providing state agencies with customized regulatory support programs for over 20 years.¹

The State of Florida and the State of Oklahoma each implemented a statewide database to enforce statutes that regulate the payday lending industry. These statutes include maximum rates, terms and charges, limits on the total number of outstanding loans for a single consumer, limits on the total amount a customer can borrow at any one time, repayment plan options, and a prohibition against any loan being extended or renewed. The Florida statute requires a 24-hour waiting period between loans. The Oklahoma statute requires a 2-day waiting period after a consumer's fifth consecutive loan and a 15-day waiting period following completion of a repayment plan. The relevant sections of Florida and Oklahoma statutes are attached as exhibits to this document.²

Veritec publishes "Trend Reports" with statistical information from the statewide lender compliance programs under the firm's management. These reports are a part of Veritec's servicing obligation for these programs and are approved for release by the respective state regulatory agency. Trend Reports published for the Florida Deferred Presentment Program and Oklahoma Deferred Deposit Program were referenced as a source in the CRL Report. Reports for both of these programs reflect statistical information based on "millions" of payday loan transactions conducted in each respective state.

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¹ The only four states with deferred presentment statutes and regulations requiring a centralized statewide database for enforcement of statewide product usage limits are Florida, Illinois, Michigan and Oklahoma.

² A "consecutive" loan is defined by the Oklahoma statute as a deferred deposit loan taken out by a customer while a previous deferred deposit loan is outstanding or within 7 calendar days of paying off any previous deferred deposit loan

CRL Conclusions in Question

Veritec finds that the following conclusions made in the CRL Report are not an accurate reflection of statistical information published by Veritec in the referenced reports.³

1. That the study finds that ninety percent of payday lending revenues are based on fees stripped from trapped borrowers (refer to page 6, Finding #1).
2. That the study finds that the typical payday loan borrower pays back \$793 for a \$325 loan. (refer to CRL Report page 6, Finding #1).
3. That the study finds regulator data corroborates high levels of loan flipping (refer to CRL Report page 6, Finding #1) and that regulator data confirms that most borrowers renew payday loans many times per year. (refer to CRL Report page 7, Finding #1)

The section below provides details about how each of these conclusions misrepresents statistical information published by Veritec in the referenced reports. The section below also includes suggestions on further analysis to address concerns raised in the CRL Report.

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³ Report: Financial Quicksand: Payday lending sinks borrowers in debt with \$4.2 billion in predatory fees every year, page 6 (Finding #1) and Page 7 (Finding #1), Center for Responsible Lender, November 30, 2006.

Findings

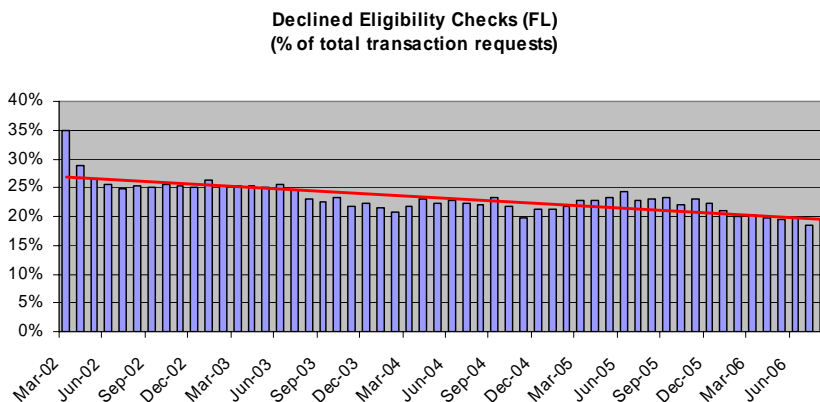
Veritec finds that the following conclusions made in the CRL Report are not an accurate reflection of statistical information published by Veritec as noted below.

1. CRL finds that ninety percent of payday lending revenues are based on fees stripped from trapped borrowers (page 6, Finding #1).

This conclusion may lead to a misrepresentation of information published by Veritec and referenced in the CRL Report for the following reasons:

- i. The term “trapped borrowers” in the CRL conclusion is a subjective term that is loosely defined in the CRL Report as “borrowers with five or more transactions per year”. The referenced information from Florida and Oklahoma does not provide any information regarding a borrower’s financial condition or financial options. The respective statutes in Florida and Oklahoma include provisions that specifically prohibit “rollovers” and are designed to prevent a borrower from becoming “trapped” (e.g. the statutes do not allow a licensee to pay off an existing loan with the proceeds from another loan by the same licensee).

The data in both Florida and Oklahoma simply does not support the implication that borrowers extend or roll over their loans. The most recent reports show that approximately 20 percent of eligibility requests for loans in Florida and Oklahoma are denied based on limitations of the respective statute (e.g., the borrower currently has the maximum number or amount of loans, the borrower is in a waiting period, the borrower is in a repayment plan or grace period, etc.). The data would not show this volume of declines if lenders could simply extend or renew loans as implied by the CRL Report. The figure below illustrates the percentage of declined loan requests since the Florida database was activated in 2002.



- ii. The CRL Report does not clearly state other relevant facts about consumer usage; for example, over 43% of borrowers took out 5 or fewer payday loans in Oklahoma during the one-year reporting period. Similarly, over 74% of Oklahoma borrowers took out 12 or fewer payday loans in the one-year reporting period as noted in the figure below. Similar statistics are reflected in the Florida report.^{4 5}

Loans conducted Sep 2005 through Aug 2006		
Number of Loans (Sep '05 - Aug '06)	# Consumers	% Total Consumers
1	16,129	13.9%
2	11,153	9.6%
3	8,608	7.4%
4	7,767	6.7%
5	6,834	5.9%
6	6,807	5.8%
7	5,210	4.5%
8	4,945	4.2%
9	4,573	3.9%
10	4,492	3.9%
11	4706	4.0%
12	5156	4.4%

74.2% of customers

Veritec does not make any assertion about what defines a “reasonable number of transactions” or what frequency and number of transactions constitute “trapped” usage. However, examining borrower usage of the product may be more applicable than the percentage of revenues attributed to a subjectively defined number of transactions.

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⁴ Florida Trends in Deferred Presentment, August 2006, Veritec Solutions LLC.

⁵ Oklahoma Trends in Deferred Deposit, August 2006, Veritec Solutions LLC.

- iii. The statement regarding “ninety percent of payday lending revenues” is not directly supported by the referenced Veritec publications which only provide information about transaction volumes as it relates to consumer usage of the product. The CRL report accurately states that “...91 percent of Oklahoma’s payday loans also go to borrowers with five or more transactions per year”..., however the above conclusion assumes homogenous loan advance amounts and fees regardless of the borrowers product usage frequency. This may be an accurate assumption, but it is not directly supported by the referenced information published by Veritec. Any industry that sells a single product would reasonably derive the majority of their revenues and fees from that product. Veritec will conduct additional analysis of this information upon request and with approval of the respective regulatory agency.

The concern about consumers becoming “trapped” in the payday loan product may be better illustrated by focusing on “rollovers” and loans conducted by borrowers without an acceptable “waiting period” between loans. However, in both Florida and Oklahoma, the database has effectively eliminated these activities.

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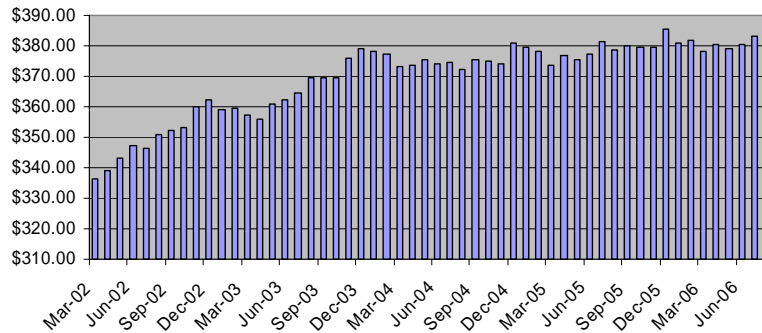
2. CRL finds that typical payday borrower pays back \$793 for a \$325 loan (page 6, Finding #1).

This conclusion may lead to a misrepresentation of information published by Veritec and referenced in the CRL Report for the following reasons:

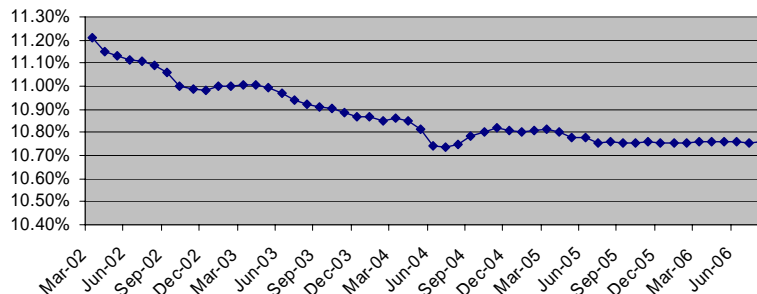
- i. Average loan usage, amounts and fees in Florida and Oklahoma, based on the referenced information, are as follows:
 - a. Florida – \$382.43 average advance amount and \$41.16 average total fees. The typical payday borrower in Florida pays back \$423.59 for a single advance of \$382.43. Average advance amounts and total fees are illustrated in the figure below.

The average Florida borrower during the one-year reporting period took out approximately eight (8) loans (i.e. 7.8 loans). Total annual fees for the average Florida borrower were approximately \$329.28 to gain access to an average loan of \$382.43 at eight (8) different times during the year.⁴

Average Advance Amount (FL)



Average Total Fee Percentage (FL)



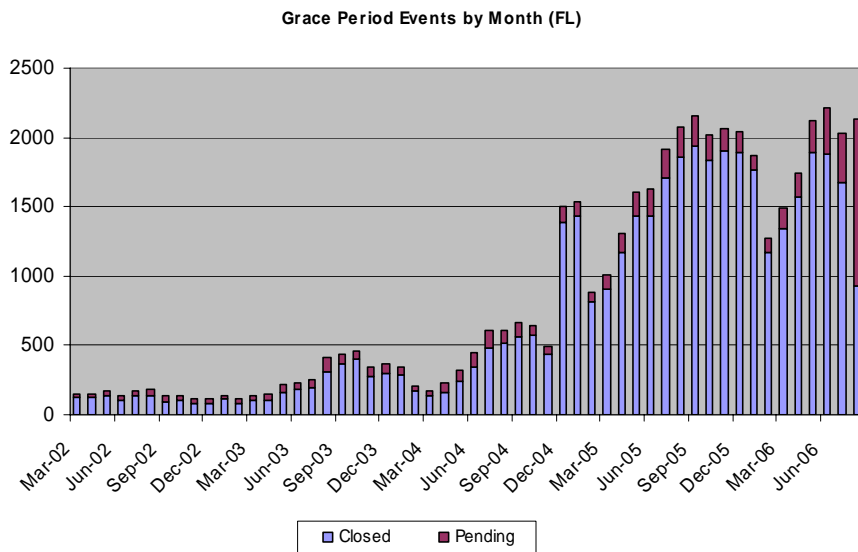
- b. Oklahoma - \$357.44 average advance amount and \$44.75 average total fees. The typical payday borrower in Oklahoma pays back \$402.19 for a single advance of \$357.44.

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The average Oklahoma borrower during the one-year reporting period took out approximately nine (9) loans (i.e. 8.9 loans). Total annual fees for the average Oklahoma borrower were approximately \$402.75 to gain access to an average loan of \$357.44 at nine (9) different times during the year.⁵

The Florida and Oklahoma data simply does not support the CRL conclusion about fees paid. The CRL conclusion above is based on an assumption that borrowers in these states never pay off their first payday loan and that the loan is somehow “extended” by the lender for the entire year. This activity is effectively prevented in states that have centralized databases that enforce related consumer protections in real-time. The CRL Report apparently assumes that the fees for subsequent loans are added to the initial loan principal amount and mistakenly concludes that \$793 is the amount due for a single \$325 loan made to the borrower. The Florida statute specifically allows for an advance fee of up to \$10 per one hundred borrowed up to a maximum single loan amount of \$500, plus a verification fee of up to \$5. The total finance charge for a \$500 loan can not exceed \$55. The Oklahoma statute provides a tiered rate and under no circumstance can the borrower be charged \$793 per loan under state law.

The Florida statute provides a 60-day grace period option to the borrower on every loan and does not allow any additional fees to be charged by the lender for this grace period. Similarly, the Oklahoma statute provides a repayment plan option to the borrower on every 3rd and subsequent consecutive loan. The statewide database solution implemented in both states prevents the borrower from taking out an additional loan from any licensed lender during the period of a repayment plan or grace period. The figure below shows actual monthly grace period usage in Florida.



The CRL study correctly reports that the average borrowers in Florida and Oklahoma

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take out approximately 8 loans per year and 9 loans per year, respectively. Oklahoma law allows two loans to be outstanding at different licensees but the maximum amount outstanding can not be greater than \$1,000. However, in Florida the borrower must completely pay a loan in full and wait 24-hours before a new loan can be granted by any licensed payday lender. The Oklahoma statute requires that the borrower pay off a loan in full in order to borrow again from the same licensee within 13 days. The Oklahoma statute also defines consecutive loans and requires a 2-day waiting period after the 5th consecutive loan. Oklahoma also requires a 14-day waiting period following completion of a repayment plan. The borrower is ineligible to enter into a new loan with a licensed lender during these waiting periods.

Veritec agrees with the CRL conclusion that in states with ineffective enforcement of statutory “rollover” or “flipping” prohibitions, a borrower may not necessarily pay off their loan in full and may pay an additional finance charge to extend the original loan. However, this is prevented in states that have a centralized database to enforce effective provisions.

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3. CRL indicates that “state regulator data corroborates high levels of loan flipping” (page 6, Finding #1) and that “regulator data and payday lenders’ public filings confirm that most borrowers renew payday loans many times per year” (page 7, Finding #1).

These conclusions may lead to a misrepresentation of information published by Veritec and referenced in the CRL Report for the following reasons:

- i. The terms “loan flipping” and “renew” inaccurately imply that lenders in Florida and Oklahoma are allowed to continuously “rollover” loans (i.e. renew a loan with additional fees before it is paid in full by the borrower). This assumption is in direct contradiction to state laws which prohibit “rollovers” (i.e. renewals) and the enforcement of these laws by a real-time statewide database. The referenced information is based on millions of actual loans that are conducted by all licensees pursuant to state laws (e.g., these loans are not “flipped” as implied in the CRL conclusion). Lenders in both of these states are unable to conduct licensed business in the manner implied by the CRL report.

If the CRL study were accurate for Florida and Oklahoma, every subsequent loan conducted following the initial loan to an individual borrower would be in violation of state law. Neither state has indicated this in its regulatory review. State regulatory data does not support the assertion that borrowers “flip” their loans in these two states.

Veritec makes no assumptions for states that do not have statewide database applications that enforce these essential provisions of state statutes.

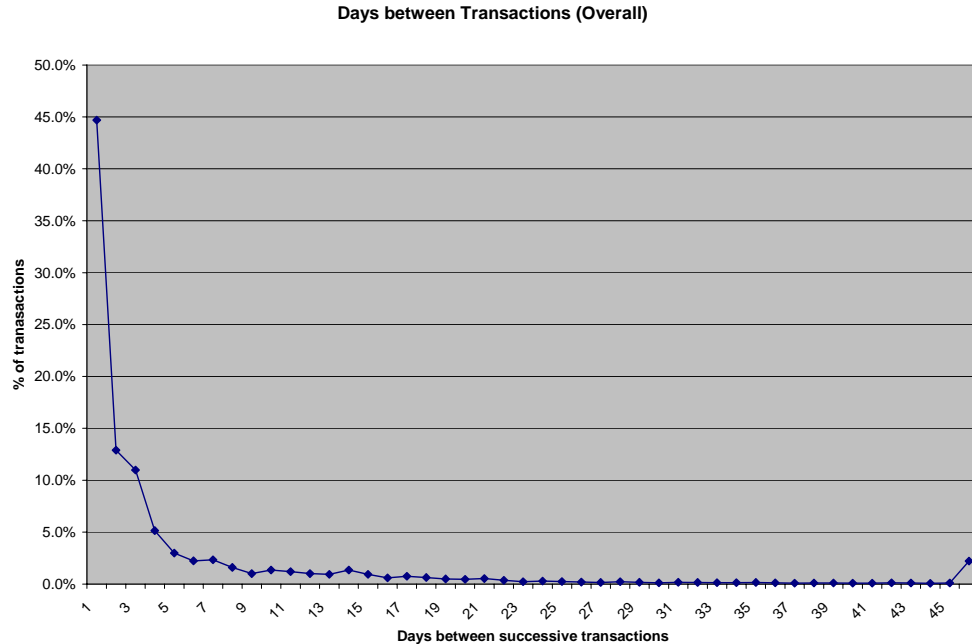
- ii. The CRL study incorrectly assumes that the average number of loans conducted by a borrower in the one-year reporting period for Florida and Oklahoma (8 and 9, respectively) are continuously “flipped” by a single lender throughout the year. These averages, when combined with an average term of 14 days would imply an average of approximately 36 days between loans for the typical borrower as illustrated below.

Days per Year	365
Average Term (days)	14
Average Number of Loans per Year	8
Total number of days with outstanding loan	112 = 8 loans times 14 days
Average time between loans (days)	$36.1 = (365 - 112) \text{ days with no outstanding loan} / (8 - 1) \text{ periods between 8 loans}$

Veritec published results of an analysis of the “average time between loans” in Florida showing that over 75% of consecutive loan transactions are conducted

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within 5 days of full payment on the prior loan. The figure below provides a summary of this analysis and shows the average number of days between consecutive loans with the same borrower.



Consideration of the above information may indicate that the typical borrower “moves in and out of the product” with several loans taken out over a period of a few months followed by a period when the borrower is out of the product for several weeks or months. The data also supports that borrowers in Florida must wait at least 24 hours after the previous loan is paid in full before borrowing again. The database prevents the borrower from taking out another loan during the 24-hour waiting period.

The Oklahoma statute requires a mandatory waiting period of 2 business days after a borrower’s 5th consecutive transaction is paid in full. Additionally, Oklahoma law does not allow a borrower to take out any additional loans while the 5th consecutive loan is outstanding. The figure below shows that 11.4 percent of transactions conducted during the reporting period between September 2005 and August 2006 were the “5th consecutive transaction” as defined by the Act and subject to the related consumer protections.

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Transaction Consecutive Order	% of Transactions Eligible for XPP	% of Transactions	% of Customers
0	0.8%	21.1%	23.1%
1	6.6%	21.4%	19.8%
2	6.1%	17.7%	17.0%
3	10.8%	15.2%	15.0%
4	9.5%	13.2%	13.3%
5	8.3%	11.4%	11.8%
TOTALS	42.1%	100.0%	100.0%

The figure above also shows that 42.1 percent of the transactions conducted in Oklahoma during the period from September 2005 through August 2006 were eligible for an extended payment plan (“XPP”) pursuant to the Deferred Deposit Act. Borrowers entered into 7,377 extended payment plans pursuant to the Act during this period. While this is a small percentage of the total number of transactions in Oklahoma (i.e. 0.39%), these borrowers exercised their consumer protection options under the Act and were forced to “pause” their borrowing activity. The borrower can not enter into a repayment plan and continue to borrow. The borrower must pay off all loans outstanding and then wait 14 days after completing the repayment plan before a new loan can be issued.

The referenced data does not support an assumption that the typical borrower is “trapped” in the product by lenders that continuously extend or “flip” the initial loan throughout the entire year. The statutes in these states, along with enforcement via a statewide database, provide for effective consumer protections against the practice of “loan flipping”.⁶

Should policy makers want to address usage rates by individual borrowers, Veritec suggests a study of the twenty-five percent of borrowers that make up over fifty percent of loans to identify effective policies that address concerns about this activity. Clearly, mandatory waiting periods and repayment plans are effective in introducing a “pause” in borrower usage when enforced by a statewide database.

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⁶ Florida trends report, Veritec Solutions LLC, September 2003, http://www.veritecs.com/FSCF_FL_Trends_09_03.pdf

Summary

The CRL Report highlights the need for effective public policy and enforcement of consumer protections from the many potential abuses associated with the payday loan product. Certain conclusions derived in the CRL Report are a misinterpretation of statistical information published by Veritec as part of the firm's servicing obligation for the Florida Deferred Presentment Program and the Oklahoma Deferred Deposit Program. Veritec is concerned that these conclusions inaccurately reflect the effectiveness of regulatory programs supported the our firm in these, and other, states.

Analysis shows that the public policies implemented in Florida and Oklahoma are effective in preventing these common abuses. The statewide, real-time databases in these states are an effective means of enforcing the consumer protections and provisions of the respective statutes.

The CRL Report included references to information published by Veritec for the Florida and Oklahoma programs. Veritec has shown in this analysis that this referenced data from these programs does not support the CRL Report conclusions and assumptions related to "loan flipping" and "renewals" as listed in this report. These CRL Report conclusions are in direct contradiction with these state laws and the statistical information published from the respective regulatory programs based on millions of actual payday loan transactions.

The CRL Report implies that the four states which have implemented statewide databases to enforce cooling off periods, repayment plans and maximum loans outstanding have little impact on the "debt trap". This implication is not supported by any of the information referenced in the CRL Report and misrepresents the statistical information published from the Florida and Oklahoma regulatory programs. In fact, information from the Florida and Oklahoma regulatory programs shows the opposite; that is, that the statutes and enforcement programs in place for these states are effectively meeting the legislative intent of the public policy.

For example, the CRL Report incorrectly finds that the average borrower pays back \$793 for a \$325 loan. This CRL finding, based on an average of 9 loans per year for the typical borrower, implies that borrower never repays the initial loan and that the lender somehow "extends" (i.e. "flips") the loan for an entire one-year period. The lenders in Florida and Oklahoma are prohibited from "flipping" a loan and charging additional finance fees. Florida requires that the borrower wait for at least 24-hours after paying off any outstanding loan before becoming eligible for another loan. Oklahoma requires a 2-day waiting period after the borrowers 5th consecutive loan. The use of a statewide, real-time database in both of these states effectively enforces these, and other, provisions of state law. Information referenced in the CRL Report is based on millions of actual loans

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conducted in Florida and Oklahoma that were conducted in compliance with state law (i.e. these loans were not “flipped” or extended”).

The CRL Report expresses an opinion that the industry generally endorses the types of reforms in place for Florida and Oklahoma (e.g. statewide borrowing limits enforced via a statewide, centralized database). This opinion is not based on any verifiable facts that Veritec is aware of. To the contrary, Illinois requires a statewide database under their Payday Loan Reform Act and a majority of Illinois payday lenders have “dropped” their payday lending license in favor of licensing under Illinois’ Consumer Loan Act in order to conduct loans that are not subject to the Payday Loan Reform Act. The industry has stated in numerous publications and trade shows that statewide databases effectively stop roll-overs, extensions and renewals.

The Payday Loan industry has clearly **not** supported state regulator’s efforts to implement a cost-effective, real-time enforcement mechanism that will ensure that state law is being adhered to. A recent payday lending bill debate in the State of Virginia clearly demonstrates that the industry does not generally support this type of legislation. During this debate, two representatives of the industry were asked if they supported a statewide database to enforce provisions of the state law. These industry representatives indicated that they would grudgingly accept a database if it would help them with public perception of their product.

Major segments of the Payday Loan industry have vigorously opposed legislation that includes statewide limitations and the use of a real-time, statewide database to enforce related statutory provisions. This opposition has occurred in every state that has passed a central database provision. This is not surprising as information from Florida and Oklahoma highlights the proven effectiveness of these programs and also shows that almost 20% of borrower inquiries into the statewide databases result in a denied status for a lender requesting to conduct a loan with a borrower. This information correlates with the percentage of out-of-compliance transactions that were found when historical data was analyzed for loans conducted in these states prior to the implementation of a statewide database.

Veritec does not recommend to states what terms or rates should be allowed by state law. However, Veritec maintains that public policy can effectively prevent the common abuses associated with the payday loan product and highlighted in the CRL Report. Florida and Oklahoma public policy have proven that a statewide, real-time lender compliance database effectively enforces provisions to end the cycle of debt including limitations on roll-overs and extensions, a mandatory cooling-off period, a statewide cap on amounts borrowed, repayment plans options and other consumer protections.

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Florida Statutes (selected portions)

560.404 Requirements for deferred presentment transactions.--

- (1) Every deferred presentment transaction shall be documented in a written agreement signed by both the deferred presentment provider and the drawer.
- (2) The deferred presentment transaction agreement shall be executed on the day the deferred presentment provider furnishes currency or a payment instrument to the drawer.
- (3) Each written agreement shall contain the following information, in addition to any information the department requires by rule:
 - (a) The name or trade name, address, and telephone number of the deferred presentment provider and the name and title of the person who signs the agreement on behalf of the deferred presentment provider.
 - (b) The date the deferred presentment transaction was made.
 - (c) The amount of the drawer's check.
 - (d) The length of deferral period.
 - (e) The last day of the deferral period.
 - (f) The address and telephone number of the department.
 - (g) A clear description of the drawer's payment obligations under the deferred presentment transaction.
 - (h) The transaction number assigned by the department's database.
- (4) Every deferred presentment provider shall furnish to the drawer a copy of the deferred presentment transaction agreement.
- (5) The face amount of a check taken for deferred presentment may not exceed \$500 exclusive of the fees allowed by this part.
- (6) No deferred presentment provider or its affiliate shall charge fees in excess of 10 percent of the currency or payment instrument provided. However, a verification fee may be charged in accordance with s. 560.309(4) and the rules adopted pursuant to the code. The 10-percent fee may not be applied to the verification fee. A deferred presentment provider may charge only those fees specifically authorized in this section.
- (7) The fees authorized by this section may not be collected before the drawer's check is presented or redeemed.
- (8) No deferred presentment agreement shall be for a term in excess of 31 days or less than 7 days.
- (9) No deferred presentment provider shall require a person to provide any additional security for the deferred presentment transaction or any extension or require a person to provide any additional guaranty from another person.
- (10) A deferred presentment provider shall not include any of the following provisions in any written agreement:
 - (a) A hold harmless clause;
 - (b) A confession of judgment clause;
 - (c) Any assignment of or order for payment of wages or other compensation for services;
 - (d) A provision in which the drawer agrees not to assert any claim or defense arising out of the agreement; or
 - (e) A waiver of any provision of this part.
- (11) Each deferred presentment provider shall immediately provide the drawer with the full amount of any check to be held, less only the fees permitted under this section.
- (12) The deferred presentment agreement and drawer's check shall bear the same date, and the number of days of the deferral period shall be calculated from this date. No deferred presentment provider or person may alter or delete the date on any written agreement or check held by the deferred presentment provider.
- (13) For each deferred presentment transaction, the deferred presentment provider must comply with the disclosure requirements of 12 C.F.R., Part 226, the federal Truth-in-Lending Act, and

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Regulation Z of the Board of Governors of the Federal Reserve Board. A copy of the disclosure must be provided to the drawer at the time the deferred presentment transaction is initiated.

(14) No deferred presentment provider or its affiliate may accept or hold an undated check or a check dated on a date other than the date on which the deferred presentment provider agreed to hold the check and signed the deferred presentment transaction agreement.

(15) Every deferred presentment provider shall hold the drawer's check for the agreed number of days, unless the drawer chooses to redeem the check before the agreed presentment date.

(16) Proceeds in a deferred presentment transaction may be made to the drawer in the form of the deferred presentment provider's payment instrument if the deferred presentment provider is registered under part II; however, no additional fee may be charged by a deferred presentment provider or its affiliate for issuing or cashing the deferred presentment provider's payment instrument.

(17) No deferred presentment provider may require the drawer to accept its payment instrument in lieu of currency.

(18) No deferred presentment provider or its affiliate may engage in the rollover of any deferred presentment agreement. A deferred presentment provider shall not redeem, extend, or otherwise consolidate a deferred presentment agreement with the proceeds of another deferred presentment transaction made by the same or an affiliated deferred presentment provider.

(19) A deferred presentment provider may not enter into a deferred presentment transaction with a person who has an outstanding deferred presentment transaction with that provider or with any other deferred presentment provider, or with a person whose previous deferred presentment transaction with that provider or with any other provider has been terminated for less than 24 hours. The deferred presentment provider must verify such information as follows:

(a) The deferred presentment provider shall maintain a common database and shall verify whether that deferred presentment provider or an affiliate has an outstanding deferred presentment transaction with a particular person or has terminated a transaction with that person within the previous 24 hours.

(b) The deferred presentment provider shall access the department's database established pursuant to subsection (23) and shall verify whether any other deferred presentment provider has an outstanding deferred presentment transaction with a particular person or has terminated a transaction with that person within the previous 24 hours. Prior to the time that the department has implemented such a database, the deferred presentment provider may rely upon the written verification of the drawer as provided in subsection (20).

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Oklahoma Statutes (selected portions)

Section 3109 - No Renewal Or Additional Loan Transaction For Deferred Deposit Loans

Cite as: 59 O.S. § 3109 (OSCN 2006)

A. A lender may not enter into a renewal of a deferred deposit loan transaction.

B. Upon any application being made for a deferred deposit loan, the lender shall determine if the applicant has any outstanding deferred deposit loans as follows:

1. The applicant shall be required to sign an affidavit stating whether the applicant has any deferred deposit loans outstanding with the lender or any other deferred deposit lender and if so, the status of each such loan; and

2. The lender shall be required to verify the accuracy of the affidavit through commercially reasonable means. A lender's method of so verifying shall be considered in compliance with the provisions of this section if the verification method includes a manual investigation or an electronic query of:

a. the lender's own records, including both records maintained at the location where the loan is being applied for and records maintained at other locations that are owned and operated by the lender or the lender's affiliates, and

b. any private database approved by the Administrator of Consumer Credit, if the lender subscribes to such a database; provided, all lenders shall be required to subscribe to such a database or otherwise obtain the required information in a manner approved by the Administrator not later than July 1, 2004. The lender may charge the applicant a fee for database verification not to exceed the actual fee charged to the lender by the database provider.

If the lender determines that the applicant has more than one outstanding deferred deposit loan, the loan applied for shall not be made.

C. A deferred deposit loan transaction is completed when the lender presents the instrument for payment or initiates an ACH debit to the debtor's bank account to collect on the instrument, or the debtor redeems the instrument by paying the full amount of the instrument to the lender. Once the debtor has completed the deferred deposit loan transaction, the lender may enter into a new deferred deposit loan agreement with the debtor, and the new deferred deposit loan transaction shall not be deemed to be a renewal of the previous deferred deposit loan; provided, a new deferred deposit loan made within thirteen (13) calendar days after a previous deferred deposit loan has been entered into between the lender and the debtor shall be considered a renewal and shall not be made.

D. If a debtor enters into a third consecutive loan, the lender shall provide the consumer an option to repay such loan and each consecutive loan pursuant to a written repayment plan subject to the following terms:

1. The debtor shall request the repayment plan, either orally or in writing, prior to the due date of the loan;

2. The debtor shall repay the loan in four equal installments with one installment due on each of the next four dates on which the customer receives regular wages or compensation from an employer, pursuant to a written repayment plan agreement;

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3. The consumer shall pay a processing fee of ten percent (10%) of the principal amount of the loan per loan not to exceed Fifteen Dollars (\$15.00) for administration of the payment plan;

4. The consumer shall agree not to enter into any additional deferred presentment loans during the repayment plan term and for a period of fifteen (15) days after termination of the repayment plan term; and

5. Upon positive completion of the repayment plan, the lender shall report the debtor's positive payment history to at least one national consumer credit reporting agency.

E. A lender shall negotiate or present an instrument for payment only if the instrument is endorsed with the actual business name of the lender.

F. Prior to the lender negotiating or presenting the instrument, the debtor shall have the right to redeem any instrument held by a lender as a result of a deferred deposit loan if the debtor pays to the lender the unpaid balance of the principal and all accrued fees and charges.

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