PRESS RELEASE
Federal Deposit Insurance Corporation

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FDIC Revises Payday Lending Guidance

The Federal Deposit Insurance Corporation (FDIC) today revised and clarified its July 2003 examination guidance for FDIC-supervised institutions that offer payday loans. Payday loans are small-dollar, unsecured, short-term advances that have high fees relative to the size of the loan. When used frequently or for long periods, the costs can rapidly exceed the amount borrowed and can create a serious financial hardship for the borrower. The FDIC believes that providing high-cost, short-term credit on a recurring basis to customers with long-term credit needs is not responsible lending, and increases banks' credit, legal, reputational and compliance risks. If institutions engaged in payday lending activities fail to limit their risk exposure, operate in a safe and sound manner, or comply with all applicable laws, the FDIC may take a range of actions, including formal and informal enforcement actions, which may require institutions to discontinue payday lending.

The revised guidance targets frequent borrower use of this short-term credit product. It states that banks should ensure that payday loans are not provided to customers who have had payday loans outstanding from any lender for a total of three months in the previous 12-month period. FDIC-supervised institutions currently engaged in payday lending were instructed to submit plans detailing how they will address the revised guidance. Of the more than 5,200 FDIC-supervised institutions, 12 are engaged in payday lending.

"We are troubled when we see banks extending these very high-cost loans to customers who really need an alternative longer-term credit product. The revised guidance being issued today places more responsibility on banks to ensure that the payday loans they are making to customers are what they are being billed as - short-term emergency cash - rather than a regular source of funds," said Michael Zamorski, Director of the Division of Supervision and Consumer Protection.

In addition, the FDIC announced that it anticipates using a mystery shopper program in conjunction with its examination process of institutions involved in payday lending.

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Attachment: Guidelines for Payday Lending

FDIC

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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