FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-14-2005
March 1, 2005

PAYDAY LENDING PROGRAMS

Revised Examination Guidance (Revised November 2015)

Summary: The FDIC is issuing the attached revised examination guidance on payday lending programs. The revisions provide more specific guidance to FDIC-supervised institutions to ensure that this high-cost, short-term credit product is not provided repeatedly to customers with longer-term credit needs. There is currently a small number of FDIC-supervised institutions engaged in payday lending.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Compliance Officer
Chief Lending Officer

Related Topics:
Guidelines for Payday Lending (July 2003)
Subprime Lending Guidance

Attachment:
Revised Guidelines for Payday Lending

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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2005/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (1-877-275-3342 or 202-416-6940).

Highlights:

- The revised guidance is being issued because the FDIC is concerned that FDIC-supervised banks are offering payday loans in a manner that is inconsistent with:
  - the short-term nature of the product;
  - the FDIC's previous guidance;
  - the payday lenders' marketing materials; and
  - industry best practices.
- The revised guidance provides information about payday lending and describes both safety and soundness and compliance considerations for the examination and supervision of state nonmember banks that have payday lending programs.
- The revised guidance states that banks should develop procedures to ensure that payday loans are not provided to customers who had payday loans outstanding from any lender for more than three months in the previous 12 months.

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FIL-14-2005
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PAYDAY LENDING PROGRAMS
Revised Examination Guidance

The Federal Deposit Insurance Corporation (FDIC) is issuing the attached revised examination guidance on payday lending programs. The revisions provide more specific guidance with respect to the appropriate limits on payday loan use to ensure that this high-cost, short-term credit product is not provided repeatedly to customers with longer-term credit needs.

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 total costs can rapidly exceed the amount borrowed.

The FDIC initially issued guidance on payday lending in July 2003 because payday lending is a high-risk activity that presents significant safety and soundness and consumer protection concerns. The FDIC's concerns about payday lending have been heightened as it has observed payday lending conducted in a manner that is inconsistent with the July 2003 guidance and inconsistent with prudent lending practices. 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; increases institutions' credit, legal, reputational, and compliance risks; and can create a serious financial hardship for the customer.

To reduce these risks and promote responsible lending, the revised guidance states that institutions 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. When a customer has used payday loans more than three months in the past 12 months, institutions should offer the customer, or refer the customer to, an alternative longer-term credit product that more appropriately suits the customer's needs. In any event, whether or not an institution is able to provide a customer alternative credit products, an extension of a payday loan is not appropriate under such circumstances. Other key provisions of the July 2003 guidance remain unchanged.

FDIC-supervised institutions engaged in payday lending have been instructed to submit plans detailing how they will address the revised guidance. In addition, the FDIC anticipates using a mystery shopper program in conjunction with its examination process of institutions involved in payday lending.

Michael J. Zamorski
Director
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