Prepared Comments by Dr. Pat Cirillo

for

Commonwealth of Pennsylvania
House of Representatives
Consumer Affairs Committee
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I would like to thank the Chairman and members of the Committee for allowing me to appear before today.

My name is Pat Cirillo and I am president of Cypress Research Group I am a career researcher and statistician by training and work within several industries, including public education, higher education, the arts, high tech and, of course, financial services. I developed a focus on the subprime consumer, in particular their borrowing behaviors, in the early 2000's, a few years before the recent lending crisis hit.

In my practice, I have conducted over 30 quantitative studies and have been witness to over 100 focus groups of borrowers pertaining to short-term lending. I have visited hundreds of stores across the country to analyze the responses of tens of thousands of individual short-term loan customers. I have also analyzed the transactional databases that monitor industry activity.

As a result, I would like to share five conclusions based on the analysis of data obtained through the now 8 years of my work in this sector.

First, are high fees the cause of the "debt trap?" I will say a bit more about the debt trap next, but first I'll address the evidence for an association between the ostensibly high fees charged by the short-term loan industry and borrowing behavior. A recent study I, along with Dr. Marc Fusaro, an economics professor at Arkansas Tech University, published showed that reducing fees to a very low level – a level which is proposed by critics of the industry as a solution to the cycle of debt – has no impact on borrowing levels. That is, rcdueing the fees to very low levels does not decrease the level of borrowing by short-term loan borrowers. Reducing the fees in PA to 28% would not reduced borrowing levels. In fact, our data suggest it would increase it.

Second, the 'cycle of debt' itself. That phrase seems to have been coined in reaction to a statistic published by one of the larger lenders in the early 2000's which stated that short-term loan borrowers obtain, on average, about 8 loans per year. That one piece of information seems to have been taken to the extreme to conclude that borrowers are 'trapped' In my opinion, that conclusion is wrong In order for that conclusion to be right, the typical borrower would have to obtain a string of loans, without a break, to the point of being unable to pay back that, or any other, debt. Put simply, this does not match the borrowing pattern of the typical short-term borrower at all, and I see no evidence of such borrowing being the norm. Are there borrowers who borrow serially and then default on their original loan? Sure, but they are in the great minority.

Third, are short-term loan customers treated well, and fairly, by lenders? This is probably the area where I have the most data, and the answer is a resounding 'yes.' In fact, it was customer satisfaction data which first piqued my interest in this sector – I could not connect the words I read in the press about how this industry was 'predatory' and 'harmful' when so many customers were so satisfied with the product and service they received. Having now been in the lobbies of hundreds of stores – I see the high level of training and expertise that store CSRs, or tellers, have and how professionally they treat customers. When I read articles in the press about short-term loan lenders, I don't recognize who is being described at all. In all studies I have done and seen, over 80% of customers are satisfied, and virtually none of them are dissatisfied because of poor service.

Fourth, how do consumers view the cost of short-term loans? Another disconnect for me is the focus on the A.P.R. In order for a short-term loan to have an A.P.R. of over 400% is for a borrower to obtain a 14 day loan 26 times m a year. That is a rare event. Borrowers express confusion over this description of loan costs – as they would say "why would you use an annual percentage for a 2-3 week loan?" As I've witnessed in dozens of focus groups on this topic, these borrowers are extremely good shoppers and know the costs of these loans in their communities very well. They want to know the cost of a loan when they walk in the door in dollars, not in A.P.R. In my view, focusing on the A.P.R. of short-term loans is inflammatory and not terribly helpful to the consumer who simply wants to h o w how much a loan is gomg to cost them

Fifth, what do consumers do when they don't have the choice of a storefront short-term loan? I have completed two studies on that issue, and other researchers have looked at it also. The most commonly used alternative is to overdraw a checking account, in my most recent study, chosen by about half of those without a storefront option. The second most common alternative – which data suggest is growing in use – is an internet loan, chosen by twenty percent of those without a storefront option. The third most common alternative is to pawn possessions. The other important thing for those considering this issue is that consumers are very aware of their choices – and none of the options are the best for all situations.

When consumers with no prime credit available to them are faced with a need for short term cash, they consider all of their options and choose the one which is the cheapest and the simply the best match for their situation at that time. Some have had a bad experience with their banks – so they avoid paying extra fees to their bank. Some have the option of using their credit cards – but fewer than 50% of short-term loan customers have a credit card, and fewer than 10% have any balance available on their card, Every consumer is different, and they make different choices based on their current circumstance.

What is very, very clear from the data is that their decision is very well-informed. They know the costs involved in all of their options. Again, thank you Mr Chairman and members of the committee for allowing me to share this research with you this morning.