



Subprime Lending – Understanding the Cost and Alternatives

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Federal Reserve Money Smart Day
April 1, 2017



Partnering to build strong families – one financial step at a time.



United Way of
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Agenda

- Welcome and Introduction
- The Issues
- What is Subprime Lending?
- Transaction Products and Services
- Credit Products and Services
- Understanding the Costs
- Resources

Consider this ...

- 33% of all Americans live paycheck to paycheck
- 30% of adults report that they have no savings and are unable to manage an unexpected or emergency expense
- 28% admit to not paying bills on time and admit to feeling a paycheck behind ... permanently
- According to the Federal Reserve, roughly half of all Americans would be unable to come up with \$400 without borrowing or selling something
- Financial stress has become “the cost of daily living”

The Issues

- Changes in emergency assistance programs have left gaps in families' incomes, particularly in times of emergencies
- An increase in unpredictable work schedules and volatile income among lower wage workers
- Changes in credit availability
- Loans are used to deal with recurring financial shortfalls rather than specific emergencies

What is Subprime Lending?

- The definition includes certain marketing tactics, collection practices, and loan terms that deceive and exploit borrowers.
- Subprime loans are usually more expensive than other loans.
- Subprime loans may have repayment terms many consumers cannot meet.

Transaction Products and Services



- Check cashing
- Money orders
- Bill payment
- Remittances
- Prepaid cards

Credit Products and Services



- Payday lending
- Refund anticipation loans
- Rent to own
- Buy here pay here
- Pawn lending
- Auto title lending
- Advance fee loans
- Subprime credit cards

Predatory Credit Rebuilding Practices



- Credit repair companies
- Debt management plans
- Debt settlement or debt relief companies

Understanding the Costs

Emergency		Credit Card	Payday Loan
Amount	\$350	\$350	\$350
APR		21.99% annual percentage rate (APR)	\$15 for every \$100 borrowed for 14 days. 391% APR
Payment		Must pay a certain amount each month (in this example \$50 a month)	Must pay back loan amount plus fee (\$52.50) within 14 days.
Total Cost and time to repay	\$0	You pay \$28.11 in addition to amount borrowed or \$378.11. It will take just over 8 months to repay	The total cost depends on the time it takes you to pay back the entire loan. If you renew or rollover the loan 7 times, you would be in debt 14 more weeks and owe up to \$717.50 including \$367.50 in fees.

Recognize the Signs

- Repeatedly encouraging you to refinance your loan within a short period of time
- “Packing” a loan with credit insurance products
- Charging excessive rates and fees to borrowers who actually qualify for lower rates and fees.
- Including “balloon payments” at the end of a payment schedule

Before you borrow ...

- Compare APR and other finance charges
- Know the total dollar cost of the loan
- Avoid lenders who pressure you
- Get a written copy of the agreement
- Read the fine print
- Don't sign anything you don't understand
- Consider all your options
- Save money and pay cash

Alternatives to High-Cost Credit

- Using your own emergency savings
- Using lower-cost short-term loan alternatives from a credit union or bank
- Borrowing from a friend or family member
- Using a credit card – while it will increase your monthly card payment, it may prove to cost less in the long run
- Negotiating for more time to pay if the loan is for a bill that is due

Alternatives to High-Cost Credit

- Bartering for part or all of what you are borrowing the money to cover
- Determining whether the item or circumstance you are borrowing the money for is a need, an obligation, or a want. If it's a want, consider whether it's possible to spend less money for it, not purchasing it, or waiting until you have the money for it.

Resources ...



- Pull your credit report
- Get a secured credit card
- Find a credit builder loan
- Use community resources



MONEY SMART MONTH

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