

Fast cash is gaining currency

Local firms expand as payday lending goes mainstream

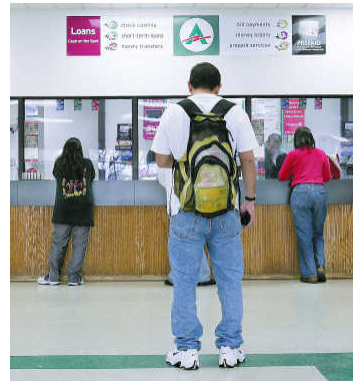
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By IEVA M. AUGSTUMS / The Dallas Morning News

Payday lending is proliferating in America.

The number of payday loan stores nationwide doubled between 2000 and 2003, and more providers are entering the market. The industry is feeding off its own success as 22,000 stores nationwide attract more consumers and create more demand.

And those consumers aren't necessarily the stereotype of down-on-their-luck inner-city denizens, living from loan to loan. Many payday borrowers are married and college-educated, with family incomes between \$25,000 and \$49,999, an industry report says.



Jim Mahoney / DMN

Chains such as Irving's Ace Cash Express are expanding to meet demand for payday loans.

"I think the product is becoming more mainstream," said Mike Loughran, an equity analyst with the Robins Group in Portland, Ore. "Companies are getting out there, and more people are learning about it."

Chains such as Ace Cash Express Inc. in Irving, Arlington-based First Cash Financial Services Inc. and Cash America International Inc. of Fort Worth are helping meet the growing demand. Shares in each company rose between 40 percent and 60 percent in 2004, and each firm plans to open dozens of new stores in 2005.

"I think the competition has really been a fact of life in the Texas market for the past three to four years," said Doug Orr, First Cash's executive vice president and chief financial officer. "All of us want a piece of the payday lending market."

For years, cash-strapped American consumers have turned to payday loans, which allow them to get quick cash and pay it back when they get their next paycheck. Critics say the practice amounts to usury, with service fees and shockingly high annual percentage rates that keep the working poor trapped in debt.



Rick Scibelli / Special Contributor

Like others in the chain, an Albuquerque, N.M., location of Dallas-based FastBucks doles out prepaid cards, not cash.

clerks do not stand behind Plexiglas walls. The company doesn't deal in cash, doling out loans on prepaid debit cards instead.

But the industry is trying to shed that image, opening shiny new stores in middle-class and even upper-class neighborhoods.

A new entrant is FastBucks Franchise Corp., a Dallas subsidiary of FastBucks Holding Corp. It was just recognized by *Entrepreneur* magazine as an up-and-coming franchise concept.

Unlike at traditional payday loan stores, at FastBucks, which has 52 stores and plans to have 80 new franchises in 2005,

Another Dallas company is getting into the game: In November, DGSE Cos., a jewelry wholesaler, announced plans to open payday loan stores. The first will open in Albuquerque, N.M., this month.

Last month, South Carolina-based Advance America Cash Advance Centers Inc. raised \$322.5 million in an initial public offering. The company is the largest provider of payday cash-advance services in the nation, with 2,290 outlets in 34 states.

Making ends meet

Customers take a short-term loan for several reasons, experts say:

- They don't have a bank account, or traditional banks can't help them.
- They're still dealing with reduced incomes from the 2001 recession.
- It's cheaper to take a short-term loan to pay the power bill on time than to pay a bounced-check fee or a reconnection charge to the power company.

The typical loan is for around \$200 to \$300 and usually costs \$15 to \$20 per \$100 borrowed, although the fees vary between states and can be much greater.

In Texas, the law allows lenders to assess an \$11.87 finance fee and charge 309.47 percent APR for a \$100, 14-day loan. But Texas lenders, using an out-of-state bank or national bank, can "export" rates and charge anywhere from 200 percent to 1,000 percent APR.

Borrowers range in age, but 58 percent of them are married, about 94 percent have at least a high school diploma, and more than half have been to college, according to a report on payday lenders for the Consumer Credit Research Foundation.

"Although we'd like to see more demographic research, it appears payday loan customers are moderate and middle-income Americans," said Michael Maloney, an economics professor at Clemson University and co-author of the report.

When people hit a financial bump in the road, more often than not they consider several options, including credit cards, home equity lines of credit and even their savings, the study said.

"It's just we may be their best alternative," said Eric Norrington, Ace Cash Express vice president. The company has 1,257 company-owned and franchised outlets nationwide and plans to add at least 60 more next year. "There's a demand, and we are meeting it."

Growing sector

The Community Financial Services Association of America estimates that at the end of 2003 there were about 22,000 payday loan stores, up from 15,000 the previous year, 10,000 stores in 2000 and virtually nothing in 1990. Payday loans totaled \$40 billion in 2003.

The growth was spurred by the liberalization of banking laws. The Texas Finance Commission set rules to allow payday loans here in 2000. Since then, the number of licensed outlets has increased from 205 at the end of 2000 to 979 at the end of 2002. Today, there are nearly 1,500 licensed outlets in Texas.

Most of these lenders have partnerships with out-of-state banks, enabling them to charge rates of up to 1,000 percent.

Consumer advocates express outrage, regulators pay close attention, and new legislation is always a possibility from state to state. Meanwhile, companies continue to look for new ways to expand and gain market share.

With 805 financial service locations, pawnshop and payday lender Cash America plans to build 75 new stores in 2005. The company just completed its acquisition of SuperPawn of Las Vegas for \$120 million, bringing in 41 additional stores located in Nevada, Arizona, Washington and California.

"Cash America continues to look toward new market opportunities," said Tom Bessant, Cash America's chief financial officer. "Making sure you're in the right place is one of the ways that the major players compete."

As new entrants come into the market, the established players are fighting back with special offers. Ace Cash Express offered customers \$10 off their first loan transaction during the holiday season.

"The reasons why you are seeing all these deals is because you have all these companies that are well-financed and strong in their regions," Mr. Loughran said. "The more stores you have out there, the more business you have."

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