

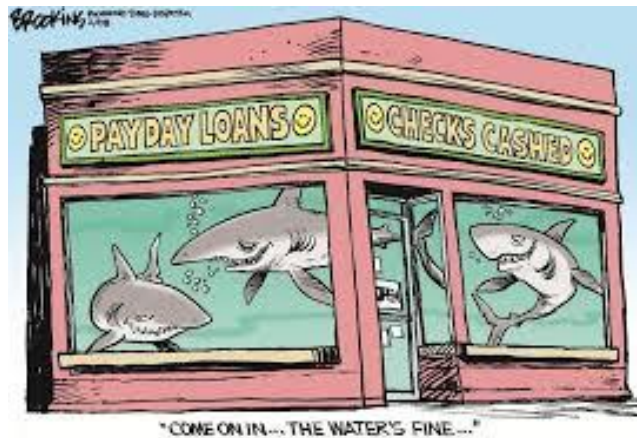
October 2017

Dear Clients and Friends:

I always thought payday loans were for people who have serious financial problems. Otherwise, wouldn't they just wait for their next paycheck and avoid the expense of a short-term loan?

But maybe that's not the case. Researchers are finding this is just one more example of a convenience service, like paying someone to mow your lawn, do your nails, or pack items for shipping. The majority of Americans who use a payday loan service are not "down and out." In fact, the fastest growing segment of the customer base are people who are educated and make between \$50,000 and \$75,000 a year. Millennials, in particular, are heavy users of alternative financial services.

Why doesn't the cost turn them off? University of Pennsylvania professor Lisa Servon was curious about the payday loan phenomenon, so she went to work as a teller at a check-cashing store to find out what was motivating consumers. The answer was surprising, because the three main reasons were *lower cost, transparency, and service*.



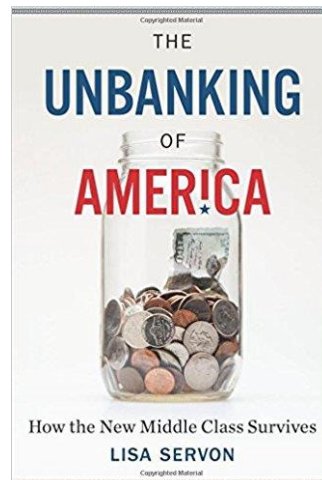
Lower cost -- can that be right? As she began the study, she couldn't help thinking that the 56 million Americans who use alternative financial services like check cashers, pawn shops, and payday lenders were being scalped by sleazy and predatory business practices. But what she repeatedly heard was something like this, "Look, I'm paying 2% of the face value of my paycheck to cash it, but I'm getting the money right away. If I put that check in a bank, it's going to take me 3 or 4 days to get access to it and in the meantime, my

bills might not get paid. I can be stuck with late fees and possibly overdraft charges.” After comparing banks with alternative lenders, consumers were coming up with a reasonable conclusion it was cheaper to access immediate cash.

In 2016, Americans paid \$33.3 billion in bank overdraft charges. By comparison, they spent \$9 billion on payday loan fees. The figures illustrate how often people either don’t know how much money they have in the bank, or else count on checks to clear quickly and end up surprised when they don’t.

The study found that transparency was a huge factor in favor of payday loans. When dealing with their bank, people felt like they didn’t know when the monthly service fee would come out of their account, whether that date might change, and when checks would clear. More than half of all Americans have less than \$1,000 in the bank, and 69% of us never balance our checkbooks, adding to the confusion about possible overdrafts. On the other hand, you can walk into any check casher service and immediately see big signs explaining exactly what they offer, and how much they’ll be deducting for the convenience of immediate cash.

When it comes to service, these alternative companies will not only cash your checks, but also pay your bills and transfer money. They provide prepaid cards and accept electronic benefit transfer (EBT) cards. Some of them are open 24 hours a day, 365 days a year. After the banks close at 6 p.m., check cashers and payday lenders are the only game in town.



Servon writes about her experience in the check cashing industry in *The Unbanking of America*. It explains “why Americans are fleeing our broken banking system in growing numbers, and how alternatives are rushing in to do what banks once did.”

This just means our economic system is working the way it's supposed to. When you create a gap, someone's going to fill it.

Regards,

A handwritten signature in blue ink that reads "Chuck". The signature is written in a cursive, slightly slanted style.

Charles M. Shackelford