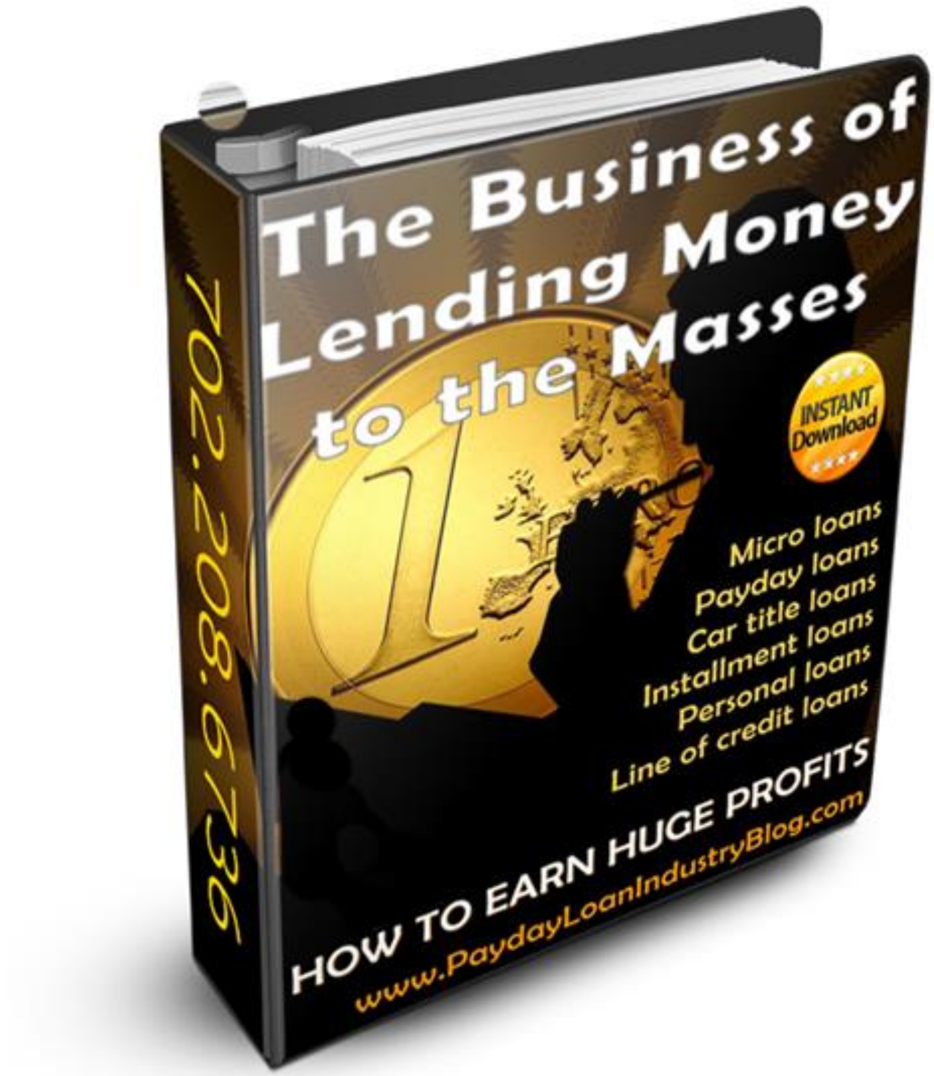


1st 3 Chapters HOW TO LEND MONEY TO THE MASSES

INSTALLMENT LOANS, PAYDAY LOANS, CAR TITLE LOANS, PERSONAL LOANS

Published by: Trihouse Consulting

https://theBusinessOfLending.com
702-208-6736 Cell [PDT]

An Uncomfortable Reality

"Like it or not, there is a market for credit in this country. Some of the people who purchase credit products – borrow – do so because of their limited means.

Some people involved in public policy appear to wish that wasn't the case. But policy cannot be based on aspiration. It must rest on evidence, and fact. And the fact is that there is a market for credit products for people with incomes well below the national average. Some of those customers are in poverty. Some have characteristics of vulnerability. All have decided that they will borrow.

Again, some observers appear to wish this was not the case. Sometimes, parts of our political discourse have come close to suggesting that the answer to high interest rates and controversial lending practices is to regulate out of existence all credit products for people on low incomes. And it would be nice to live in a world where people on low incomes didn't need to borrow to make it to the end of the month. But until we reach that world, that borrowing will take place.

That being so, the priority for policymakers should be to make sure the market for credit products for people on low incomes works better for those people." Credit: Social Market Foundation. 1st appeared on my LinkedIn Page https://www.linkedin.com/in/jerryayles/ and on my Twitter Page: https://twitter.com/JerAyles

I appreciate hearing from you. Let me know if you ever have any questions, needs, ideas...
Jer - TrihouseConsulting@gmail.com.

How to Make Serious Money Lending to the Masses

To be successful as a lender – or in any other entrepreneurial endeavor – you only have to be good at a few things:

- Picking the right business niche
- Raising money
- Hiring good people
- Ability to iterate through your challenges
- Be Bold. Go where others fear to tread.

Let's get real! Lending money to the masses can be very profitable!

We are rapidly becoming a nation of "haves" and "have nots." The average U.S. worker is paid $23/hour. In real terms, $23/hour has the same purchasing power as $6/hour 40 years ago. The result? Staggering household debt! [Yes, I know! The business of lending money.] Many of you are reading this Course as you sit in Australia, Europe, the Islands, China... It's the same theme everywhere.

50% of U.S. residents are living paycheck to paycheck! [CareerBuilder.com] One in three people are subprime borrowers.[<620 Credit Score.]

Two in five U.S. adults do not have access to $400 cash immediately. Not in a bank account, not on a credit card, not under the mattress. They've already borrowed from friends, family, their church... Nowhere to turn but to YOU!

What's this mean to you? OPPORTUNITY!

This Course will teach you how to loan money to the masses without getting your ass handed back to you. Yes, for many of you, reading this tomb will be PAINFUL! It's the price for entry and success.

The loan products discussed here are installment loans, payday loans, signature loans, car title loans, personal cash advances, merchant cash advances, business to business loans... All of them can be very profitable. Call them what you may.

Real-world example?

We're charging $15 to $30+ for every 14-day loan we make in California and Texas. [Depends on the state licensing model used or the Native American Tribe we collaborate with.]

That's a 400%+ annual percentage rate (APR) for a borrower to use our money for two weeks!

We've had stores reach $10,000 in loans after only being opened three weeks; within a year, $100,000 on a good week and generating $50,000/month in fees.

Online lending?

Sure. Lenders have costs. Payroll costs, utility costs, website costs, merchant processing, rent, legal, taxes… but you get the picture.

A lender's inventory is MONEY!

It's not flowers that die on you. It's not food that rots. It's MONEY, MOOLAH, COIN, DINERO, SCRATCH, DOLLARS, EUROS... NICE!!

DONE! I've established that the business of lending money to the masses can be very profitable!

Raising Money

This is a mindset. It's about the presentation. Practice getting good at distilling your idea into a bite-sized amount. Get your business launched.

I'm not talking about immediately achieving scale. Just get your loan business open for business and fund a few loans. Storefront, Internet, monoline, combo… just fund a few loans!

Next?

Friends, family, peers, and members of your network… will find out what you're doing.

They will want to learn more.

Don't be shocked when they say something like, "I have $20K sitting in the bank earning 1% per year before taxes and inflation. Could you put my money to work in your new business?

Of course, you can! Offer them 6%, 8%, 10%+ per year. You can afford it when you're grossing 500%+ APRs on your loan portfolio!

NOTE: Not sure how I'm calculating these APRs? Go here: Sample APR Calculations

Hiring Good People

If you're good at raising capital, you can hire people to do everything else.

You can hire a CEO.

You can hire a lawyer.

You can hire an experienced customer service representative.

You can buy "off the shelf" loan management software.

You can subscribe to a sub-prime consumer credit reporting service [CRA].

You can hire great people to do any part of this business.

YOU GET MY POINT!

To hire right, you need a giant funnel. You have to sort through a ton of leads.

You need a system, an on-boarding process.

You've got to learn how to do this! [This intel is in this Course.]

The quality of your life is about the people around you.

Everything bad that happened to you in the last ten years did not occur in a bubble.

Someone either DID or DID NOT do something to you.

That's life.

Most problems in life are people problems.

We let the wrong – or right – people into our lives.

In business, there are some whack jobs! Don't let them in!

Now go out and BE BAD! **Jer – TrihouseConsulting@gmail.com**

Welcome!

Welcome Consumer Loan Business Fan

IMPORTANT! PLEASE READ!

Thank you for ordering our newly updated: **"How to Loan Money to the Masses" Course.** We've added a lot of new data! Our goal is ALWAYS to provide you with the latest consumer loan information!

Throughout this Course, when we use the term "consumer loan," we refer to payday loans, car title loans, personal loans, installment loans, and line-of-credit loans made to consumers for periods as short as two weeks for as long as three years or more.

To assure receipt of future updates, go to The Business of Lending and signup for our FREE Newsletter. This Newsletter is typically the first place we distribute Course updates and the latest consumer loan developments.

Suppose you plan to operate your consumer loan business under a "Licensing Model" (discussed later in this "Bible"). In that case, you MUST become familiar with the appropriate laws, statutes, legislation, licensing requirements, and specific reporting requirements of your state, province, or "sovereign entity." **The moment this "bible" was printed, it became obsolete.** Laws that impact our industry are in a constant state of flux. Things change! ALWAYS contact your regulators for the latest laws, licensing requirements, and fee structures. This generally includes your Department of Corporations or Department of Finance or Banking and city hall in the storefront scenario.

Additionally, do not fail to contact the vendors and resources discussed in this Manual. Visit their websites. Contact them for opportunities to discuss their products and services, their advice and counsel, updates on the challenges and opportunities their clients are experiencing, sample contracts and disclosures, etc.

This newest version of our "bible" combines our previous "Consumer Lending and Payday Loan Manual" with our "Car Title Loan Manual" into one "CONSUMER LOAN BIBLE" covering all models. It's a huge undertaking, but one our clients have requested and reflects the reality of the consumer loan industry today.

Since we first began offering our training and startup materials in 1998, the Internet has continued to cannibalize brick-n-mortar stores while playing a pivotal role in consumer lending. Today, with the advent of smartphones in conjunction with the Internet, you simply cannot separate "brick-n-mortars" from the virtual world.

You must invest several days reviewing all our documentation. Get a consumer loan via the Internet. Get familiar with our materials. We guarantee this will save you hours of research and additional expense. Then, visit at least two consumer loan competitors in your area and apply for and receive a consumer loan. Consider driving across your state/province border if it's necessary. This strategy still makes sense for you if you're focused exclusively on the CONSUMER LOAN Internet model.

Always select your most prominent and most successful competitor to target. They have invested the time and money to utilize the best legal counsel to prepare and review their documentation. If they employ any type of licensing model, explore their website to discover references to it. Model your materials after theirs. You do not need to reinvent the wheel at this stage. (Enova, CashNetUSA is a good example to review.)

GET COPIES OF EVERYTHING. CONSUMER LOAN stores and Internet lenders have a license posted on their office wall or on their website with information you can use. Their regulator's contact information is always referenced as well. The most sophisticated Internet lenders have language disclosing any licensing they employ. If you're unable to secure a consumer loan, use a friend or family member who can qualify. This step in your research is VERY IMPORTANT to your success!

Save this Adobe Acrobat PDF version of our "Bible" somewhere on your computer where you can easily locate it. With an Internet connection, you may click on any links to navigate directly to the multitude of resources provided throughout this material.

Always contact your state or provincial loan trade organization. The membership is comprised of our peers. Their meetings and conventions are great opportunities to learn and connect. See our list in "Resources."

- Canada: https://canadiancfa.com/
- USA FISCA http://www.fisca.org/
- USA CFSA https://www.cfsaa.com/
- Online Lenders Alliance https://onlinelendersalliance.org/
- Latest trends & updates https://www.thebusinessoflending.com/
- Consumer Finance Association UK https://www.ccta.co.uk/

Don't hesitate to call (702-208-6736) or email us at TrihouseConsulting@Gmail.com with questions, comments, ideas, input, etc. We are in contact with people in the industry every day from most USA and Canada, Australia, Costa Rica, New Zealand, England, Eastern Europe, Latin America, etc. This is a great industry with tremendous potential!

Remember, put your lending rules in place and do not break them for anyone. Typically, you will have more demand for your product than funds to "put on the street."

Finally, treat your applicants with dignity and respect, and your business will thrive with time. The lifetime value of a "landed" borrower cannot be emphasized enough!

[More on all these subjects and more are laced throughout THIS COURSE!]

PS: Your credit card statement will reflect Trihouse Consulting

To our Future!
The Business of Lending

Disclaimer Stuff from the Authors

This publication has been developed to provide an accurate description of the information required to launch a consumer loan business. We all must recognize that business opportunities contain risks. Recognizing this fact, we STRESS that potential investors and business operators secure the services of competent professionals in law, accounting, banking, etc.

This publication is offered with the understanding that the authors are not contributing legal, accounting, or other professional advice. Again, the services of a competent attorney, accountant, and experienced consultant, mindful of your circumstance, experience, and legal environment, must be sought by you BEFORE embarking on a consumer/small-dollar loan business.

The authors have investigated and researched all resources contained listed and have verified the accuracy and completeness of the information in this publication to the best of their abilities. However, we will not assume any responsibility for errors, inaccuracies, omissions, or other inconsistencies. All financial information, operational data, charts, statistics, etc., are strictly hypothetical. Your situation WILL DIFFER.

We expect our publication to be accurate and current when it is published. However, certain information changes very quickly in our industry. You must conduct additional research to be current with your environment.

The consumer loan space is exceptionally dynamic. Legislation and strategies are in constant flux. Any vendor, supplier, or organization mentioned in this publication is believed to be reputable, but we do not accept responsibility for the activities of those mentioned. Resources are referred to you so that you may further your research and perform your due diligence.

ALWAYS ENGAGE A COMPETENT LAWYER!

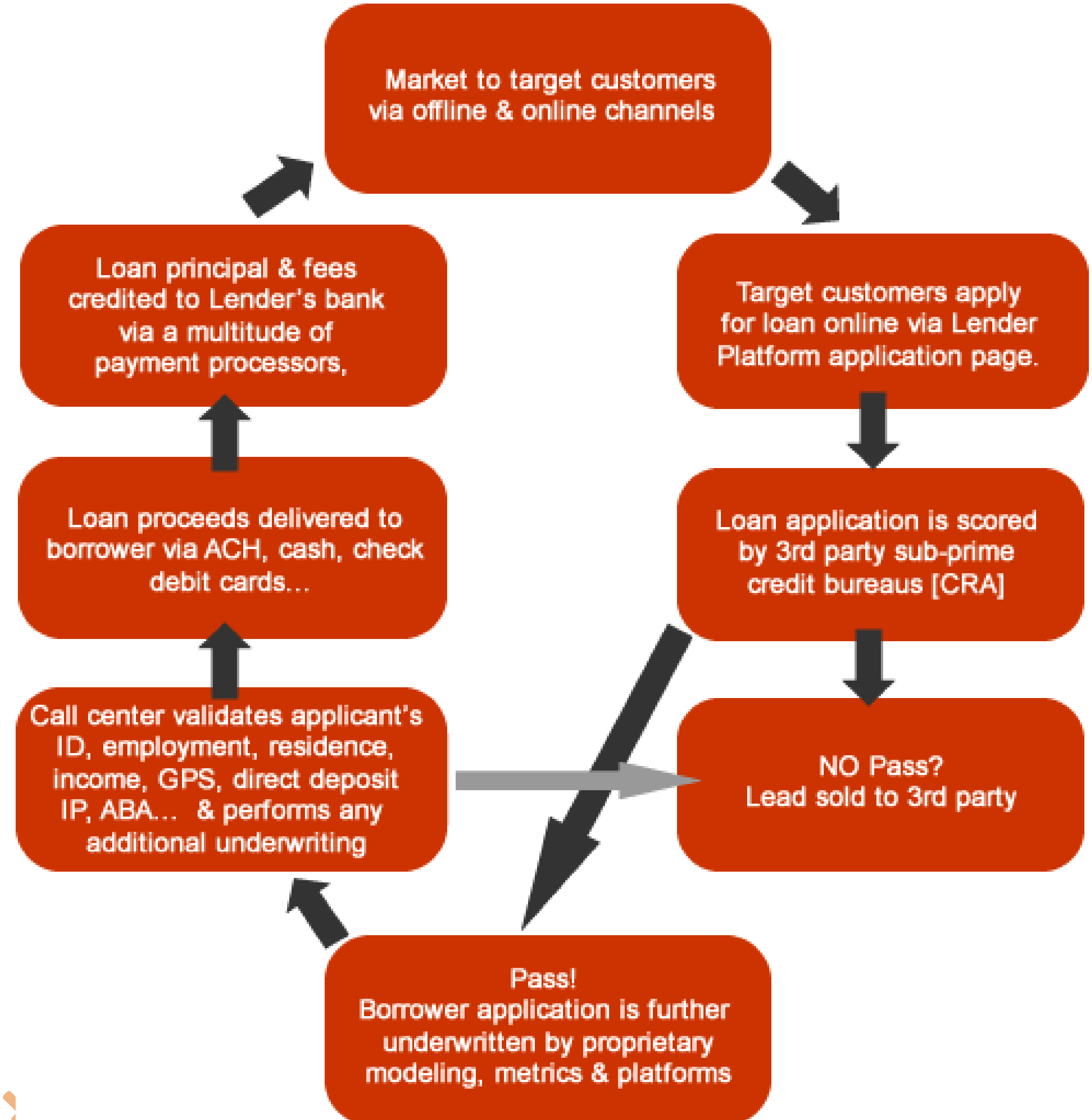
Contents

Your First Steps:

1. Read this **"How to Lend Money to the Masses Bible"** thoroughly one time; **fast**.
2. Visit competitors and get a loan - Use a "shill" if you must. At a minimum, visit two storefronts (brick-n-mortar "B & M" and/or websites. Make sure these websites are direct lenders, not lead generators. (Look for the fine print at the bottom of the web page.) (More on this in this Course.)
3. At the stores, perform customer counts. (Refer to our discussion of Craigslist for more on this.) Talk to the employees, "How is business? Is this your place? Yes! Congratulations! How is business? No? Why not? Have you ever thought of going into the business yourself?"
4. Build a team consisting of a good CPA, legal counsel, a tax professional… (Resources)
5. Decide what licensing model you'll employ. Your state/province? Tribe? None?
6. Decide on an LLC, C-Corp, S-Corp, sole-proprietor. Consider your biz name. File a DBA. DO NOT USE ANY TERMS such as "CONSUMER LOAN" or CASH ADVANCE" in your business name! (More on this in our "Bible." Secure a website domain name (Use http://www.Godaddy.com)
7. Consider the use of a "Registered Agent." http://en.wikipedia.org/wiki/Registered_agent http://www.InCorp.com works.
8. Develop your pro forma financials (Balance Sheet, cash flow, P&Ls… Start with the email links we send via Sharefile for the Adobe Acrobat downloaded version of our "Bible." Refer to our Excel Proforma. [The Sharefile email sent to you within 24-48 hours of your order for our "Bible."]
9. Develop your "Entity" documents, elected officers, certificate of formation, or appropriate for your chosen business model.
10. Consumer loan contracts (Examples on the emailed Sharefile link. We sent you.)
11. Prepare any additional docs you'll require, such as ACH account creation, bank account setup, sub-prime consumer data scrubbing account setup with Microbuilt, Clarity, DataX, Teletrack, etc.
12. Software & Training – set up a minimum of 3 demos with the companies in this "Bible." Resources
13. Fee Schedules – post online and/or in your store(s) (Examples in the "Bible.")
14. Privacy Policy – develop for website and/or store(s)
15. Develop branding, marketing, and advertising programs and materials
16. Website creation. A "responsive" mobile-friendly website is a must in today's environment. Discuss this with your loan software provider.
17. Operating procedures – develop via our **"How to Lend Money to the Masses Bible"** template in conjunction with training materials provided by your vendors (Software, ACH, scrubbers…)
18. Location – determined based on your situation, licensing model, store/Internet. (Refer to "Site Selection Chapter."
19. Furniture, fixtures, equipment, PCs, supplies…
20. Signs, Branding, Point-of-Sale materials
21. Utilities, phones, internet, fax…

22. Security Systems (ADP has some interesting solutions)
23. Consider the use of debit, stored-value cards.
24. Insurance – consult with a professional.
25. Consider bill pay services as a complementary service offering.
26. Google Local Business Listings and Social Media such as Facebook, LinkedIn, Twitter, Pinterest, TikTok, Instagram… this is a MUST DO! (Yes, it's a hassle, and yes, the results are hard to measure.)
27. Consider joining OLA, FISCA, CFSA and/or any industry association.
28. Re-read our **"How to Lend Money to the Masses Bible."** ☺

How it works:


Market to target customers via offline & online channels
Target customers apply for loan online via Lender Platform application page.
Loan application is scored by 3rd party sub-prime credit bureaus [CRA]
NO Pass? Lead sold to 3rd party
Pass! Borrower application is further underwritten by proprietary modeling, metrics & platforms
Call center validates applicant's ID, employment, residence, income, GPS, direct deposit IP, ABA… & performs any additional underwriting
Loan proceeds delivered to borrower via ACH, cash, check debit cards…
Loan principal & fees credited to Lender's bank via a multitude of payment processors,

Macro View of the Consumer Loan Industry

First, we need to define what is a"CONSUMER LOAN." Consumer loans, installment loans, line-of-credit loans, personal loans, cash advances, car title loans, payday loans, pink slip loans, short-term loans, small-dollar loans, non-prime credit cards, rent-to-own, pawn, … they all refer to an "alternative loan product" [B2C].

Demand for our loan products is generated by consumers with "thin" credit files, a destabilizing financial event in the past - like a job or health issue, a recent immigrant, an irresponsible individual, or more often, someone who needs cash quickly and has no time to wait for approval for a traditional credit product.

Consumer loans are generally loans as little as $25 to $5,000+ advanced by direct lenders at a very high rate of interest and typically due for repayment by the consumer on their next payday in the case of payday loans (single–payment) and car title loans or, over the course of 3 months to 60+ months as in the case of installment loans. They have three features:

- Consumer loans are for small amounts. The average loan is $385 (U.S.) Some consumer lenders restrict a consumer's first loan to $50 - $100. Some lenders offer loan principals exceeding $1500. (Often, state/province laws apply.)
- The borrower must provide access to their checking account or write a check to the Lender for the principal amount plus any interest and fees.
- Consumer loans are often structured to be paid in full by the borrower in one lump-sum payment.
- Interest-only payments – "renewals" or "rollovers" – are allowed in some states/provinces.
- Loan proceeds are provided to the borrower via a check, cash, a debit card, an ACH (Automated Clearing House), a virtual wallet, or other means.
- The fees charged to a consumer loan borrower average 15% of the face amount of the loan principal. (Florida is 10% while Texas averages 20%+) Example: A $100 California consumer loan for 14 days costs the consumer $$17.66 in fees plus the $100 loan principal. The APR is nearly 400%.) Installment loans can exceed 200%+.

Installment Loans are consumer loans with higher loan principals and more extended payback times than the "single-payment/deferred presentment/payday loan type.

- Installment loan principals average $1200+
- Installment loans are usually structured to be paid back by the borrower over a four-month to 18+ month time frame.
- Lower fees characterize consumer fees for installment loans; still, 90%+ APRs are standard.

- Some installment loans have balloon payments due. [Depends on your business model and licensing approach.]

Line-of-Credit Loans are essentially an installment loan.

Car Title Loans: A loan using the title of the vehicle as the loan collateral. Should a borrower fail to pay their car title loan as agreed, the Lender typically repossesses the collateral.

Cash Advance Loans can be a consumer loan, an installment loan… any type of loan product referred to above. Cash advance loans are made to SMBs (small and medium-sized businesses). These are often called "merchant cash advances." Currently, merchant cash advances are unregulated in the US ☺, but this will change.

Single Pay – loans repaid in one lump sum payment over 10 to 31 days.

Loan Origination Channels

Online – Direct lenders who conduct business via the internet. The onboarding, application, underwriting, and funding process occurs without the borrower present.

Storefront – Direct lenders with a physical location. Generally, the lending process occurs while the borrower is at the location.

CFPB, State & Province Regulatory Environment

Let's clear up the regulatory issue IF THAT IS POSSIBLE!

We opened our first consumer loan store in California in early 1998. Yes, it was the "good old days," as many of my tired, burned-out peers like to say.

Since then, many new laws, regulations, federal, state, and provincial government regulatory bodies – even city ordinances – have been implemented, introduced, beaten back, and embraced by lenders, advocates, and so-called consumer protectionists.

This is not going to change! Neither is the fact that nearly 50% of American households cannot scrape together $400 cash for an emergency financial catastrophe! Studies from PEW and others reveal the same situation for consumers worldwide.

My point? DEMAND for our loan products will not decrease. No matter what the latest B.S is on the front page of the NYT, WSJ, London Times, the CFPB… millions of ordinary folks need access to small-dollar loans every day.

What's this mean for you and me? The ability to help ordinary people while earning serious money!

What must we do to achieve this?

- ✓ Stay informed.
- ✓ Evolve. For example, "Embrace the internet and smartphones or die!"
- ✓ Insulate yourself from the negative old-timers who long for the good old days.
- ✓ Take market share from your competition, many of whom are tired and **want to go to bed**.
- ✓ Follow the Fintech lenders launching new loan platforms and learn from them. (Lending Club, Prosper, Orchard, SoFi, Avant, Enova, Lendup…) 93% of the loan applications they receive are declined! YOU and I can lend money to MANY of these folks.
- ✓ Realize that baby boomers, while a significant portion of our market, are retiring at the rate of 10,000 per day, and they too need cash.

- ✓ Although your store-front financial service center will still be around for many years, borrowers are looking for your service on their phones. (Burned-out consumer lenders refuse to acknowledge this fact! 70% of my new customers found me on their phones! Much of your competition fails to understand this.)
- ✓ Realize that the financial meltdown in 2008 – 2010 drove consumer credit scores into the toilet. Also, know that their FICO scores are beginning to improve dramatically because the negative credit commentary drops off their credit report after seven years.
- ✓ When you read a headline in The WSJ that so-and-so lender settled with the DOJ or the CFPB for millions of dollars, it's not about you and me. These are giant companies - including FOOLS like Scott Tucker, who FLAGRANTLY pushed every regulator to the edge - and screwed up. They find it cheaper to settle than fight the government. Example? Enova paid $14 million to the CFPB for robot signing. Enova loaned $280M+ to their loan applicants just in their last three months of operations! They've been lending for more than a decade. Few of us will ever achieve that scale nor come to the attention of any regulatory agency trying to make an example of us.
- ✓ Barriers to entry. Let's face it, this isn't easy! If everyone could lend money at high rates, they would be doing it. **This situation is GREAT for us.**
    1. Virtually no one has money to lend.
    2. There are hurdles to lending money
    3. Most people are scared SH$%%%Tless to enter the business of lending to the masses.
    4. **It's hard work!**
    5. **This is the time to get into lending rather than run from it as banks and credit unions have been doing for the past 10 years!**
    6. **Finally, realize that when we use the term consumer loan throughout this "Bible," think of small-dollar loan products & financial money service centers! "The Business of Lending to the Masses."**

Think of yourself as a "Financial Service Center."

Consider your path to servicing the consumer loan industry as a website, a phone, a store-front, a lead generator, a vendor, an investor, an operator, an entrepreneur… and choose the path YOU envision while incorporating YOUR skill set and preferred lifestyle!

So, now that these issues are out of the way let's get on with the good stuff!

State of the Consumer Lending Industry

Welcome to one of the fastest-growing industries in not only the United States but China, Canada, Australia, England, New Zealand, South Korea, Poland, Scandinavia, Latin America, and more. [Some folks would argue that cryptocurrencies and cannabis are giving the **"business of lending money to the masses"** a run for its money.] It's estimated that over 100 billion dollars in consumer loan fee revenue transpired last year in the U.S. alone. Single payment loan products [payday loans] generated 130 million transactions. 12 to 15 million households were served; again, that's just single payment loans. A well-known investment banker, Stephens Research, estimates 16,000 stores generate $12 billion in fees annually. We estimate there are currently 36,000 people employed in the industry with $1.25 billion in wages paid by consumer advance employers.

Due to the mergers and acquisitions transpiring in the banking industry, the passage of new consumer finance and credit laws, discontinuance of free checking accounts by banks and credit unions, the typical consumer's desire for immediate gratification, the growing consumer loan demographic – high FICO score degradation - and penetration of the Internet, there may never be a better time to enter this industry.

However, challenges do exist. It will require some hard work to succeed in the consumer lending space! When unusual profits are available in an industry, you'll be playing against some very bright, creative, well-capitalized competitors. Fintech is the new "buzzword." It's a polite term for a product some folks consider "loan sharking."

100+ FinTech companies launched out of Silicon Valley. Lending Club, Prosper, Avant, Springleaf, WebBank, Dave.com, Enova, Curo, Cross River Bank, crowdfunding, peer-2-peer-lenders, Lendup, Elevate, Think Finance, Elastic… all either ramping up or de novo lenders.

Remember: Disruption = Opportunity

We define micro-lending products as relatively small loan principals of $50 to $5000+ for seven days to 48 months having APRs of 30% to 1500% or more. These products include consumer loans, car title loans, installment loans, line-of-credit loans, pawn, rent-to-own, and similar products evolving or not yet envisioned. New platforms offer loans collateralized by bitcoin and other cryptocurrencies occurring today! A tremendous unique opportunity!

Micro-lending products are a normal market response to demand for short-term liquidity from borrowers with jobs but little access to other sources of funds. Typically, they cannot get help from friends or family because of embarrassment. Their peers are in the same financial straits. They have no other financial access to credit card, bank, or credit union funding.

Anyone currently lending, or considering entry into the micro-lending space, must look toward the future to formulate a business model that will thrive and survive the current wave of technology, regulation, competition, and worldwide demand for micro-lending products.

The micro-lending industry is undergoing a great deal of upheaval. From both an international and a domestic perspective, our products and services are evolving. Our customer demographic is exploding.

The Internet and smartphone technology are disrupting our businesses. Even experienced, highly successful lenders find it challenging to navigate this new game. More and more consumers, even those with high, traditional FICO scores, are deciding that alternative loan/small-dollar loan products make sense after considering a multitude of financial solutions for their situation.

The bank branch on every corner is a thing of the past. It's challenging to find branches in the inner city. They've been moving to the suburbs where the money is. With the increase in direct deposit, check cashing companies like ACE are looking for new profit centers. Additionally, high bank fees are driving this business. The average bank charge for an NSF check is nearly $38 - that's for the first check. Of course, the original recipient of the check will charge a fee also. If a check writer were to bounce checks for $30, $35, and $41, bank charges could easily exceed $78 to $90. If a check writer is aware of our loan products, they soon realize it's in their best interest to use us to solve their temporary financial challenge. At a typical rate of $15 - $30 per $100, this check writer would save, at a minimum, $45 with their bank and whatever fees the check recipients charge. Our products are often their best choice! [One thing to notice is the latest strategy of banks like Citi ending NSF fees. The regulators have been putting tremendous pressure on the banks to forgo non-sufficient funds fees, a HUGE driver of bank profits. It remains to be seen how this will play out. Indeed, the banks and credit unions will aggressively seek other fee income to relace NSFs.]

Banks do not want to do business with our demographic! "It just isn't worth it!"

Changes in credit policies and the fees banks and credit card companies are charging their customers are driving their consumers to us. Couple this with the gig economy, and our future is bright.

At a past CFSA Convention https://www.cfsaa.com/ (Community Financial Services Association – one of several national industry organizations) a respected analyst projected there will ultimately be 60,000 USA locations serving 50,000,000 consumers! Well, he was wrong! This guy didn't foresee the impact of smartphones or the CFPB.

60K store locations? Not going to happen. 50,000,000 customers? Certainly! The Internet will cannibalize a portion of this growth but more on that later. Additionally, as the economy improves and the unemployment rate falls, more consumers worldwide will qualify for and use consumer loan/small-dollar loan financial products.

Few entrepreneurs are aware of the massive number of consumers who cannot manage their finances! Every day, I hear this: "Who cannot possibly get their hands on a measly $400 cash in an emergency?" The answer to this question is MILLIONS of average Joe's and Jill's. One of the most challenging things for an entrepreneur researching the consumer loan industry is comprehending that millions of consumers worldwide demand small, unsecured loans! (The average consumer loan principal is just under $400!) Tens of thousands of consumers in your area find themselves a dollar short before their next payday. The number of consumers with damaged credit has increased dramatically. It is estimated between 50% and 70% of consumers live paycheck-to-paycheck. [Depends on who gathers the statistics and what their agenda is.] They can't come up with $1000 in an emergency. Heck, according to The Federal Reserve, they can't even come up with $400! A consumer loan product is not only the answer but a necessity for them.

The rates we charge are no longer much of an issue today. The real attention is directed at our ability to disclose our fees correctly, avoid "the cycle-of-debt" issue, develop a system for determining a consumer's "ability to repay," and adhere to all the appropriate truth-in-lending laws, UCC codes, APR computations, the CFPB, etc. This Course will help you address these issues.

TIP: Consumers of alternative loan products rarely "shop rates." They evaluate speed, convenience, and the ability of the loan provider to treat them with dignity and respect.

Loan defaults? They're part of our business. But they can be kept to a minimum. 2% in ultimate write-offs is doable IF you don't break your rules, your underwriting criteria are conservative, and you educate yourself regarding some cutting-edge identification validation services and collection solutions available today. 4% to 8% is quite normal. Default rates for Internet-oriented operations will be higher, often double. We'll discuss these topics later on. Just know that a VC pressured to put $5M "on the street" FAST will assume an aggressive - "if the borrower can fog a mirror, we approve them" - attitude. On the other hand, if you're a typical, self-funded start-up, you'll implement serious, thorough underwriting on every loan applicant. After all, it's YOUR money!

TIP: Be aware that an extremely low default rate may indicate your "acceptance rate" is too low. In other words, your underwriting criteria are too conservative, and you're turning down qualified applicants. More on this later…

Starting capital? This depends on your current situation, your short and long term goals, whether you're adding the small-dollar loan product to compliment your existing business, what role the Internet will play, your Team's experience and access to capital, your ultimate exit strategy, the licensing model(s) you employ… The average consumer loan is nearly $400 and rising. Typically, you could tie up approximately $300 for eight days on average. You might write a check for $300.00 for their check for $351. That's an annual percentage rate above 776%. Tremendous returns are possible! Again, this Course covers mathematics completely.

Legislation, Compliance & Regulation will continue to dominate the micro-lending landscape for the foreseeable future. In every country, micro-lending products are offered, they meet resistance from competitors, including banks and credit unions, so-called consumer protectionists, credit card companies, legislators, unions, early wage access platforms, BNPL {buy-now-pay-later], etc. Many licensing models, including choice-of-law, sovereign nation (tribe), offshore, state-by-state, and province-by-province, continue to "muddy the waters."
On a local level, more than a few cities, townships, and counties are capping or restricting the number of consumer loan financial service centers allowed. Lenders must continually invest time in meeting with and educating their federal/state/province legislators, local politicians, and city council members regarding their business and customers. They must focus on their customer's experiences and document and share them with regulators. The national associations can provide counsel and traction with your efforts. (Quite frankly, if your city passes a harmful city ordinance, offer citizens of the city loans via the Internet! It's become cheap and easy. (More on this later!)

Regarding the CFPB (U.S), our CEO Jer Trihouse has personally met with past chief Richard Cordray and various assistant directors of the CFPB over the past many months. Our takeaway is that the CFPB is focused on transparency and disclosure of all fees and charges rather than some Machiavellian legislative initiative. As mentioned previously, the CFPB cannot dictate rates/fees/APRs.

Most jurisdictions have enacted legislation regulating consumer loans. This is another reason for the growth in this business. In California, where we began, there was no money to be made in this industry until B1959 passed in Sept. 1997. With its passage, a new industry was born. We find this situation throughout the U.S., Canada, Australia, China, Brazil, the UK, etc. We have a few very aggressive regulators in the US, the UK, and Canada. Note that every locale is different. The Internet model complicates this issue as well. You must make every effort to educate yourself regarding the laws of your geographic location and the applicable laws where you serve your customers. Be aware that this is true for Internet operators as well.

We have clients in the majority of the USA and Canada, Australia, New Zealand, Costa Rica, Barbados, The Virgin Islands, China, England, Ireland, South Korea, Poland, and more. The consumer loan industry follows the same strategy as the rent-to-own industry, gaming, and the bank/credit card industry. We hire the best legal minds, forming self-policing industry trade groups such as https://www.cfsaa.com/ , https://www.fisca.org/ , and https://onlinelendersalliance.org/ and https://canadiancfa.com/, https://www.ccta.co.uk/ and PACs to lobby for enabling legislation. There are existing consumer loan trade groups in the U.S., Canada, the UK, and more. This is a dynamic area, and you must constantly strive to remain abreast of all developments.

Demand for our product continues at an incredible rate! As more consumers become aware of our various loan products, this growth will continue to explode. In addition to those employed in our industry, these consumers are voters. Legislators recognize this and will continue to pass appropriate laws. Internet operators, offshore enterprises, tribe lenders, lead generators, and more are putting pressure on the state and provincial regulators to provide safe-harbor legislation. Regulators realize that legislation that does not allow consumer loan products to exist will simply force consumers to use the knee-breaking loan sharks, Internet lenders, tribes, out-of-state, and offshore lenders. Of course, the legislators and regulators also recognize our industry's significant licensing fees, taxes, and employment income.

Study after study, notwithstanding the funding behind these studies – always follow the money funding these so-called “studies” - consistently conclude that demand by consumers for access to quick and easy, relatively small, uncomplicated loans to meet temporary financial emergencies will not decline. (As noted earlier, FICO scores will soon begin to improve.) As the middle class expands and the high FICO (US) score consumers debase and fall into lower credit tranches, the demographic for micro-lending products will continue to grow substantially in the foreseeable future.

Of course, there will be bumps! We’ve been following consumer loan legislation since 1997. Every year new state and provincial consumer loan legislation is introduced. Now and then, setbacks occur. On the other hand, we witness positive results as a result of lobbying and elections. We suggest you recognize that consumers will always demand these types of loans. If you keep abreast of new products and technology and continue to evolve with legislation and products, you can survive handsomely.

[Note: for some phenomenal perspective about the history of money lending, I suggest you read “Debt, the First 5000 Years.” Another great book is “The Ascent of Money.”

Regarding licensing and legislation, you should visit often TheBusinessOfLending.com for the latest updates. You can sign-up for our free monthly Newsletter. And, do not fail to support any consumer loan trade group representing your locale.

Finally, set up Google Alerts and Google Trends for keywords and phrases to help you follow and be alerted to the latest trends and developments in our industry!

The Internet and mobile technology will continue to profoundly impact the micro-lending industry. Imagine a web that isn't focused around a computer but is everywhere, on every device, every person, accessible at every location. It's not a place you go; it's a layer behind everything you do. Consumers residing in states and provinces that do not allow consumer loan products to exist routinely obtain them online. Brick-n-mortar (store-front) consumers regularly search for the nearest consumer loan store, car title loan business, check casher, sushi restaurant, pizza shop… with their smartphone. This MAJOR development has caught **MANY** existing, experienced lenders completely "flat-footed." Most of them don't even know the difference between a "mobile phone friendly (MPF)" website and a "mobile phone application (App)."

Again, 70% of the traffic to our stores came via a search on a new customer's phone!

Email is less and less likely to be opened by your customer on their tablet, desktop, or laptop. Email "opens" in mobile devices now dominate. SMS (text messages) have even higher open rates!! This is huge. Micro-lenders who are slow to adapt to this revolutionary reality will experience reductions in loan portfolio size or simply fail to achieve scale. Refer to the "Email InfoGraphic" in this "Bible."

International entry into micro-lending continues. Consumer loans and similar products are offered in the U.S., China, Canada, the U.K., Australia, Poland, Latvia, Mexico, Latin America, South Africa, Brazil, and more. Interestingly, companies having international micro-lending success are entering the U.S. despite the CFPB and the generally perceived regulatory climate. A few years ago, Mexican billionaire Ricardo Salinas Pliego's Grupo Elektra purchased Advance America. And as mentioned previously, Silicon Valley, China, and London are launching Fintech startups weekly! We think these ongoing developments are a significant "vote" for the future of our industry by some of the most sophisticated investors in the world.

This Training "Bible" will enable you to participate in this exciting business opportunity. You can utilize a 6' by 6' area in an existing business, rent a "brick-n-mortar" storefront location focused on financial service products and enable your customers to access all your products and services, you can build an Internet-based consumer loan business to earn a tremendous income, or some combination of all these strategies. Additionally, you can employ multiple licensing models simultaneously with today's off-the-shelf LMS Loan Management Solutions (LMS)! More on this later...

Again, we suggest you **think of yourself as a "financial service center"** or a "money center" rather than simply as a consumer loan operator. Consumer loan demographics are such that consumer loans, installment loans, rapid tax services, car title loans, the buying and selling of scrap gold, and sub-prime mortgages all appeal to our customers. For example, a name such as "Houston Financial Service Center" or "Houston Money Center" is better than "Houston Payday Loans."

This consumer loan startup & training "Bible" covers all aspects of the business, including day-to-day operations, customer acquisition, pre-qualifying applicants, customer demographics, controls, tactics, strategies, forms, contracts, minimizing defaults, software programs (LMS), collections, equipment, sub-prime consumer databases, walk-in trade, the Internet model and more. Additionally, we'll provide the insight you require to negotiate the challenges that confront you in developing a website, utilizing consumer loan software to manage your business, and successfully marketing your site via search engines.

For perspective, we started in the "brick-n-mortar" world in 1997 with a single consumer loan store in Orange County, California. Today, we have an equity position in 15 stores in four states, an Internet funding operation, Native American Tribal portfolios, and a significant consulting enterprise. We invest, we raise capital, we provide introductions, we're very active in the tribe model, we provide counsel and consulting, and we operate "Boot Camps" in a "live" store (Usually in Texas) and much more.

We owe a LOT of our success to our decision to embrace the Internet. It's our thinking that, for entrepreneurs today, the Internet offers more possibilities than ever! So, as our CEO has been saying for years, "Embrace the Internet or die!"

ONE MORE TIME: You must avail yourself of every resource possible to make certain you are aware of all appropriate legislation for your geographical location. We do our very best, but this Manual became dated the moment you received it! We are a very dynamic industry! Consult your attorney, trade organizations, accountants, legislators… many of these resources are in this Manual.

Reminders:

For industry updates, signup for our free Consumer loan Newsletter at https://TheBusinessOfLending.com

- We have arranged for our readers and "fans" to receive various discounts from many vendors and supplies we highlight. We recommend that you perform your due diligence and mention your affiliation with Jer and the Trihouse Team at an appropriate point in your negotiations. We're confident this will result in better service and substantial discounts for you. Refer to our "Resources Page" for details.

Hang-In There! The Future is Ours!

Payday advances, installment lending, car title lending, check cashing… the business of lending money to the masses, will survive. We'll thrive.

How can I say this? How can I be so confident? A little personal history...

First, let me share with you the catalyst for this rant. This was originally a Post on our "The Business of Lending Money to the Masses" Blog. It's as accurate today as it was when I wrote it.

I got into payday lending and car title lending in 1998 when I opened my first store in Mission Viejo, Calif. It was the early days, and no one even knew what a payday loan was. I attended my first National Association of Check Cashers Convention (now called FISCA), networked, participated in the workshops, met a bunch of folks in the hotel bar, and left feeling upbeat about the industry's future.

Everything was going great. Sure, there were always rumblings about regulators in a few states getting their feathers ruffled after prodding by "The Center for Irresponsible Lending" or some other anti-business, anti-capitalist, anti-financial choice group. But I realized consumer loan products are in huge demand by adults all over the world. And we have some brilliant and creative people in our industry.

Then October 2003 came along. I was at the FISCA Convention (I think it was in Colorado at The Broadmoor Hotel) when the FDIC announced all federally chartered banks involved in consumer loan lending would have to increase their reserves to 1:1. Additionally, the FDIC advised that banks should ensure that consumer loans are not provided to customers who have had consumer loans outstanding from any lender for three months in the previous 12-month period. "FDIC-supervised institutions currently engaged in consumer lending are instructed to submit plans detailing how they will address the revised guidance."

This announcement swept like wildfire through the halls of the convention! Shares of publicly traded lenders plummeted that day. Valuations of brick-n-mortars plunged! "There would be no financing available in the future for our industry, " Stephens Inc dutifully reported adding that M & A (mergers and acquisitions) action in our market segment was "dead" for the foreseeable future. Fully a third or more of the convention attendees freaked out. It was they said, "The end of our industry."

Many operators bailed. They sold out, some at fire-sale prices. I know that many of these sellers eventually came back into our industry. They couldn't stay away! (I helped them sell out at the panic and helped them buy back in later ☺)

And then a funny thing happened - our industry survived. Store revenues increased. Transaction volume increased. The Internet began to play a role. CFSA was formed and eventually the OLA.

NOTE:
The regulatory and legislative issues discussed here are a universal theme - they're timeless. In our industry, this will always be an issue. If dealing with these issues was easy, every entrepreneur would

jump in! So keep reading. You'll be glad you did! It's very optimistic!!

Now don't get me wrong! There have been more bumps and grinds along the way. GILA defeated consumer loan advocates in Georgia https://www.giloan.org/. Oregon went down the tubes. Arizona and Ohio were tough battles. Virginia, Colorado, New Mexico, Illinois… and there are others! And now, in the US, we have The CFPB to "figure out." It's a challenge!

Don't think the residents of these "dark" states are no longer getting their loans. They most certainly are. They simply aren't walking into a store in their state. Instead, they're using the Internet, their smartphones, driving across state lines, calling 800#'s... meanwhile, there are fewer jobs in their state. There is more crime in their state. Fewer taxes are being paid in their state. Vacancy rates for commercial buildings are higher in their state. And the fees that licensed consumer loan and car title loan businesses were paying to their state are now non-existent. I guess that's the subject of another rant!

But it's not all doom and gloom for us. Here are just a few reasons why we will overcome!

The CFPB is a monolith playing a strong role in our industry. Massive lobbying by the banks, the credit card companies, the automobile dealers, and our organizations, including OLA, FISCA, and CFSA is happening today, creating a lot of "give-and-take." Who knows what the ultimate outcome will be. I'm certain we will evolve into whatever it takes.

Merchant cash advances, buy-now-pay-later, early access to wage platforms, and more are becoming the new hot lending product. The Fintech companies are lobbying hard and forming associations as well. And on and on…

For U.S. operators, try very hard to disregard the bluster and PR put out by the CFPB. A lot of this is simply for public consumption. Deals will be made! Politicians live for this. And, there's technology. Technology is in our favor. Technology knows no boundaries. Pay attention to the Consumer loan Internet Model. Get acquainted with Peer-to-Peer Lending. Educate yourself regarding the origination of the Grameen Bank an**d Muhammad Yunus, who won the 2006 Nobel Peace prize for micro-lending. Do you know what** he's doing in New York and Pennsylvania today? Take a look at the Kiva Model and Prosper and Lending Club.

Acquaint yourself with installment lending, open-end credit agreements, closed-end credit agreements, the Credit Services Organization), particularly popular in Texas, collateralized and non-collateralized loans... all of these are discussed in this **"Bible."**

And don't forget to learn what you can implement in your specific location/model regarding setup fees, one-time application fees, credit check fees (even if it's simply Teletrack), referral fees, check cashing fees, connection fees... Of course, with "creativity" comes RISK ☺

MOST IMPORTANTLY, let's not forget about our customers. They're out there by the millions in the USA, the UK, China, Canada, Australia, New Zealand, Korea, Japan, Scandinavia, Northern Europe, Mexico, Brazil… they're EVERYWHERE. Customers demand our product! They want our product! They must have our product! THEY NEED US JUST LIKE WE NEED THEM.

We simply have to organize better, support our industry organizations better, join forces with complementary industries, and prod our customers to support us with videos, email, letters, Twitter, TikTok, FaceBook… accolades. WE MUST FIGURE OUT HOW TO MAKE THIS EASY FOR OUR CUSTOMERS!

We must EVOLVE into whatever we need to be to serve our customers. No matter what the Regulators do, OUR CUSTOMERS WANT US! CUSTOMERS NEED OUR HELP! AND WE DESERVE TO MAKE A PROFIT SERVING THEM!!

With no end to consumer demand for our products and services in conjunction with an industry comprised of some of the most intelligent and creative men and women on the planet, I'm 100% certain the single-payment loan, installment loan, car title loan, check cashing - the whole micro-lending niche - will not only survive but prosper in the coming decades.

Educate yourself! Subscribe to TheBusinessOfLending.com. Attend FISCA, CFSA, and OLA, and support them with $$! And don't ever forget:

The business of lending money is our destiny!

Learn … Evolve… Adapt… Create… You'll prosper!

Flash - It's a Whole New Business

Quick Hits & Last Minute Observations

These comments, ideas, and analyses directly result from our lending experience as operators of consumer loan stores and websites, those of our clients and peers, and our attendance at industry conventions during the past 20+ years. Be advised that we have many NDA's (non-disclosure agreements) in place, and we honor them. We never reveal names.

We've been attending micro-lending/consumer loan conventions since we became Lenders in 1997, as often as 10 in a single year. They take place at some of the most magnificent resorts in the world. Locales have included Nassau, Puerto Rico, Hawaii, Cancun, San Diego, Las Vegas, Washington D.C., New York City, Costa Rica, Brazil, Miami, and many more. Thankfully, pandemic-related cancelations have subsided!

"Underserved Consumers" (typically defined as consumers struggling with:

- Low to moderate incomes or volatile wages.
- Credit challenged with thin-to-zero credit files or a sub-prime credit score
- Unbanked or "underbanked."

Limited to just the "Underserved Consumers," market revenue is currently 200+ billion dollars/year generating $173 billion in fees and interest. Demand is insatiable!

Consumers in the USA, Canada, England, Australia, New Zealand, South Korea, Brazil, China, the European Union, the Caribbean, Eastern Europe, and more cannot get enough. Roughly 65% of these consumer loan transactions transpire in "brick-and-mortar" environments. [Know that the internet/phone application & delivery platforms are cannibalizing the storefront, face-to-face model.] Like most retail financial services offered in the marketplace today, the consumer must present himself at the storefront with all their documents to apply for the loan. After standing in line, answering several probing questions by a clerk, a few delays while TeleTrack, FactorTrust, DataX, Microbilt, Clarity, their employer, their references, and more are conferred with - during which time the clerk may have to answer a few phone calls - the loan is approved, and a check is issued, or the loan proceeds are delivered digitally. Next stop for the consumer? Their bank and more delays. Almost seems barbaric, doesn't it? Isn't there a better way?

Well, of course, you know the answer; the INTERNET! From the comfort of their home, school, or work, today's borrowers can apply for a consumer loan, be approved, and have the funds delivered electronically to their bank account. Privacy, dignity, respect, and SPEED! And on the other side of this equation, you and your team can operate from anywhere in the world!

We've been funding consumer loans for more than 20 years via the Internet. Some folks think the safest is to achieve nexus in a state or province and then get a license. Fund consumer advances only from the state/province where you're correctly licensed. Sell - do not fund - consumer loan applications you receive from other states/provinces.

Consumer loan applications can be worth as much as $300 each. Others think this is not necessary. They believe there is no federal law governing these transactions. We thoroughly discuss this and more in this "Bible." We suggest you research this area very carefully, have a good lawyer, or hide very well. You are going to be addressed by regulators eventually. The larger you are, the sooner you will hear from them. There is very little case law yet! Keep in mind that USURY is CRIMINAL in some locales! (Just Google "Scott Tucker!") Know that Internet CONSUMER LOAN offerings generally suffer from inferior service. Rarely is it possible for a consumer to call an operator. Lack of addresses and phone numbers is a problem for consumers and regulators. Of course, this lack of contact information is intentional for the most part. More than a few Internet operators rarely want to be found! You could attain a competitive advantage if you choose to buck this trend. Borrowers appreciate full transparency in our industry!

State and provincial regulators are "dialing for dollars." They are searching for you as I type this! They want you to be licensed in their domain. They want you to pay your licensing fee and taxes. They want you to implement whatever loan fee structures they specify. Even CFSA and FISCA, two consumer loan industry trade groups, are alerting non-licensed lenders' existence to the regulators!

A few companies are taking a different approach. The FinTech lenders are changing this strategy. They are transparent and customer-centric. Complete disclosure of rates, fees, licensing, and contact information is paramount to their strategy for servicing Internet customers and mollifying customer fear of disclosing bank and credit data to a lender. Check out:

- https://www.cashnetusa.com/
- https://www.lendingclub.com/ Lending Club
- https://www.avant.com/ Avant
- https://www.prosper.com/home-new Prosper
- https://www.titlemax.com/ TitleMax
- https://www.lendup.com/ Lendup

Make sure you utilize appropriate asset protection strategies! A C-Corporation managed by an LLC? Offshore? Perhaps it's time for you to "go straight?" Sovereign Nation (tribe) Model? CSO/CAB Model? Internet operators are under the impression they are exempt from state/provincial laws. This may be an illusion. For example, the Colorado State Regulator specifically stated at a FISCA National Convention that if a borrower resides in Colorado and the operator advertises in Colorado "including the Web," Colorado State law prevails. If a resident of Colorado stumbles onto your website via a search engine, you are exempt." However, this is being challenged, and there is little case law. But the fact that the state regulators think you are under their jurisdiction will cost you money to defend. Georgia, Arkansas, Illinois, New Mexico, and Kentucky are a few states with very aggressive AGs. Hopefully, this will not happen to you. [NOTE: Just because you reside in a "dark" State does not rule out your ability to launch a consumer loan business. Read on…]

Regulators are attacking 3rd party processors to force internet small-dollar loan providers into compliance as well; ACH providers and lead generators/aggregators are the initial targets. 3rd party providers may be the "Achilles heel" of micro-lending. Google "Operation Choke Point." Although considered "over" by many folks in our industry, I receive calls daily from frantic lenders needing a new bank account. (eCheckSystem.com)

Indeed, you can safely offer Internet-originated consumer loans to consumers residing in a state in which you are licensed. You can advertise directly to them as well. Thus, your team may feel more secure by opening a licensed "brick-and-mortar" and follow up with an Internet consumer loan site. Or, you may decide to secure a license, launch a consumer loan Internet website, and never open a store-front location. Applications received from outside your properly licensed state(s) or province(s) store/website can be sold for $9.00 to as much as $300+.

For those readers who currently have a consumer loan store(s) we can't emphasize enough how important it is to develop an Internet presence. You're already licensed in your state/province. Why limit yourself to customers within a 5-8-10 mile radius around your store? Offer consumer loans to consumers throughout your entire state/province! If you don't, your competitor will. She will expand her market share dramatically, cannibalize your customers, allow consumers to apply and re-apply from home or work, check their account status from anywhere, make a payment online, and refer friends and family for a reward. **Embrace the Internet or be gone!**

This "Bible" discusses all these issues and various solutions currently used by industry insiders to safely navigate the store and the consumer loan Internet model and participate in the profits available.

The Consumer Loan Industry is becoming more and more market-driven. It's more challenging to get new customers in some markets. There is more competition every day. We are becoming more dependent on customer retention, loyalty, and repeat business. A very rough estimate of the cost to secure a new customer is $180-$285+. (Note that Netflix spends roughly $35 and Dish Network $771.) Some markets are experiencing a level of maturity not previously seen.

We are witnessing more transaction fees "first loan free" and coupon redemption advertising utilization. (NOTE: With these approaches, WATCH YOUR DISCLOSURE ACCURACY & APR calculations!)

Collection-oriented Lenders perform best - **this is a collections business!**

Better collections

- Better volumes
- More repeat customers
- Keep customers longer

Mono-line operations (those of us focused strictly on payday loans) generally experience 8% defaults every two weeks. In other words, for every 100 transactions, eight will be uncollectible - that is written off eventually. Note: This is a "blended rate" for Internet and store transactions. It's very general, and your results could be much better or worse. If you choose to fund a customer whose only qualification is their ability to "fog-a-mirror," your default rate will be very high.

As in past years, we're experiencing higher average transaction values. Brick-n-mortar loans average $355. Internet-oriented loans are closer to $385 and increasing. First-time loans with a consumer range from $100-$250. We see more interest in installment loans (lending $800 to $5000 loans for 6 to 36+ months).

100 loans = 1.5 go bad in mono-line operations.
100 loans = 3 - 5 go bad in check cashing and consumer loan combined operations.

Some Internet operators experience initial "first-time" default rates as high as 25%. Keep in mind these are "initial" defaults or late payers. These are NOT write-offs that are never collected. We discuss several collection tools and strategies later in this "Bible" that will help you improve these numbers.

Consumer Loan Demographics

- 41 % own homes
- 56% rent
- Relatively educated customers.
- 100% have checking accts (80% of Americans have checking accts today. Some Lenders are servicing non-banked consumers.)
- 52% of borrowers are female. This is good for our industry because females generally manage their money better. They are better payers and better borrowers. Interestingly, Mohammad Yunus, 2006 Nobel Peace Prize winner for micro-lending, experienced the same phenomena with his enterprise.
- 25 yr to 44 yr old is our target market.
- Ultimately, the Wal-Mart customer is our customer.

70% of US residents reside in a state with favorable consumer loan legislation. And this percentage increases monthly. Of course, the Internet offers access to nearly 100% of potential consumer loan consumers.

- 10% make 0 - $15k
- 15% make $15k - $25K
- 19% make $25k - $35K

- 20% make $35k -$49k

Certainly, you will serve customers making substantially more than $50,000 per year - we do. But the “meat” is in that $20K to $60K income range. $20k - $60k is where our market is, with some exceptions.

As a side note regarding check cashers, the average size check cashed will NOT increase for the foreseeable future. Thus, check casher revenues are NOT expected to increase anytime soon. (If you are a check casher you should consider adding additional products to your product offerings to increase revenues or buy out your competitors.)

Reasons the CONSUMER LOAN Product exists:

- The economy.
- Inflation.
- Too many days in the month & not enough paycheck.
- The demise of the Household Intl, Assoc. 1st Capital, AVCO, and Beneficial Finance type operations.
- Escalation of late fees, NSF fees, etc. by traditional banks. The average NSF (non-sufficient funds fee charged by banks) is approaching $38. See https://www.thebusinessoflending.com/ “Why Banks & Credit Unions Hate Consumer loans”. [Note: The FEDs are pressuring banks to cease NSF fees.]
- The proliferation of automatic credit card approval programs
- Increased difficulty for large numbers of consumers to open a checking account. It is estimated at least 10,000,000 residents of the USA and 1.5 million Canadians cannot open a checking account. Many are blacklisted by databases like the ChexSystems.com, Shared Check Authorization Network (SCAN), and Telecheck. Consumers need small-dollar, short-term loans to bridge temporary financial difficulties.
- Banks and credit unions are increasing fees and minimum balances for maintaining checking accounts. ATM card fees are growing along with monthly maintenance fees.

Your Loan to borrower delivery focus must be on:

- Immediate access to funds to the borrower via cash, E-Checks, money orders, checks, automated clearing house (ACH) transfers, EFTs, debit cards…
- Simple application process
- A private transaction – no involvement of other parties
- Relationship building: Borrower > Lender > Borrower
- Convenience & speed are the top reasons loan customers use our services

The Internet and loan-by-phone models are compelling. Tribe and offshore approaches are of great interest to Lenders. Seemingly lower entry costs and a larger market are available. Losses are markedly higher, with default numbers all over the place.

Marketing and lead generation of the Internet product are becoming an issue and regulatory concern.

The state/province licensing model may offer the most conservative approach, but the costs associated with licensing and compliance are considerable for those of us implementing a strategy servicing multiple jurisdictions. For clarification, the "choice-of-law model" refers to an Internet Lender interpreting all their transactions to have occurred in the state/province in which they choose – typically where they are licensed. Thus, no matter where the borrower resides, the loan is deemed to have taken place where the Internet Lender is located, licensed, or their website is hosted.

In addition to compliance and disclosure, the current area of litigation is an attack on the Internet, tribe, bank, fax, offshore, and "loan-by-phone" models. Where did the transaction take place? Who performed the service? Who has jurisdiction? For example, you may have a company with an office in Florida, a Delaware Corporation, lending $300 to a resident of California. On the other hand, if you're licensed in Florida, and your customer resides in Florida, your Internet business will have no problems.

If you're licensed in a state, say Utah, and your customer residing in, say Texas, applies for and receives a loan via your website hosted in, say California, and you're a Nevada corporation, where does the loan take place? Who, if anyone, has jurisdiction? Pennsylvania regulators "think" they have jurisdiction when their residents apply for and receive a loan. However, case law is still in flux on this matter. It has not yet been adjudicated thoroughly. Again, for updates on this topic, refer to http://www.TheBusinessOfLending.com

Of course, the tribal model offers another layer of confusion for regulators, operators, and investors! Recent developments regarding consumer loan tribal enterprises have created significant interest! Tribal gaming revenue is down as much as 30% in some areas. Internet gambling is a certainty. As a result, tribes have lowered their financial expectations to gain expertise in micro-lending. The ability of smaller Lenders to employ the tribal model has become a reality. State AG's are concerned. The publicly traded Lenders are nervous. Tribes and lenders are salivating. For the latest developments on this approach, we suggest https://LeaningRockFinance.com as starting point. Do the work!

The term "unconscionable" is being discussed. Although the loan may be legal and meet all regulatory requirements, if it can be proven that the borrower could not possibly meet the loan's payment terms, it could be deemed an "unconscionable loan" and thus a potential litigation issue. An Arbitration Agreement (discussed later) could be an asset for you.

The "bank model" –partnering with a bank - is alive and well. Meta Bank, WebBank, and others are in play.

The Typical Product Cycle:

- Education followed by

- Legislation/Litigation followed by
- Acceptance/Regulation followed by
- Maturity.

Where are we today? In most areas, we're probably in Acceptance/Regulation. There are fewer lawsuits due to a failure to adhere to specific safe-harbor legislation. The exceptions are generally due to the use of "creative" products such as sale/leasebacks, installment loans, tribe licensing, rebates, fee/APR disclosure issues, and Internet interpretations.

Roughly 35 - 37 states currently have enabling legislation. We're sure more states will pass favorable legislation. They are being pressured by their bordering states, tribes, offshore operators, and by the Internet and loan-by-phone models. There is a lot of pushback by States against The CFPB; Florida is a good example.

On the other hand, there is a national movement to put a 36% APR cap on all consumer loans. Knowing our industry, we will fight this tooth and nail, implement creative workarounds, and evolve with the times.

The Canadian Loan Association is another story - very exciting! The federal government has shifted the responsibility to the provinces. Some good things are happening there for our industry.

The Big Gorillas in our industry today:

- Advance America = Nearly 3000 stores in 36 states. (a wholly-owned subsidiary of Grupo Elektra, one of the largest Latin American providers of banking services)
- Ace = has a network of 1,300+ stores in 38 states
- Check-N-Go = 1000+
- Check-Into-Cash = 1000+
- Dollar = 1400+
- Cash America = 500+ (Abandoning single-payment loans to concentrate on pawn.)
- Enova
- Avant
- Curo
- TitleMax
- World Finance

Note that there are many, many small operators staying under the radar and MAKING A FORTUNE in the consumer loan industry! Some with a single store-front location!

Defaults:

The VERY successful Lenders exaggerate their default rates! They do not want to encourage competitors. The less successful seem to reduce their default rates out of embarrassment. The average is somewhere around 4% of all loans written will default and become uncollectible.

Keep in mind that your default rate is a function of your underwriting criteria and the efficiency of your collections department. (More on this later in our Manual.)

Future growth rates: The expectation is 4% - 8% in transaction volumes for "brick-n-mortars" (stores) and 15%+ for the Internet Model; currently estimated to be in the $20 to 25 billion dollar range.

The single-payment consumer loan product is under attack by the State and the CFPB. "Installment loans" are making headway and replacing the stereotypical payday (single-payment) loan product.

Opportunities:
There are still pockets of opportunity throughout the USA. And our clients in Australia, Canada, England, South Korea, Barbados, San Juan, China, New Zealand, etc., are experiencing outstanding growth. Tremendous potential exists in the North-Eastern states like NY, NJ, PA, MI, etc. Texas offers a unique CSO/CAB Model and is very profitable. Visit https://thebusinessoflending.com/ for the latest developments. GA is surrounded on three sides by safe-harbor states causing tremendous pressure on the regulators. The 4th side faces an ocean! It is said that the only thing preventing GA from allowing our industry to flourish is that the GA senator who switched political parties has a family with significant interests in the Georgia Industrial Loan Association (GILA) https://www.giloan.org/. These are installment lenders who do not want the competition!)

Visualize this scenario: a Lender just across the border from Arkansas; a blacked-out State - say in Mississippi or Missouri - advertises loans via the radio. This is occurring around the world! Arkansas consumers drive a couple of miles over the border and get access to their loans. Or, they simply apply via the Internet.

PA is a significant battleground. Once PA follows suit, NY and NJ could follow. There is a continual erosion of non-consumer loan-friendly states. There are really only 13 states left! Everyone, including the regulators, recognizes Internet, tribe, offshore, and "loan-by-phone" loan rates are much higher than those with enabling legislation in those states. The consumer benefits from the passage of enabling legislation. It is estimated the consumer pays 70% more on the Internet!

We are optimistic regarding the future of our industry and the regulatory environment. We think the Internet model and the creative approach our members employ for developing loan products our customers desire will overcome any obstacles thrown in our path by consumer activists and government regulators. There are, however, several sophisticated members of the consumer loan industry who do not share our optimistic views.

International growth is projected to increase dramatically. Consolidation, mergers, and acquisitions will increase. On the other hand, buyer valuations and seller valuations will probably begin to align as the economics of buying locations makes more sense than building new sites in many geographic areas.

Consider your short and long-term goals. Does state-by-state or province-by-province licensing make sense for you? Perhaps a single "bricks-n-sticks" office location licensed correctly in conjunction with an Internet operation to serve your chosen state/province is your best choice? Does the tribe model offer you the best path for achieving your goals? Or, rather than becoming a consumer loan operator, does it make more sense for your team to provide capital to an experienced operator? THINK! There exist a multitude of ways to achieve your goals.

Again, a significant concern of regulators is whether an operator knowingly enters into a consumer loan agreement with a borrower lacking the ability to repay the loan. A court can invalidate a loan if it is deemed "unconscionable." An example would be when the consumer receives a loan due in 14 days, but the consumer gets his paycheck in 30 days. How could he have paid back the loan?

Another concern of regulators is the "continuing cycle of debt" debate. The number of days the consumer remains in debt; in debt to you. 60 days? 90 days? 120 days? Longer? It's an issue lacking definitive agreement. FISCA https://www.fisca.org/ promotes their "no rollovers" and "payment plan" strategies to overcome these problems. CFSA and OLA are embracing this approach as well. The era of "soft collections" is upon us. (More on this topic in our Collections Chapter.)

Also, regulators are focusing on consumer loan alternative products. The ISP Model (Internet Service Provider), the phone card, the sale-leaseback... THEY DO NOT LIKE THEM! Nor do they like the "early access to wages" models. Refer to https://www.affirm.com/ , https://www.payactiv.com/, the BNPL [Buy-Now-Pay-Later], and the Dave.com model. They interpret them as "disguised loans." They would rather we worked to change the state/province law. Of course, several internet service providers have offered cash rebate programs with dramatic success. Why can't we utilize these tactics? If you can afford to litigate them, go for it.

Florida, Oklahoma, and other states have implemented a state database. Initially, the consumer loan industry in Florida hated it. Revenues dropped 25% - 50% when it was implemented, depending on who made the statement. The mono-line companies suffered the most of course. The regulators love it because they receive lots of data they can "play" with. The industry hated it because it is expensive ($1.00 per transaction), it is cumbersome, and outstanding consumer loans are not removed from the system promptly once the consumer pays it off. (This is a tactic used by lenders in states having databases. Once the lender changes the borrower's status, the borrower can get a loan from a competitor.)

Of course, Veritec (https://www.veritecs.com/), the vendor for the database, strokes its merits. They have high hopes other states will embrace it. VA has authorized its use. NOTE: Be sure to review the “Florida Deferred Presentment Program Status Report to DPP Advisory Council” on the Veritec website! Some fascinating consumer loan industry statistics and insights are available from its reading! After using the Florida database and an opportunity to “work out the bugs,” we find the following:

- Consumer transactions have increased at an avg. rate of 2.3% per mo. since program inception.
- An avg. 18.1% average increase in volume compared to the same months in the prior year.
- Consumer locations increased 5% per month.
- 3.9 million transactions were conducted with total advances of $1.5 billion and fees of $158.2 million.
- Florida experienced a 17% increase in new store openings.

More states are looking at this database approach. It is only a matter of time before you will have to address this issue. You need to prepare for it.

Valuations: A Black Art

For operators of 1- 25 stores, 1X - 3X receivables. Over 25 stores, 4X. Over 100 stores… 5X Multiple of EBITDA. Lots of variables here… there is a HUGE amount of interest in our industry today! [Soon, we’ll launch our new **“How to Value a Consumer Loan Business.”** Email TrihouseConsulting@gmail.com for details.]

The challenge today regarding our industry? The CFPB, the impact of a new administration in D.C., city ordinances, Google advertising policies, low unemployment, Fintech companies, mobile-friendly – responsive website development… and the list goes on.

Like I said, “If it were easy, everyone would do it!”

Purchasing multiples are increasing, although this trend has tapered off recently. A few prominent players have gone public, and a few have gone private again. As a result, more financial data is being released for dissection by analysts and investment bankers. They want to be involved. They want to put their money to work. Why? The CFPB cloud is hanging over our heads. The 36% APR cap is a national theme.

There is plenty of action in our industry. The “existing gorillas” in our industry want market share – quick! They are attempting to buy the “mom and pops.” Some of the more astute loan operators think there may be too much money being thrown at us. Money has gotten a bit more expensive, so look for this trend to subside.

Regarding the Internet Model?

Again, we have been funding consumer loans via the Internet for several years. Most of us feel the safest approach may be to achieve nexus in a state or province and then get a license. Fund loans from only the locale in which you are correctly licensed. Sell consumer loan applications you receive from other states/provinces. Applications can be worth as much as $300+/each today. Others think this is not necessary. They believe there is no federal law governing these transactions, referred to as the choice of law model. We suggest you research this area very carefully, have a good lawyer, or hide very well. You are going to be addressed by regulators eventually. The larger you are, the sooner you will hear from them. There is little case law yet! Keep in mind that USURY can be CRIMINAL in some locales!

Internet loan offerings generally suffer from inferior service. Rarely is it possible for a consumer to call an operator. Lack of addresses and phone numbers is a problem for consumers and regulators. Of course, this lack of contact information is intentional for the most part. Internet operators rarely want to be found!

Make sure you utilize appropriate asset protection strategies! A C-Corporation managed by an LLC? Offshore? Tribe? Perhaps it's time for you to "go straight?" Internet operators are under the impression they are exempt from state/province laws. This may be an illusion. Again, a Colorado State Regulator specifically stated at a FISCA National Convention that if a borrower resides in Colorado and the operator advertises in Colorado, "including the Web," Colorado State law prevails. Of course, if a resident of Colorado stumbles onto your website via a search engine, you are generally thought to be exempt. However, this is being challenged, and there is little case law! The fact that the regulators "FEEL" that you are under their jurisdiction WILL COST SOME $$$ to defend. Hopefully, it will not be you.

Indeed, you can safely offer Internet consumer loans to consumers residing in a state/province in which you are licensed. You can advertise directly to them as well. You may feel more secure by opening a properly licensed "brick-and-mortar" and follow up with an Internet consumer loan site. Applications received from outside your properly licensed state(s) or province(s) store/website can be sold for $9.00 to as much as $185 each.

Credit reporting for consumer bill pay transactions is here. We now have a recognized conduit for seriously helping our customers to build their credit by paying their bills, and us, on time. The regulators will embrace us for this as well! This could be a really big deal.

Additionally, https://www.fisca.org/ has hammered on their "Best Practices," which now include limits on rollovers and extended payment plans with zero additional fees added. https://www.cfsaa.com/ has recommended "Best Practices" as well. And the Online Lenders Alliance at https://onlinelendersalliance.org/ promotes their "Best Practices."

Regarding competition, the opportunities to differentiate yourself from the competition rely on:

- Expand your product offerings (Cell phone service, Crypto collateralized loans…?
- Reduce your cost of service
- Focus on your target markets
- Convenience for your customer
- Current customer referrals & rewards

- Speed in offering your service/product to our customer
- Go “mobile”
- Phone friendly website
- Build an email list.

The results of these activities properly delivered:

- Increase per-customer volume
- Reduce CAC. [Customer acquisition costs.]
- Build your brand
- Retention of your customer and market
- Consolidation: build vs. buy
- Increased attention to your markets

Ultimately, the theme we should embrace is to focus on our perception and our image by consumers and regulators. Customer experience, disclosure of all fees and rates, store appearance, website contact information and sample APR calculations, product positioning, community involvement, consumer financial education, and media relations are primary to our growth and prosperity.

We must embrace the idea that we are **Financial Service Providers** rather than simply payday lenders, check cashers, car title loan providers, installment lenders… Our businesses, including our stores, our signage, our websites, and our point of sale materials must reflect this idea.

Covid: A Few Thoughts

A word about Covid & plagues: History may not repeat BUT it certainly rhymes. In other words, we’ve suffered plagues, environmental catastrophes, economic shocks, depressions, recessions… and ALWAYS recovered eventually. The Covid event is simply a hiccup in time. The 99% will always remain in debt. Consumerism/Instant gratification is in their DNA. Depending on who funds the “Report/Analysis,” approximately 65% - 75% of USA households cannot access $400 cash when facing a sudden financial emergency. That’s in the neighborhood of 62,000,000 households! [Think car repair, fill a prescription, keep the lights on, self-employed contractors in need of purchasing materials for a small construction job to be paid by a home/apartment owner upon completion of the work…] This is the situation throughout the world! It has always been this way. [For perspective, read “Debt: The First 5000 Years.”]

It’s clear that the government printing presses, stipends, direct checks, and addon unemployment benefits temporarily reduced demand for our loan products. On the other hand, payment defaults are down dramatically! Payday, installment, line-of-credit… Lenders are sitting on piles of cash and ready to deploy it as our demographic reverts back to living paycheck to paycheck. Our continued success is a certainty IF we remain vigilant and informed regarding the very latest digital transformation to MOIP [Money Over Internet Protocall].

If a borrower claims they cannot pay because their hours have been reduced, their employer has ceased operations… as a result of Covid, ASK FOR PROOF.Don't discuss ANY options until you verify their claims are legitimate.

- Types of proof
- Letter from employer
- Run the borrower through your Instant Bank Verification and/or your Instant Wage Verification vendor to review employer deposits and other outstanding expenditures such as gaming, subscriptions to streaming services, your competition, etc.
- Proof they filed for unemployment
- Call their employer to verify the business is closed, etc.
- Call their Manager/Supervisor to confirm they are no longer employed/open for commerce. Include notes regarding who you spoke to, date, time, the phone number you dialed, anecdotal information.

After gathering your "Proof:"

- Get, at a minimum, 30% - 50% of their payment to defer the remaining balance and proceed forward.
- If your borrower cannot truly pay any portion, indicate to them you will defer one payment. This is your last resort.
- Emphasize to your borrower that future transparency and communication with you are paramount to your continuing to work with them and not harass, intimidate, impact their credit negatively…
- Ensure all communications with you stress how important their financial & health success is to "ABC Loan Company."

The Future of the Consumer Loan Industry

We predict a successful future for our industry. And let's be clear, we have "put our money where our mouth is." We are not only highly regarded consultants in the CONSUMER LOAN industry but Lenders and operators as well.

Regarding the US market, the CFPB has created uncertainty. There are CONSUMER LOAN optimists for every pessimist. The CFPB is NOT authorized to regulate fees or rates. They are in a "fact-finding" mode.

The keys to success in this market are:

- Full disclosure of all rates and fees
- A "licensing model" that makes sense based on your risk tolerance, source of capital, geographic target, and ultimate exit strategy or "annuity" positioning
- A "soft-collections" attitude from top to bottom of your organization
- The ability to avoid consumer complaints from escalating beyond your customer service (CSR) level
- Developing a strong brand leading to long-term customer retention
- Maintaining competent legal counsel
- Joining and supporting your appropriate trade group
- Consumer credit building
- Consumer financial education
- The ability to collect and analyze your customer data via a solid loan management system
- A flexible CONSUMER LOAN model that can adjust to an ever-changing legal environment allowing you to modify products, fees, rates, and terms as required to meet market demands and regulatory strategies.

We expect a greater number of mergers, consolidation, and acquisition activities to occur in the CONSUMER LOAN niche compared to the past three years. This is caused by regulatory uncertainty, the low yields available to investors and hedge funds in other investment areas, the fact that more data regarding profitability in the CONSUMER LOAN space is coming to light, the Internet model, and the need for it to be "figured out," the fact that in many locales it is a better strategy to purchase existing locations versus build new (de novo), and the fact that growth opportunities still exist in the USA, Canada, AU, China, Brazil, the UK and more.

Astute entrepreneurs are recognizing the consumer loan industry offers a tremendous opportunity with continuing increased demand by consumers for our products. Your team must comprehend that our products will evolve. Credit Services Organizations, installment loan types of products, payment plans, line-of-credit products, implementation of the Internet channel, larger average loan amounts, stored value cards, smartphone access, bill pay, etc. all must be considered.

Although the numbers are extremely tough to get a handle on, Internet transactions are thought to be growing 20% - 30% per year. Increased consumer access, states like Oregon going dark (36% maximum interest rate) forcing consumers to the Internet product, inexpensive Internet-based consumer loan software (some under $500; see the chapter "Consumer loan Software"), and much higher Internet interest rates (typically $25 - $40 per $100) all contribute to this increase.

The big question seems to be whether the Internet offered consumer loan product cannibalizes the "brick-n-mortar" customer. Our experience leads us to the conclusion that the Internet Model is playing a growing role in the consumer loan space. It's not difficult to entice the "brick-n-mortar" consumer to use the Internet or their smartphone after we explain the advantages to them. These include 24/7 access to their account status, making payments, requesting more funds, the use of stored-value cards, email communications, personal information updates, and more. And of course, as an Internet operator, you gain access to residents of your entire state/province/country rather than the 5 – 10 mile radius around your store. Additionally, if you are in a jurisdiction that has implemented zoning or radius impediments, simply get your license in another locale in your chosen state/province. You can operate your Internet business from anywhere!

You have either a Bull or a Bear mentality. We are optimists; VERY OPTIMISTIC!

Another common thread in our industry is the effect the current state of the economy is having on our businesses. The consensus is volume will continue to escalate as will defaults. Consumers in the trades, health care, services, clerical, real estate, mortgages, etc., need our products in increasing numbers. However, their ability to repay us on time will degrade. So, make certain you have access to plenty of capital and beef up your collections department. Get educated. Use the new collection tools we discuss in our Manual. If collections are becoming a major problem for your existing consumer loan or check cashing business read our "Collections Chapter" AND reach out to Jer at TrihouseConsulting@gmail.com along with our Postings on the Blog.

- Many existing CONSUMER LOAN operators and attendees at the industry conventions do not "get" the Internet. CFSA members embrace the Internet. OLA members are on the Internet already. (That's why they're called Online Lenders Alliance.) In general, everyone is slowly becoming aware of it but most have not yet embraced it. They hear the rumblings but do not realize they will eventually be crushed if they don't figure it out soon. Our attendance at the early FISCA conventions during which we revealed our use of the Internet to offer the consumer loan product led to our being called "bandits" and "outlaws" by the established "brick-n-mortar" guys. Then came the CashNetUSA purchase and they went into shock! Another shattering event was the purchase of Advance America by Carlos Salinas AFTER the formation of the CFPB! This astounded many seasoned CONSUMER LOAN operators who had become quite pessimistic about the future of our industry.

- FinTech: These operators are already lending BILLIONS of dollars!
- Regulation and legislation are still an issue everywhere. Frankly, we had hoped this would have been settled by now. All of us must join FISCA, CFSA, OLA, the Canadian Consumer Loan Association, the UK Federation in addition to our state/provincial organization and offer our support and money to win this battle. Subscriptions to "Currents Magazine" and "CheckList Magazine make sense as well.

- Independent 3rd parties such as our customers, employees, vendors, suppliers, nearby businesses, etc. must be prompted and enlisted to defend us. Again, it is not our customers that request new laws and regulations; it's the consumer activists and uninformed regulators who would never lend a dime to our customers in the first place. They think our customers are stupid and financially illiterate! Their goal is to push our customers away from us. Additionally, it's our competitors - the banks, credit unions, pawnshops, rent-to-own stores… - that fear our product.

- Every effort must be made to clean up your store(s), the surrounding area, your signage, that old van outside with your company name painted on it, exterior walls, etc. The same strategy applies to your website (s). Think of yourself as a "Financial Service Center" rather than a check casher, a consumer loan operator, or a title loan operator.

- Get involved in your community. Volunteer to get out the vote, support our troops, sponsor sports teams, food drives, blood donation… Amscot Financial in Florida offers a very good example of what can be done. FISCA, OLA, and CFSA are active in this area as well. They have programs regarding savings plans, consumer financial literacy, scholarships, credit building, and more. Get familiar with these and employ them.

- Perceptions need to be modified - our perceptions of ourselves, the perception of our public, and the perception of the regulators. This will be an ongoing battle for the foreseeable future.

- We need to develop alternative products with yields somewhere between 36% and 400%. There is an ongoing national theme for a 36% APR cap. Additionally, longer repayment terms will become the order of the day.

- Consider the impact smartphones are having on consumer behavior. 2 billion smartphones exist today and more than 100,000 per day are being added. It's becoming rare for consumers to "open" their email on a desktop or laptop computer any longer. The same transformation is occurring in search. Consider what your website looks like on a desktop, laptop, or tablet computer. Now take a look at it on your customer's phone. You better be MPF – mobile phone friendly!

Myths about Us:

- We are anti-saving. Several Lenders in our space offer creative savings and reward plans as part of their loan product line. These include overdraft protection.
- Our rates are usurious. Bank NSF fees approach $38.00 on just one side of the transaction. ATM fees approach 300% APR's. Additionally, there are minimum balance fees, ATM fees, and more. Banks are charging check-cashing fees to the unbanked for checks drawn on their own bank! These checks have zero risks!
- Banks are competing with us. A few, including Wells Fargo, offer CONSUMER LOAN products. To qualify, a bank customer must have direct deposit. The bank takes their fees the moment their customer's payroll check "hits" the bank account. This means ZERO risks to the bank. The APRs on these products exceed 280%!

Myths about Our Customers:

- Low-income consumers and little education typify our customers.
- Do not understand fees.
- No cost-benefit analysis was performed before using our services.
- The decision is impulsive when considering the use of our services.
- Trapped. Our customer has no other choice for temporary financial help.

The following statistics are based on telephone interviews from a database of 1,544,489 consumer loan customers in 40 States totaling 2000 customers and garnered from both good accounts and accounts not in good standing.

LATEST DEMOGRAPHICS for SINGLE-PAYMENT LOAN PRODUCT CONSUMERS

- 66% = $25,000 annual household income & above.
- 52% = $25,000 - $50,000 household income.
- 58% have some college.
- 1 in 5 = college degree.
- 41% = own home compared to the US population of 60%.
- 46% married vs. 59% US-wide.
- 50% have children.
- Our customer is generally younger.
- Only 15% are over 55.
- 61% White.
- 24% Afro-American.

Our customers do have other options contrary to popular belief! They choose us for convenience and ease of use. They have, on average, a choice among 5 financial products in addition to our payday loan/installment loan product:

- Checking Acct
- Overdraft

- Home equity line
- Credit cards
- Other

When interviewed, consumers say we cost less, we are faster, and we're more convenient. Of the seven industries evaluated, the CONSUMER LOAN product was the second-most highly rated. "Treated fairly" and a "good community citizen" were typical customer comments.

Credit Card companies were rated the lowest; Grocery stores the highest. Of 6 customer experiences rated, the CONSUMER LOAN product was rated third in overall customer satisfaction. Banks = lowest. Of the seven financial products rated, the CONSUMER LOAN product was rated second. Overdraft protection = 83%. CONSUMER LOAN = 75%. Following was credit cards, equity loans…

82% of customers are happy with reminder calls.
90% understand fees
94% understand the payback period.

We are convenient! Fast, less paperwork, fast approval, great locations, only 4% have no other choice in financial products! This is great ammunition to be used with the media and consumer protection groups.

Funds are typically used for:

- Unexpected expenses; typically auto repair to keep a job
- Avoiding bounced check fees
- Avoiding late charges on bills

The typical customer thinks the government should not regulate the CONSUMER LOAN industry EXCEPT fees charged.

Customer Survey Conclusions:

- Younger than average
- Races served = typical of the US population as a whole
- Understand fees
- Have other options
- Treated well and highly satisfied with the product.

Recommendations:

- We are a convenience business = price elasticity
- Focus on speed of service and technology
- One-stop shopping – differentiate from traditional banking

- Smart phones – consumer transactions in the future; cash-dependent consumers use their cell phones. They will be denied access to those services without cash-based service centers.
- We should shape research, communications, and public policy NOT OUR CRITICS. There is a lot of misinformation out there that we must work to correct.
- More investment bankers, hedge funds, and sophisticated capital sources are focusing their attention on us! Banks & investment bankers want to buy us out or at least get equity in our businesses. 50% of the inquiries for help in entering the CONSUMER LOAN space Trihouse Consulting receives today are from these sources.

The Industry is market-driven

- It is harder to get a new customer
- Only sub-standard locations are available in some locales
- Some 1st transaction free transactions witnessed
- Higher value transactions & installment lending is the future as a result of legislation
- Convert charge-offs to an installment loan? Review your Loan Management Software (LMS)
- Stored value/prepaid debit cards are becoming essential product offerings

Regarding Internet Lenders, the regulators are coming and we are a target. How big is the Internet side of the business? No internet statistics are available. (Using https://www.google.com/ to see how many searches on the term “consumer loan” were done we found 1,468,577 occurrences! Google & Facebook represent 80% of Internet searches. And what about searches on “cash advance,” on “consumer advance,” on “consumer loan no fax?” And many, many more keyword terms and phrases!

The Future as We See It?

To create value, Lenders must focus on customer needs and maximize product offerings. You witness pawnshops and check cashers adding the CONSUMER LOAN product because it is so highly profitable; installment lenders as well. The successful, value-oriented CONSUMER LOAN operator will add additional product offerings. Consider money transfer, tax preparation, prepaid residential and cell phone service, stored value cards, insurance, installment loans, utility bill payment, auto title loans, etc.

INTERNET - TECHNOLOGY – SMARTPHONES - TABLETS: EMBRACE THEM!

Your customer needs more credit. Hybrid loan structures will develop to offset losses and compensate for the risks. It is extremely difficult for a small operator to finance receivables.

If rollovers are 50% of your business, YOU NEED MORE CUSTOMERS! (Note there are many characterizations used to avoid using the term “rollover.”) You know if you are guilty! You are wearing your customers out.

If you're brick-n-mortar oriented, the multi-product financial service center convenience store is the model to emulate! Your value increases and your profits increase. The mono-line CONSUMER LOAN company will not perform as well, particularly once the industry reaches maturity. The exception in our opinion is the Internet CONSUMER LOAN enterprise. Do one thing well!

Changes at the CFPB, OCC, and, FDIC are uncertain. Four new banks have recently entered the short-term loan space with CONSUMER LOAN types of offerings.

We cannot keep up with the number of Fintech companies coming online every month!

For those of you in need of an exit strategy (retirement), this may be a good time to exit. The uncertainty of the CFPB has created a cloud over the industry but it's under attack today. Again, there are Bulls & Bears!

Product expansion into installment loans and insurance is a certainty. The need to get creative has never been more obvious! The payday loan "single-payment" loan product is fast becoming a dinosaur.

You must learn how to employ the Internet. Even "brick-n-mortar" operators must learn how to use the Internet to increase their transactions and revenues by drawing clients from their entire state or province. Again, you're licensed to operate in the entire state. It simply does not make sense to offer the consumer loan product to the few consumers residing within a 5 or 8 or 10 mile radius of your store. Additionally, this is a tremendous strategy for driving your "brick-n-mortar" competitors who refuse to embrace the Internet out of business. With the advent of sub-one thousand dollar Internet-based software solutions, continued increased use by the consumer of the Internet from both work and home, smartphone adaptation, and improved identification validation and collection services you cannot ignore the Internet!

The consumer loan industry has never been more polarized! They either love us or hate us. There is no middle ground. The pressure is on the regulators! There are now 50,000 consumer loan employees. It's a $15 billion industry. That means 40,000 employees and owners who vote! $1.4 billion in wages paid! Add to this the Internet component and all the vendors and suppliers who serve our industry. And they have family members, friends, and vendors who have a voice. And let's not forget our millions of customers who depend on us for financial help.

Finally, the loan-by-phone, offshore, tribes and the Internet adds additional pressure on the regulators. Concurrently the entrepreneurs in NM, Ill, NY, NJ, PA, NC, AZ, GA, Quebec, etc., are screaming at their regulators for not allowing them to participate in this highly lucrative industry. Of course, the states bordering a state/province without enabling legislation add additional pressure! A loss of jobs and taxes = a loss of revenues. We have achieved a "critical mass" to protect ourselves with tremendous potential for networking on a grassroots level. Our opponents must take notice. **IT'S ONLY A MATTER OF TIME! ☺**

A top-level discussion of the consumer loan industry, environment, and status.

Trihouse Consulting
https://thebusinessoflending.com/
702-208-6736

Sections 1 - 9

1. **Consumer Advance Defined**
2. **Development of Demand**
3. **Customer Profile**
4. **The Players**
5. **The Numbers**
6. **Regulatory Environment**
7. **Legislation Survey**
8. **Trends in Financing & Valuations**
9. **Future of the Product**

Consumer Loans Defined

Cash advance, payday loan, personal loan, consumer loan, a title loan, deferred deposit… they're all the same. Typically, the lender advances funds on a personal check offered by a consumer. (Obviously, this does not occur with Internet transactions.) The Lender agrees in writing to defer the presentment of this check until the consumer's next payday. Usually, this happens 8 – 14 days later. Today, a more sophisticated approach is to secure a preauthorized Electronic Funds Transfer (EFT – ACH) on the consumers' checking account. The consumer advance funds are deposited into the account electronically, and on average, the account is debited electronically eight days later. This places the Lender's debit ahead of all paper checks written against the consumers' checking account.

Note that the consumer loan product is evolving as this is written. Lenders are offering many small-dollar loan products under the categories of small-dollar loans, line-of-credit loans, car title loans, installment loans, single pay loans, amortized loans, collateralized loans (think pawn) and more.

YOUR job is to become familiar with YOUR state/province lending laws to determine which makes sense for you, if not all of these products. Of course, your use of the choice-of-law, state/province, offshore, tribe, and Internet models will also play a huge role in this decision. (Read on for a thorough discussion of these topics.)

The check amount includes both the funds distributed to the consumer and the Lender deferred deposit fees. Thus the Lender provides a short-term, small-dollar, unsecured payroll advance. [Typical deferred deposit fees charged by the Lender to the consumer range from a low of 10% to a high of 30% of the face amount of the advance.] Internet-derived consumer loans are typically the highest and often approach 30%, although we're sure competition will erode these higher fees.

This process is streamlined. It consists of verifying the identity, source of income, and existence of an active bank account of the consumer. These items being present and the willingness of a Lender to make the funds available to the consumer allow this transaction to occur in less than 10 minutes. It should be noted that the Lender does not require a credit report. Various databases are available for lenders to reduce the risks associated with these loans. [More about this later.]

Loans are provided to the consumer via stand-alone stores, Internet websites, smartphone apps, call centers, fax service centers, pawnshops, mailbox locations, etc.

Consumer demand for all variations of loans has grown astronomically in conjunction with the familiarity and availability of the product. A vast segment of the population requires small sums at various times to repair transportation, pay the doctor, turn on the lights, fill the refrigerator… Certainly, a realization has occurred on the part of these consumers that a loan is preferable for satisfying a small debt rather than paying late fees, penalties, increased deposit fees, bounced check fees, or not paying the debt at all, thus risking the loss of use of an automobile or service.

It is generally thought that 8% of the total population has received a payday loan at some time. An industry trade group reported that more than 24 million Americans say they are somewhat or very likely to obtain a payday loan. This suggests our industry has serviced less than half our potential market, and there is a SUBSTANTIAL opportunity for growth, especially with installment and other loan products.

It's been estimated that approximately 16,000 single-payment locations exist, making a minimum of 100 to 200 advances per month. An additional 8,000 to 12,000 single-store operators exist. Anecdotal evidence regarding our performance and that of our client documents as many as 45 – 80+ payday loan transactions are occurring in a single location on a busy Friday! Industry statistics show that 70 million transactions to 10 to 12 million households produced $4 billion in fee revenue last year. (Note: these numbers are all over the place! There does not exist a central depository for payday loan data.) Add to these statistics installment loans and other renditions of personal loans made to consumers, and it's a bunch!

We have zero formal estimates for the number of loans originated via Internet websites and ads with fax and toll-free numbers, but they are undoubtedly huge. Our tools reveal nearly 2,000,000 searches were conducted at Google.com on the term "consumer loan" last month! Google represents approximately 50% - 60% of all searches, and the term "consumer loan" is but one term consumers use when searching online for a loan.

Google announced it will no longer allow ads for loans exceeding 36% APR in its "Pay-Per-Click Program." We still see these ads in some geographic areas. BUT UNDERSTAND: This doesn't mean your consumer loan store and website cannot appear in Google's search results! It simply means you cannot pay to appear in their sponsored search results. You can still show up in the free – "Organic" – search results after their paid PPC listings. And "Google My Business" offers marketing opportunities.

TACTIC: Offer sub-36% APR loans via Google Adwords. Drive loan applicants to your website. Enable them to apply for a 36% APR loan. After they fill out your required loan application information, "push" them to a 2nd landing page with much higher rates. "Sorry, you do not qualify, BUT we can offer you a rate of ____." **This is slightly risky**. We suggest you ACTUALLY fund 1% or more of these loans if you employ this tactic. [Remember, Google does NOT review this second landing page! Your regulator COULD examine your loan docs and website; we have never heard of this YET, but it is remotely possible.)

Other search terms include "Cash advance, paycheck loan, payday loan…" The consumer advance product nicely complements stand-alone companies, pawnshops, check cashers, loan services, postal service centers, liquor stores, tax preparation services, convenience markets, etc.

In 1990 the consumer advance industry virtually did not exist.

Why this tremendous growth?

Bounced check fees are averaging $38.00 per occurrence today, creating a dishonored check fee (NSF) by the creditor averaging $25.00. Thus, consumer advance consumers have figured out that paying a $100 debt with a dishonored check is typically $63, while paying a $100 debt with the proceeds of a consumer advance is $15 - $30.

A $100 bounced check that creates a $22 dishonored check charge would yield an annual percentage rate of 8,030%. Nearly 18% of all Americans bounced a minimum of one check, and most of those who bounced a check bounced more than one. NSF fees are on the increase. Banks and credit unions are developing creative methods to offset their loss of ATM and debit card income fees.

Regarding ATMs, a $100 automatic teller machine transaction incurring a $1.50 fee would have an annual percentage rate of 547.5%.

A $25 late fee on a $50 credit card balance would have an annual percentage rate of 18,250%.

Gas, water, and electricity re-start fees begin at $40 and generally require a further deposit of $50 - $150.

[PaydayLoanIndustryBlog.com]

APR COMPARISONS ON ALTERNATIVES

$100 payday advance with a $15 fee = 391% APR

$100 bounced check with $56 NSF & merchant fees = 1,449%

$100 credit card balance with a $37 late fee = 965% APR

$100 utility bill with $46 late/reconnect fees = 1,203% APR

Per the CFPB: The nation's 628 biggest banks made $11.16 BILLION just from overdraft fee & NSF fees 2015.
So, the next question? What about credit unions?? They are "non-profits!"

We Lenders in the Alternative Financial Services (AFS) niche take “hits” every day. Get used to it! Your best strategy is to understand our products and remain familiar with all the alternatives available to our customers.

For a $100 loan for 14 days, there are several options a consumer could consider:

- Borrowing $$ from a family member - $0 and up (emotional and guilt feelings persist)
- Credit card cash advance – 5%+ assuming our customer has any “room” on their card
- Installment loans - $3 - $10 (difficult in most locales to access small-dollar installments)
- Pawnshop - $5 to $8 (Customer loses possession of collateral - Internet pawn is in its infancy.)
- Car title loans - $7 to $22+ (not available in many states/provinces. Borrower must have an unencumbered title)
- Consumer loan/store-front - $10 to $30 (not available everywhere)
- Consumer loan/internet - $20 to $40 (customer must have Internet access. Fear remains regarding customer privacy and bank data.)
- Reconnection fees for water/gas/electric/cable - $45 to $80+
- Bank & Credit Union NSF fees - $45 to $65 1st time (consumer can lose checking acct.)
- Loan sharks the “vig” on the Sopranos TV Show was only 1.5%/month ☺

Of course, banks and credit unions have contributed to the popularity of consumer loan products by their continued increase of dishonored check fees [the FEDs are applying pressure on the big banks to discontinue NSF fees.] and their policy of “high-to-low” check processing. (As reported in the Wall Street Journal, this is the policy of presenting customer checks for payment in order of the largest to smallest to increase the likelihood that some checks will be dishonored).

It is well documented that banks and credit unions are closing branches, reducing hours and staff, and generally making it more and more difficult for consumers to do business with them. Lenders and finance companies do not offer short-term loans in amounts as small as $200. Should a consumer approach them for a small-dollar loan, they are pressured into incurring more debt than they need for short-term relief. When possible, a second or third trust deed, a car refinance, or worse, is the result of seeking debt relief from these sources.

In the final analysis, a quick, no-hassle small-dollar loan from an AFS Lender is the best answer for millions of consumers every year. This has been proven year after year because borrowers continue to do business with us. George Washington University completed a survey that concluded that 88% of payday loan borrowers were satisfied with their transactions. We beat out banks, credit card companies, credit unions, and tax preparers.

Finally, when you find yourself at a party, and you hesitate to reveal the industry you’re getting rich in, consider this: anti-consumer loan PACS, lobbyists, the CRL, CUNA credit card companies, the pawn industry, the buy-here-pay-here industry, and many more attack us out of self-interest. It doesn’t require a brain surgeon to figure this out. “Follow the money.”

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