



DARYL G. PURPERA,
CPA, CFE

Report Highlights

Regulation of Payday Lenders

Office of Financial Institutions

Audit Control # 40120068

Performance Audit Services • July 2014

Why We Conducted This Audit

The purpose of this audit was to determine whether the Office of Financial Institutions (OFI) effectively regulates payday lenders to ensure they operate in accordance with all state laws. OFI is statutorily mandated to regulate payday lenders to ensure they are meeting all state payday lending laws. As of December 31, 2013, there were 965 payday lending locations across Louisiana. These locations issued over 3.1 million loans and collected \$145.7 million in fees during calendar year 2013.

What We Found

We found that OFI needs to strengthen its examination, follow-up, enforcement, and complaint procedures to ensure it is effectively regulating payday lenders. We also found that OFI management does not provide adequate oversight of its examinations of payday lenders. As a result, OFI cannot ensure that payday lenders are adhering to state laws and that borrowers are protected from improper payday lending practices.

Specifically, we found the following:

- OFI examiners do not sufficiently document their work. As a result, OFI management cannot effectively oversee the examination process to ensure its examiners are identifying and citing all payday lending violations.
- OFI's examination procedures do not detect whether payday lenders renew or "roll-over" loans without the borrower paying down 25% of the loan amount as required by state law. We identified 318,489 instances of borrowers being charged approximately \$7.3 million in fees during fiscal year 2013 for closing and opening a loan on the same day, at the same location, for the same amount. While these instances may represent legal loans, there is the risk that the initial loans were rolled over improperly.
- OFI's examination procedures do not detect whether payday lenders are using their multiple locations to avoid OFI scrutiny and issue borrowers multiple payday loans on the same day instead of one consumer loan which has a lesser fee.
- OFI's examination procedures do not detect whether payday lenders are reducing loan fees when borrowers pay off their loans within the first five days as required by state law.
- OFI did not assess any penalties on payday lenders for violating state law from January 1, 2010 through June 30, 2013, despite citing 8,315 violations, including 8,082 major violations. Major violations involve lenders overcharging borrowers.
- OFI did not follow-up on 6,612 (82%) of the 8,082 major violations identified during its examinations from January 1, 2010 through June 30, 2013, that required a refund to the borrower. As a result, OFI cannot ensure the payday lender issued the refund.
- OFI currently does not have the legal authority to license or regulate online payday lenders who operate in Louisiana. However, Act 636 of the 2014 Regular Legislative Session amended R.S. 9:3560, effective January 2015, to no longer exempt online payday lenders from obtaining a license to conduct business in Louisiana.
- OFI does not have a comprehensive process in place to address verbal complaints against payday lenders. We found that OFI did not follow-up on almost half (48%) of borrower complaints it received from January 1, 2010 through June 30, 2013, because they were not submitted in writing.

The **mission** of OFI is to license and supervise entities under its jurisdiction in order to protect and serve the public interest and enhance confidence in the financial services industry.

View the full report, including management's response, at www.la.gov.