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PAYDAY LENDING

Federal Law Enforcement Uses a Multilayered Approach to Identify Employees in Financial Distress

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Highlights

Highlights of GAO-11-147, a report to congressional requesters

Why GAO Did This Study

In the United States, payday lending is estimated to be a slightly less than $40 billion a year industry. A payday loan is a small-dollar loan that is usually from $100 to $500 and repayable in a short term, usually 2 weeks. Consumers can pay fees of $15–20 for every $100 borrowed. In 2006 the Department of Defense (DOD) reported on predatory lending, including payday lending, and found that these loans impacted military readiness and troop morale. Concerns were raised about payday lending to federal employees in law enforcement and national security positions at four components—Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE), the Transportation Security Administration (TSA), and the Federal Bureau of Investigation (FBI). GAO examined (1) how these federal law enforcement agencies become aware of employees who are potential security risks due to financial problems, including payday lending, and (2) various alternatives to payday lending. GAO reviewed federal policies and procedures for collecting financial information and reviewed data from and interviewed representatives of the payday loan industry, depository institutions, consumer groups, nonprofits, and trade organizations.

GAO makes no recommendations in this report. We provided copies of the draft report to entities we reviewed and they provided technical comments that we incorporated.

View GAO-11-147 or key components.
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What GAO Found

Federal agencies—including the Department of Homeland Security (DHS) components CBP, ICE, and TSA, and FBI—use a multilayered approach to assess applicants and employees for suitability and review certain employees for security clearances. As part of this process, the financial history of an applicant or employee is reviewed to identify those who may be in financial distress. The Office of Personnel Management specifies the minimum standards and procedures by which agencies conduct the investigations. In reviewing an applicant's or employee's financial profile, agencies primarily use credit reports from the three major credit reporting bureaus. Through this review, DHS and FBI officials stated that they are able to identify employees with financial problems although the primary data sources of financial information typically do not capture information on whether an individual has used a payday loan. In looking at an applicant or employee's financial history, officials at CBP, ICE, TSA, and FBI told GAO that they weighed an individual's risky financial debts or behaviors against the extent, circumstances, and severity of such debts and behavior. Agency officials stressed that they were not as concerned with individuals using payday loans as with patterns of debt or risky financial behavior, or how payday lending might contribute to such patterns. Despite payday lending not regularly being reported to major credit bureaus, agency officials felt confident that they captured an adequate amount of both applicants' and current employees' financial information to make accurate suitability and security clearance decisions. Data GAO collected on employee pay levels and a limited sample of data from the payday loan industry further suggest limited use of payday lending by employees who reported employment at CBP, ICE, TSA, or FBI.

Depository institutions, employers, and nonprofit organizations have developed a range of different products and mechanisms to provide short-term credit to those that need it. Some products may serve as alternatives to payday loans—mimicking some of the terms and conditions of these transactions but generally offering lower interest rates—while other products are offered to establish long-term relationships with borrowers or meet a need for short-term credit in the community where they are offered. Despite the different product offerings, the number of institutions offering small-dollar loan products is still relatively small. A number of institutions cited challenges to offering such products which include credit risk and concerns about the profitability of the product. Recent actions, including changes in federal legislation (for instance, to provide a loan loss reserve fund to help small lenders offset credit risk) as well as efforts by the Federal Deposit Insurance Corporation and National Credit Union Administration to increase depository institution interest in offering such products, could encourage greater availability of small-dollar loans.