

## Traditional Installment Loans are a Beneficial Form of Credit for Working Americans

For more than a century, installment lending has proven to be the most affordable and responsible form of consumer credit for working Americans. Before the Internet, the local branch of an installment lender was often the only access to credit for many Americans. They are community-based lenders in cities and towns nationwide. Compared to other forms of small dollar credit, including credit cards, installment loans are the best way for consumers to manage credit and build a positive payment history with the credit bureaus.

### *What is a traditional installment loan?*

A traditional installment loan is a fixed rate fully amortizing small dollar loan repaid in equal monthly payments or installments. The average loan is for \$1,500. The average monthly payment is \$120 and the average term is 15 months. Installment loans are **affordable** to each borrower's monthly budget. They are "plain vanilla" loans with transparent, easy-to-understand terms, due dates and payment amounts. Installment lenders determine each consumer's ability to repay. At the time of origination, each and every loan is made with the highest confidence and expectation that it will be paid back in full and on time.

### *Who do traditional installment loans serve?*

Traditional installment loans provide credit to individuals and families, often unbanked or underbanked, who need access to credit to meet an immediate need. The most common uses are for vehicle repairs (transmission, tires), household appliances (washer, dryer, water heater), and medical expenses - generally, the everyday items and services essential to live productive and enjoyable lives.

### *How are installment loans different from payday loans?*

Unlike payday loans, installment loans do not charge penalties for early repayment, or prepayment, and do not require large one-time balloon payments. Traditional installment loans are paid off through equal monthly payments of principal and interest that provide a clear roadmap out of debt.

### *Key comparisons between types of small dollar loans*

	<b>Installment</b>	<b>Credit Card</b>	<b>Payday</b>
Determines Your Ability to Repay the Loan	Yes	Yes	No
Affordable, Equal Monthly Payments	Yes	No	No
Balloon Payment Required at Payoff	No	Yes	Yes
Penalty for Early Repayment	No	No	Sometimes
Reports Payment Behavior to Credit Bureaus	Yes	Yes	No
ACH Required	No	No	Yes

*The American Financial Services Association (AFSA) is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. The association encourages and maintains ethical business practices and supports financial education.*