

MARKETING CHECKS (AKA LIVE CHECKS)

Marketing Checks, also known as Live Checks or Loans-by-Mail are a popular way to market installment loans used by some Traditional Installment Lenders. They are offers of credit that take the form of a standard check, in an amount calculated by the lender, mailed to the potential borrower with full truth-in-lending disclosures and promissory note attached. Upon “cashing” the check, the borrower enters into a traditional installment loan agreement in which principal, interest and any fees are repaid in regularly scheduled payments of equal amounts. All Marketing Checks undergo an underwriting process prior to mailing. This is to ensure that borrowers who choose to take advantage of them have the ability-to-repay the loan.

Despite the fact that Marketing Check loans are offered to only the most creditworthy borrowers - those least likely to become delinquent or default on a loan - they have been the subject of criticism in the media and by policymakers on the grounds that some Live Check recipients might see the check as “free money” and be disadvantaged when they are called upon to repay the amount of the check and any interest accrued.

This unlikely scenario is even more unrealistic when one considers that many states require detailed disclosures to accompany a live check, to ensure potential borrowers understand that the Marketing Check is a loan solicitation and detailing the terms of the loan. For example, the California Finance Lenders Law requires licensed lenders to place a warning in large print on the face of the check to advise consumers that the check is an extension of credit and that the consumer will pay charges for cashing it. Most installment lenders have adopted this technique as a best practice. Further, a full truth-in-lending disclosure is given to the customer on the same piece of paper as the check, which details the rate, the amount financed, the number of payments, the amount of the monthly payments, the total of payments, and the date the first payment will be due.

As with all installment loans, live check loans are fully amortized in that they allow the reduction of a debt by regularly scheduled payments on an unpaid loan balance for the life of the Loan. This is generally considered the best loan structure for the avoidance of a debt trap, and superior to payday or title loans.

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AFSA'S POSITION

AFSA understands that consumers value Marketing Checks as a means to access installment credit for their convenience and ease-of-use and that the vast majority of borrowers have no problems repaying the loans according to the installment schedule laid out for them.

The value to AFSA members of Marketing Checks comes from their efficiency. Their popularity among customers makes them an important tool. Imposing restrictions on the use of Marketing Checks would have a negative effect on business, forcing lenders to use less effective marketing techniques, decreasing efficiency and increasing costs. This would ultimately raise the cost of credit for borrowers.

AFSA members support disclosures accompanying the use of the checks. Such disclosures are consistent with the AFSA Code of Ethics, a voluntary code followed by many consumer finance lenders.