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Companies Mentioned:

AEA	\$1.41
CSH	\$18.28
DLLR	\$7.85
EZPW	\$13.57
FCFS	\$16.82
QCCO	\$4.25
RCII	\$14.85

Consumer Finance

Reason for Report: Industry Update

Payday Regulatory Update - Washington Added to Risky State List

INVESTMENT CONCLUSION:

Based on recent commentary and the number of bills filed in the state, we would move Washington toward the top of the list of states that could have negative regulatory events this year. While Washington is not a large state for the public companies, it is a sizable state for the industry. We do not like to speculate on the outcome for legislative events, especially so early in the session. Our goal is to keep investors informed of regulatory events that we think merit closer attention.

KEY POINTS:

- A total of eight bills have recently been filed regarding payday loans in the Washington legislature. Four of them are prohibition bills, which would put the industry out of business, in our opinion. We define prohibition bills as any bill that we do not think the industry could operate under profitably.
- The breakdown of legislators in the House is 61 Democrats and 36 Republicans, and in the Senate, it is 31 Dems. and 18 Reps.
- In the House, three bills have been filed. The first is HB 1425 that would prohibit small loans altogether. The second is HB 1073, which would cap rates on small loans at 36% APR and set a minimum loan term of 90 days. The third is HB 1709 that would allow a rate of \$10 per \$100 loan but the term is 60 days. This is basically a 60% APR bill, which would still be unprofitable for lenders and cause them to shut down, in our opinion.
- In the Senate, two bills have also been filed. SB 5150 would cap rates on small loans at 36% APR and SB 5164 would place restrictions on lenders' collections efforts.
- All of the bills have been referred to applicable committees of their respective houses.
- Investors should note that there are a number of ways to reduce lender revenue. Obviously, one is to reduce the allowable fees, and another is to extend the minimum loan term, which effectively reduces allowable fees on the loan. Any of the 36% or 60% rate cap bills, if adopted, would force payday lenders out of the state since the economics of the law would make it unprofitable to operate in WA. Given the high loss rates on payday loans, revenue generated by performing customers at these rates would not even cover the losses, not to mention the store operating expenses.
- Public company store exposure in WA: AEA - 103 stores or 3.6% of its store base, QCCO - 29 stores or 5% of its store base, DLLR - 17 stores or 4% of its store base, FCFS - 3 stores, and CSH - 5 pawnshops and the CashNet. RCII also has 22 stores that offer financial services in the state.

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APPENDIX A

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	126	46.70	10	7.94
HOLD [EW]	141	52.20	5	3.55
SELL [UW]	3	1.10	0	0.00

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