Business

‘A way of monetizing poor people’: How private equity firms make money offering loans to cash-strapped Americans

The average income of Mariner’s customers is in-line with the average American’s income, as reported by the Bureau of Labor Statistics.

Here’s what we explained to the reporter, on the record, about our interest rates. Virtually none of it makes it into the story:

“Interest rates are regulated on a state by state basis. State legislatures consider the balance between interest rate limits and responsible access to credit for their residents.

There are customers to whom traditional banks won’t lend because they are higher risk, and those loans have higher loss ratios than the banks are willing to accept. Consumer finance companies like Mariner, which have been around for decades, are able to responsibly serve these customers. Mariner currently operates in 22 states and has a self-imposed 36 percent APR cap (or the state limit, whichever is lower) on all of its loans. Some states have higher rates than others, allowing consumer finance companies to provide access to credit to a broader spectrum of the population. Other states have no limits at all. Even in those states, we self-impose a 36 percent APR cap.”

The check arrived out of the blue, issued in his name for $1,200, a mailing from a consumer finance company. Stephen Huggins eyed it carefully.

A loan, it said. Smaller type said the interest rate would be 33 percent.

We provided an example of a loan agreement so that readers could judge for themselves whether the terms and requirements were clearly and honestly presented. The Post declined to publish it.

The check mailed to Mr. Huggins had a clear disclosure on the face stating “THIS IS A LOAN” (a requirement of Tennessee law), that is visible in the video piece at 0:06. All disclosures in our loan agreement comply with the federal Truth in Lending Act, including their font sizes, and with all relevant state requirements.

It didn’t matter that he’d made a few payments already.

The reporter obscures from readers what we told him, on the record, about initiating legal action. Specifically, we said:

"Mariner only takes legal action as a last resort, when a customer has defaulted, appears to have the ability to repay, and efforts to work with the customer toward alternative solutions have not been successful. Typically, in such circumstances we either reach a payment arrangement with the customer or are awarded a judgment by the court based on the merits of the case. However, it’s also important to note that even when a court issues a judgment in our favor, it doesn’t guarantee that we will ever actually receive payment."

Most galling, Huggins couldn’t afford a lawyer but was obliged by the loan contract to pay for the company’s. That had added 20 percent — $536.88 — to the size of his bill.

As the reporter later acknowledges, Mariner receives zero dollars from legal fees. In fact, it is often just the opposite. Here’s what we told him, on the record, which he again withholds from readers:

"Attorneys’ fees are determined on a state-by-state basis. They are contractually provided-for and ultimately subject to court approval and award. Mariner never profits from these – they are only ever awarded and paid to third-party attorneys. In fact, in the aggregate, Mariner’s third-party attorney fees exceed court-awarded fees, and Mariner pays those additional amounts out of pocket."

“It’s basically a way of monetizing poor people,” said John Lafferty, who was a manager trainee at a Mariner Finance branch for four months in 2015 in Nashville. His misgivings about the business echoed those of other former employees contacted by The Washington Post. “Maybe at the beginning, people thought these loans could help people pay their electric bill. But it has become a cash cow.”

We repeatedly asked the reporter to provide information about former employees and any allegations of improper practices, so that we could vet them, investigate, and take corrective action if necessary. He refused.

The market for “consumer installment loans,” which Mariner and its competitors serve, has grown rapidly in recent years, particularly as new federal regulations have curtailed payday lending, according to the Center for Financial Services Innovation, a nonprofit research group. Private equity firms, with billions to invest, have taken significant stakes in the growing field.

Traditional installment lenders like Mariner Finance have been in existence for almost a century.

The company's other tactics include borrowing money for as little as 4 or 5 percent — thanks to the bond market — and lending at rates as high as 36 percent, a rate that some states consider usurious; making millions of dollars by charging borrowers for insurance policies of questionable value; operating an insurance company in the Turks and Caicos, where regulations are notably lax, to profit further from the insurance policies; and aggressive collection practices that include calling delinquent customers once a day and embarrassing them by calling their friends and relatives, customers said.

This is not a "tactic" at all, it's a basic principle of lending businesses - you borrow money at one rate and lend it out at a higher rate.

The higher the interest rate—up to a given state's regulatory limit or our self-imposed cap, whichever is lower—the more risk a consumer finance company can take on, and the broader the spectrum of underserved consumers who will have access to credit.

The interest rates factor in the higher losses incurred lending to traditionally underserved consumers, as well as the operating costs of maintaining our branch locations and staff to serve our customers. The rates also reflect the fact that while underwriting and servicing costs are similar for loans of various sizes, the relatively small size of our loans means those operating costs must be amortized over a smaller dollar amount.

We told the reporter explicitly that there is no link between the location of our insurance business entities and the commissions Mariner receives on those products. He ignores this, and insinuates otherwise without providing any actual evidence.

He also fails to disclose to readers that Mariner doesn't set the prices or premiums for the insurance products we sell. State regulators do that.

Here's what we told the reporter about our optional insurance products:

"Your readers should also be informed that our customers are more likely than most to face disruptions in their lives that affect their cash flow, and are less likely to have reliable fallbacks when these troubles occur. They are also less likely to have other, more traditional forms of insurance, such as life insurance offered through their employers.

Our optional insurance products can provide tangible benefits for these customers. For instance, credit insurance can help prevent an unemployment event from further hurting their credit score.

Mariner takes seriously our responsibility to present our customers with clear and accurate information so they can make educated decisions. Our customers are educated verbally and in writing that these products are optional, and that their loans are not contingent on them. We also offer generous cancellation and refund policies."

We explained to the reporter that our employees are allowed to contact people provided as personal references by the borrower, **only** when we've been unable to reach the borrower directly, and **only** to verify their place of residence and contact information. While obscuring this from readers, the reporter irresponsibly implies that the purpose of these calls is to cause distress.

Finally, Mariner enforces its collections with a busy legal operation, funded in part by the customers themselves: The fine print in the loan contracts obliges customers to pay as much as an extra 20 percent of the amount owed to cover Mariner's attorney fees, and this has helped fund legal proceedings that are both voluminous and swift. Last year, in Baltimore alone, Mariner filed nearly 300 lawsuits. In some cases, Mariner has sued customers within five months of the check being cashed.

The loan agreement is two pages, total. There is no "fine print."

Mariner Finance officials declined to grant interview requests or provide financial statements, but they offered written responses to questions.

We made extensive good faith efforts to educate the reporter and thoroughly address his questions, and reached out to his editors for further clarification.

Company representatives described Mariner as a business that yields reasonable profits while fulfilling an important social need. In states where usury laws cap interest rates, the company lowers its highest rate — 36 percent — to comply.

The reporter's description makes it sound as if Mariner only restricts rates when legally compelled to. What he knowingly withholds from readers is that Mariner's cap is self imposed. Many states have no legal limits at all or limits exceeding 36 percent.

"The installment lending industry provides an important service to tens of millions of Americans who might otherwise not have safe, responsible access to credit," John C. Morton, the company's general counsel, wrote. "We operate in a competitive environment on narrow margins, and are driven by that competition to offer exceptional service to our customers ... A responsible story on our industry would focus on this reality."

Here's what the reporter removed in that ellipsis:

"A wide-ranging group of economists, regulators, public policy experts, advocacy groups, and commentators have acknowledged the importance of businesses like ours, and lamented the "credit deserts" created when underserved populations lack access to these services."

We provided the reporter with a readymade list of potential sources and writings that provided perspectives at odds with his hostility to our industry. Moreover, we limited that list to sources with whom Mariner had no preexisting relationship or conflict.

The story doesn't cite **a single one of them**.

Regarding the money that borrowers pay for Mariner's attorneys, the company representatives noted that those payments go only toward the attorneys it hires, not to Mariner itself.

Mariner also noted that the company frequently has to pay some of these legal fees directly.

"It is not our duty to explain to reporters . . . why companies make decisions to locate entities in different jurisdictions," Morton wrote.

The reporter quotes this as if it is a response to a question we provided him. But in fact it comes from a letter to his editors outlining our grave concerns with his basic understanding of the subject matter on which he is reporting.

In addition to misattributing the quote, he also abridged it, excluding additional context. Here is what we actually wrote: "Again, it is not our duty to explain to reporters that premiums are set by state regulators and Mariner's commissions have no effect on prices paid by consumers; or to explain why companies make decisions to locate entities in different jurisdictions."

Other private equity firms have taken stakes in "consumer installment" lenders, such as Mariner, and these offer slightly larger loans — from about $1,000 to more than $25,000 — for longer periods of time.

Also, our interest rates are significantly lower than other credit products our customers have access to.

Mariner Finance said that the company earns a 2.6 percent rate of "return on assets," a performance measure commonly used for lenders that measures profits as a percentage of total assets. Officials declined to share financial statements that would provide context for that number, however. Banks typically earn about a 1 percent return on assets, but other consumer installment lenders have earned more.

In the 33rd paragraph, after having quoted description of our business as a "cash cow," the reporter finally acknowledges our actual return on assets of 2.6 percent.

The reporter is comparing apples and oranges since our risk and cost structure is entirely different than banks.

The financial statements obtained by The Post for "Mariner Finance LLC" indicate ample profits. Those financial statements have limitations: "Mariner Finance LLC" is one of several Mariner entities; the statements cover only the first nine months of 2017; and they don't include the Mariner insurance affiliate in Turks and Caicos. Mariner Finance objected to The Post citing the figures, saying they offered only a partial view of the company.

The reporter presented us with mistaken figures purporting to be Mariner's "profits." But he refused to provide us the information necessary to vet these figures, and instead demanded we provide him with additional non-public information under the threat that he would publish the incorrect numbers.

As it was explained several times to the reporter, his numbers included the profit from subsidiaries but, per accounting rules, did not consolidate their assets.

"They are not hurting at least in terms of their profits," said Kurt Schulzke, a professor of accounting and business law at Kennesaw State University, who reviewed the documents. "They've probably been doing pretty well."

It's not clear why the reporter gives space to an accountant unfamiliar with our business to speculate on our profitability when, as he indicates above, we provided him with our most recent return on assets of 2.6 percent.

Ten of the 12 former employees whom The Post contacted, however, expressed qualms about the company's sales practices, describing an environment where meeting monthly goals seemed at times to rely on customer ignorance or distress. Those interviewed worked in branches across five states where Mariner is especially active: Virginia, Maryland, Tennessee, Pennsylvania and Florida.

We don't know who these purported employees are, how they were identified and selected, or what steps if any the reporter took to vet their stories. But we take such allegations seriously and we are actively investigating those cases to determine if Mariner policies, procedures, or training were violated or could be improved. What steps did the reporter take to ensure that this group is representative, or to guard against the many forms of response bias recognized by social scientists? The reporter doesn't say.

"The company is here to make money — I understand that," said Mauricio Posso, 28, who worked at a Northern Virginia location in 2016 and said he viewed it as valuable work experience. "At the same time, it's taking advantage of customers. Most customers do not read what they get in the mail. It's just little tiny type. They just see the $1,200 for you. . . . It can be a win-win. In some situations, it was just a win for us."

This description is again at odds with the actual sample loan agreement we shared with the reporter.

Customers are supposed to be informed that the insurance policies are optional. Several former employees alleged that some salesmen tacked on these products and waited for customers to object. They likened it to the add-ons that pad the bill when buying a car.

All eligible products are optional. This is explicitly and clearly explained to customers, and they must affirmatively opt-into these products in their loan documents.

"If you sold a car club membership, you were like a god," said a former assistant branch manager in Pennsylvania.

The reporter knowingly withholds from readers that we informed him employees do not earn any commission or compensation on optional products like car club memberships.

The company has "numerous safeguards in place to make sure that all of our products are sold in a responsible manner. . . . Our audit teams regularly visit branch locations and monitor loan closings to ensure that our employees are explaining all products correctly. And we call a randomly selected subset of new customers every day to make sure they understand the terms of the loans."

This quote was edited. Here's what we said in full context.

"Our customers are informed verbally and in writing that these products are optional, and that their loans are not contingent on them. We monitor our sales force closely and take any complaints from customers seriously, investigating all allegations of noncompliance. Our audit teams regularly visit branch locations and monitor loan closings to ensure that our employees are explaining all products correctly. And we call a randomly selected subset of new customers every day to make sure they understand the terms of their loans, as well as any optional products they may have chosen to purchase."

We also told the Post that all products are fully cancelable within 15 days with no interest or penalty. That too was omitted from the story.

Huggins said he's worried about how disruptive the court case may be. He's lost a day or two from work. More ominously, while he had hoped to raise his credit score enough to buy a house, a legal judgment against him could undo those plans.

The reporter fails to inform his readers that, as of July 2017, the three national credit bureaus (to which Mariner reports), no longer accept legal judgments (other than bankruptcy) or factor them into credit scores.