

## Debt Express

Yale is a part owner of ACE Cash Express, a payday lender that paid \$10 million in a 2014 consent order for what the Consumer Finance Protection Bureau called “illegal, predatory behavior” and a “culture of coercion.” The CFPB found that ACE’s debt collectors made false threats, harassed borrowers with phone calls, and called borrowers’ family members or employers to disclose details about their debt.<sup>1</sup> Yale’s fund manager, JLL Partners, is the sole owner of ACE; Yale owns 7.2% of the specific fund that owns ACE.

### “Quick-Fix” Lending Industry

Payday loans are loans with extremely high interest rates—typically around 400% annually—that are meant to be short-term, due at the borrower’s next payday.<sup>2</sup>

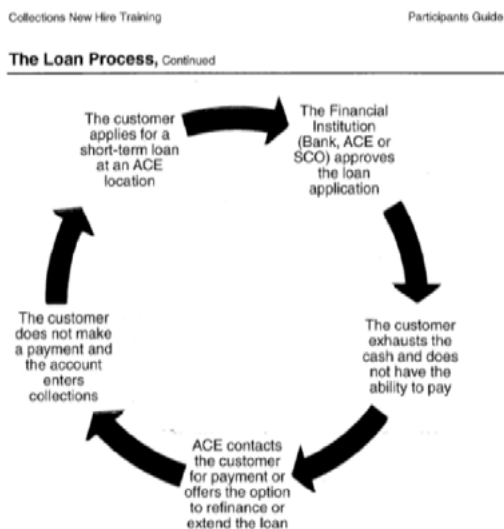
According to a 2013 Pew Charitable Trusts study, however, only 18% of borrowers can pay off their loan in one month. The rest must reborrow.<sup>3</sup> A CFPB report in 2014 found that “over 80% of payday loans are rolled over or followed by another loan within 14 days.”<sup>4</sup> As a report by Americans for Financial Reform (AFR) argued, the “debt-trap effect is in fact an essential element of the quick-fix lending industry.”<sup>5</sup>

In a pair of 2015 letters, 33 Senators and 68 members of Congress urged strong regulatory action against payday lenders. The House letter observed that “rather than lending based on ability to repay, payday lenders often lend based on their ability to collect,” and the Senate letter said that payday lending “is a business model rooted in preying on individuals and families that have no ability to repay.”<sup>6</sup> Meanwhile, an AFR study of the 2013-2014 election cycle found that the payday and short-term loan industry spent over \$15 million in political contributions that year, primarily in donations to Republican candidates and PACs.<sup>7</sup>

[An August 2014 segment on John Oliver’s “Last Week Tonight” comedy show highlighted “predatory lending” and payday loans.](#)

### The “Cycle of Debt”

A 2011 training manual for ACE staff contained the below diagram. It shows a cycle in which a borrower takes out a “short-term” loan, cannot pay, and takes out a new loan to pay their existing debt.



The graph is from a manual titled “Collections New Hire Training” and was cited by the Consumer Finance Protection Bureau when it announced in 2014 that it was taking enforcement action against ACE for “pushing payday borrowers into a cycle of debt.” The consent order resulting from the CFPB’s actions required ACE to pay \$5 million in customer restitution and \$5 million in civil penalties.

The CFPB found that “ACE used illegal debt collection tactics – including harassment and false threats of lawsuits or criminal prosecution – to pressure overdue borrowers into taking out additional loans they could not afford.” Debt collectors for ACE made false threats

that they would charge extra fees, report borrowers to credit agencies, or pursue criminal or civil legal action. They subjected consumers to harassing phone calls and even called borrowers' employers and family members and shared details of the debt.<sup>8</sup>

### **State workers' pension divests**

When JLL Partners purchased ACE in 2005, the fund it used for the purchase included investments from the New Jersey State Investment Council, the New York State Teachers' Retirement System, and Yale-owned entities. In New Jersey and New York, payday lending is illegal.<sup>9</sup>

New Jersey's public pension fund divested from ACE in 2016 after facing pressure from advocates including the NAACP and New Jersey Citizen Action.<sup>10</sup> Those advocates called the investment hypocritical and immoral: one former private equity investor, who now works for consumer finance education website NerdWallet, said that these investments lose some of their business appeal "if you have a moral compass. Imagine teachers in low-income areas learning that they're funding a company that profits off the backs of their students or their students' parents."<sup>11</sup>

Connecticut seeks restrictions on "financial criminals"

Payday lending is restricted or practically prohibited in 24 states and DC. Those states include New York, where the pension fund investment has faced accusations of hypocrisy; New Jersey, where the pension fund divested last year; and Connecticut, Yale's host state.<sup>12</sup>

Connecticut has enacted laws that "have the practical effect of restricting payday lending."<sup>13</sup>

In 2016, Connecticut signed into law a measure further restricting payday lending. State Rep. Matt Lesser said in his statement about the bill: "Payday lending preys upon our state's neediest residents, but out of state loan sharks have decided that Connecticut laws are just a cost of doing business," he said. "By upping penalties, we will make it crystal clear that we won't tolerate these financial criminals operating in our state."<sup>14</sup>

### **Yale's money in ACE**

JLL Partners Fund V, LP, acquired Ace Cash Express, Inc., in 2006.<sup>15</sup> The JLL website still includes JLL's ownership of ACE.<sup>16</sup> As recently as 2011, SEC forms confirmed that the JLL fund controlling ACE was still JLL Partners Fund V.<sup>17</sup> Both Osceola, LP, and JPF V Holdings, LP, were listed as beneficial owners of JLL Partners Fund V, LP, in a 2005 filing. In that filing, the address listed for both entities is the address of the Yale Investments Office.<sup>18</sup> Osceola, LP, and JPF V Holdings, LP, appear on Yale's most recent tax filings; JLL Partners Fund V has not filed any SEC documents indicating a change in its ownership since 2005. In Yale's most recent tax filing, it has \$100.6 million in assets with JPF V Holdings and \$47.5 million in assets with Osceola; its combined income for the preceding year from the two funds was \$26.5 million.<sup>19</sup>

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1 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-ace-cash-express-for-pushing-payday-borrowers-into-cycle-of-debt/>

2 <https://www.consumerfinance.gov/askcfpb/1567/what-payday-loan.html>

3 <http://www.pymnts.com/news/2013/pew-payday-loans-consume-30-of-income-in-35-states/>

4 [http://files.consumerfinance.gov/f/201403\\_cfpb\\_report\\_payday-lending.pdf](http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf)

5 <http://ourfinancialsecurity.org/wp-content/uploads/2014/12/Payday-pay-to-play-final.pdf>

6 [http://stopthedebttrap.org/wp-content/uploads/2015/06/letter\\_directorcordray\\_22June2015.pdf](http://stopthedebttrap.org/wp-content/uploads/2015/06/letter_directorcordray_22June2015.pdf);

[http://stopthedebttrap.org/wp-content/uploads/2015/06/sl\\_cfpb\\_payday\\_rulemaking\\_04June2015.pdf](http://stopthedebttrap.org/wp-content/uploads/2015/06/sl_cfpb_payday_rulemaking_04June2015.pdf)

7 <http://ourfinancialsecurity.org/wp-content/uploads/2014/12/Payday-pay-to-play-final.pdf>

8 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-ace-cash-express->

- [for-pushing-payday-borrowers-into-cycle-of-debt/](#)
- 9 <http://fortune.com/2015/04/20/public-pensions-payday-loans/>
  - 10 [http://www.nj.com/politics/index.ssf/2016/01/nj\\_pension\\_fund\\_sheds\\_investment\\_in\\_payday\\_lender.html](http://www.nj.com/politics/index.ssf/2016/01/nj_pension_fund_sheds_investment_in_payday_lender.html)
  - 11 <http://fortune.com/2015/04/20/public-pensions-payday-loans/>
  - 12 <http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/state-payday-loan-regulation-and-usage-rates>
  - 13 Kirby, Michelle. OLR Research Report: Payday Lending. Office of Legislative Research. Feb 5 2013. <https://www.cga.ct.gov/2013/rpt/2013-R-0084.htm>
  - 14 <https://www.law360.com/articles/652978/conn-house-passes-payday-loan-bill-amid-feud-with-tribe>
  - 15 <https://www.ftc.gov/enforcement/premerger-notification-program/early-termination-notices/20061310>
  - 16 <https://www.jllpartners.com/ace-cash-express>, accessed May 20, 2017
  - 17 <https://www.sec.gov/Archives/edgar/data/1496623/000110465911044932/R23.htm>
  - 18 Yale University IRS Form 990, FYE 2015.