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Payday Lending in America

FDIC Advisory Committee on Economic Inclusion

April 24, 2014

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www.pewtrusts.org/**small-loans**

rev 4/22

Pew's Small-Dollar Loans Research

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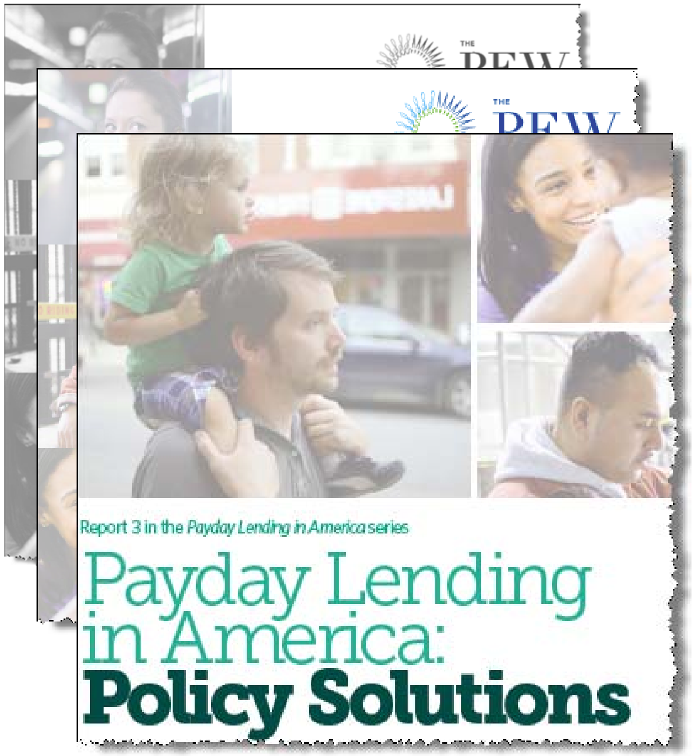
- *Payday Lending in America* series (3 reports)
- Research began in 2011
  - Unique, nationally representative survey of payday borrowers
  - Administrative data reviews
  - Focus groups and interviews



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How Payday Loans Work

- Packaged as “short-term” loan for “temporary needs”
  - Obtained from storefronts, online, some banks (“deposit advance”)
- Little to no underwriting
  - Borrower has an income source and checking account
- Lender can debit bank account to collect (deferred presentment)
- Short repayment period, tied to borrower pay cycle
  - If borrower cannot pay in full, pays fee to renew, or borrows again
- Avg. loan is $375
  - Fee per 2 wks: $55 store, $95 online, $35 bank

Who Uses Payday Loans?

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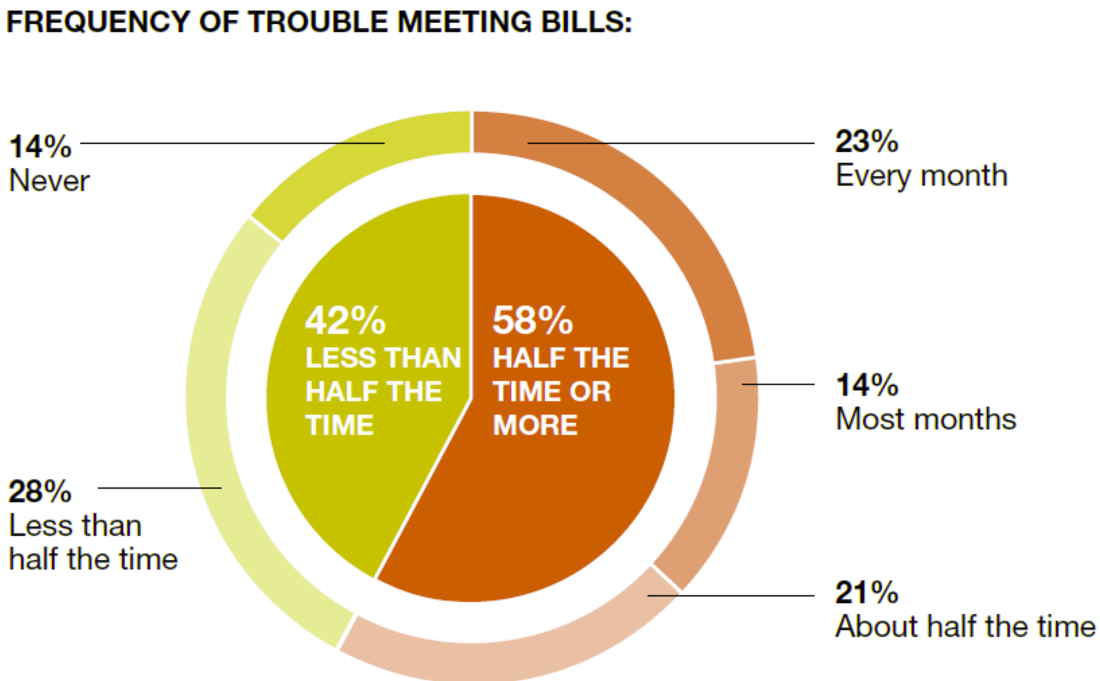
Demographic	Percentage of All Payday Borrowers	Percentage of All American Adults
Renters	58	35
Homeowners	41	65
Income <$15,000	25	13
Income $15,000 to under $25,000	24	11
Income $25,000 to under $30,000	11	
Income $30,000 to under $40,000	13	25**
Income $40,000 to under $50,000	8	
Income $50,000 to under $75,000	10	19
Income $75,000 to under $100,000	5	12
Income $100,000+	1	21
White (non-Hispanic)	55	64
African American (non-Hispanic)	23	12
Hispanic	14	16
Other race/ethnicity	6	8
Ages 18-24	12	13
Ages 25-29	16	9
Ages 30-34	12	9
Ages 35-39	11	9
Ages 40-44	13	9
Ages 45-49	11	10
Ages 50-54	10	10
Ages 55-59	5	8

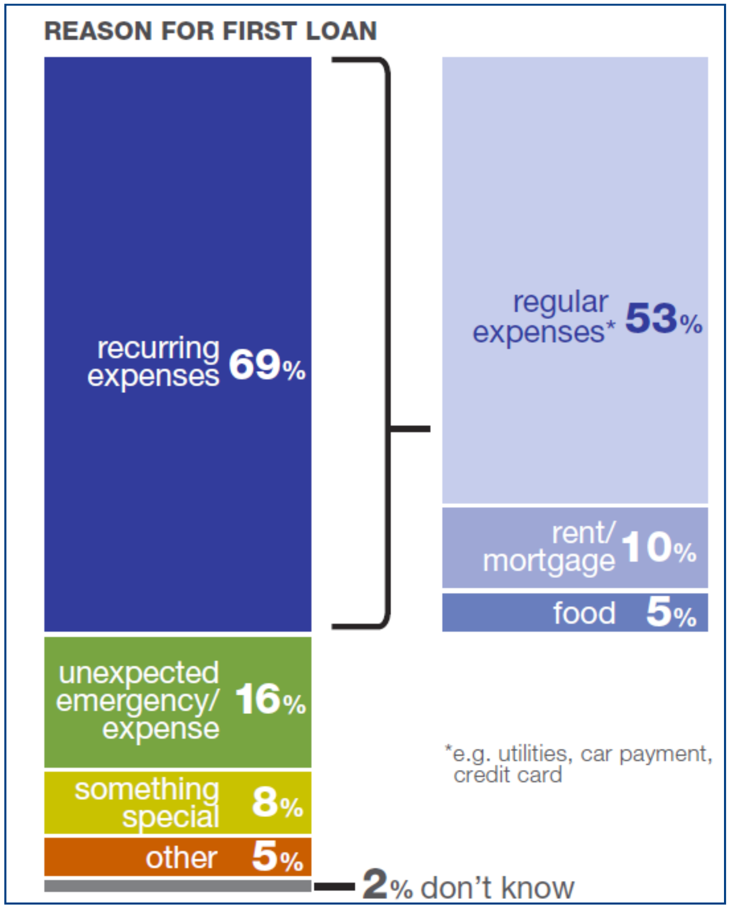
For more information, see Pew July 2012 report at Appendix A

Profile of Payday Borrowers

- 12 million users per year, spending about $7.4 billion
- Have a checking account → *These are bank customers*
- Have income – about $30,000 per year
- "Thick File" credit histories
  - More than 90% have a credit score – low 500s
  - Most have credit cards – usually maxed out

Most Use Payday Loans for Monthly Bills





A Core Problem:
— Payday Loans Are Fundamentally Unaffordable

- Typical payday loan takes **36%** of borrower's pretax paycheck
  - *Far too much* – undermines ability to meet other financial obligations without borrowing again.
- *But what percentage would be more reasonable*?
- Most borrowers cannot afford to pay more than **5% of their pretax paycheck**
  - As shown by national survey data, underwritten installment loan markets, conventional payday loan fee amount, CO case study

Renewing is Affordable, But Paying Off is Not

Average borrower can afford (per two weeks)

$50

Amount Due in Two Weeks to Pay Off a Loan of $375

$430
(principal + fee of $55)

OR

Amount to Renew or Re-borrow Loan for Two More Weeks, Without Paying Down Principal

$55

When Loans Exceed Borrower Capacity, Extended Usage is the Norm

- Average borrower in debt for 5 months of the year
  - Even though many sought to avoid “debt” or “another bill”
- Average borrower pays $520 per year
  - Even though many responded to the “fixed fee” proposition
- Borrowers report that paying bills is *harder*
  - Even though most took a loan to get help paying bills

Volume / Renewal is Not a Good Measure of "Need"

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- Nearly all loans go to repeat borrowers
  - 97% of loans go to those using 3+ per year; 63% to those using 12+ / year
- Consecutive usage is the norm
  - 80% of loans originate w/in 14 days of a previous loan
  - Half of all loans occur within a sequence lasting 10+ loans
- Counting number / size of loans overinflates "need" estimates
  - Infrequent borrowers account for negligible volume/revenue
  - Frequent / long-term use is driven by unaffordable nature of the loan, coupled with lender ability to collateralize borrower's income stream

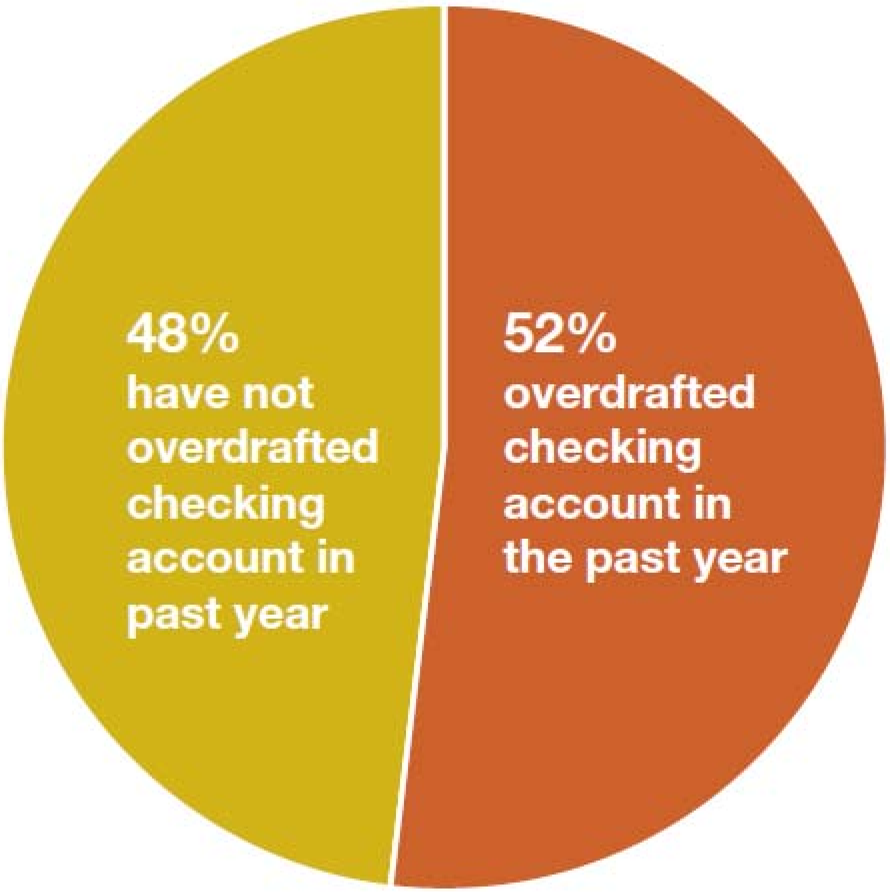
Sources: Analysis of state regulatory data; CFPB; Stephens Inc.

Selected Other Findings, Briefly Noted

Other Key Takeaways:
Pew's *Payday Lending In America* Series

- Borrowers have other options
  - Cut expenses, borrow from family/friends, sell/pawn items, delay bills
- Choice to use payday loans is driven by unrealistic expectations, and desperation
- To eventually pay off, 41% needed a cash infusion
  - Borrow from friends/family, sell/pawn, other loans, tax refunds….
- Restrictive state laws not driving people online
  - Online usage rates same everywhere, even where there are no stores

Payday Loans Do Not Eliminate Overdraft Risk



MAJORITY OF PAYDAY BORROWERS HAVE OVERDRAFTED IN THE PAST YEAR

Report:
See p.32-35

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Deposit Advance Loans Did Not Eliminate Overdraft Risk

We found that deposit advance users in our sample of accounts were much more likely to have incurred an overdraft or NSF fee during the 12-month study period than eligible non-users. Notably, we found that while just 14% of eligible non-users incurred an overdraft or NSF fee during the 12 month study period, 65% of those consumers who used deposit advances had overdraft or NSF activity. Deposit advance users who incurred an overdraft or NSF fee typically incurred a greater number of fees than eligible non-users with at least one overdraft or NSF fee.

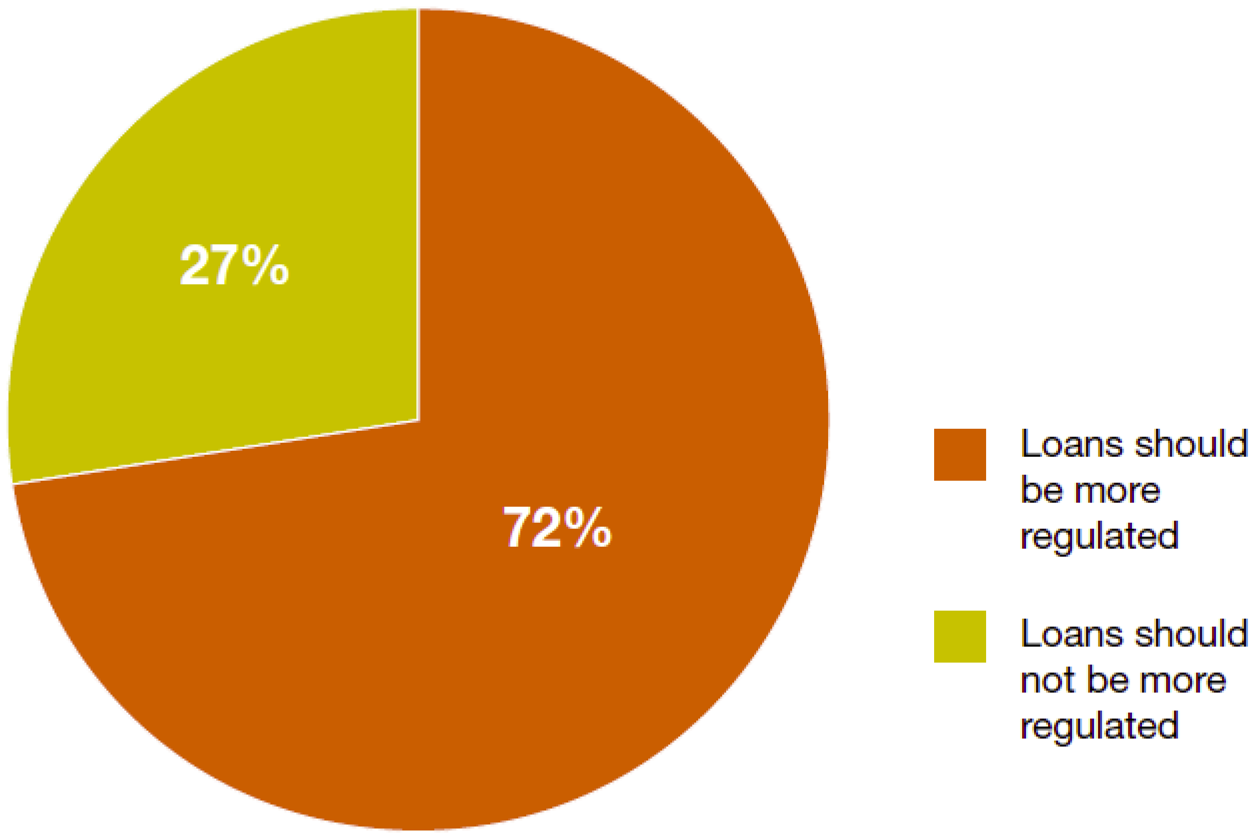
CFPB Data

Borrowers Have Torn Feelings

- Grateful to receive cash
- Friendly customer service from local stores
- But 58% feel the product takes advantage of them

BORROWERS FAVOR MORE REGULATION

ALL PAYDAY BORROWERS



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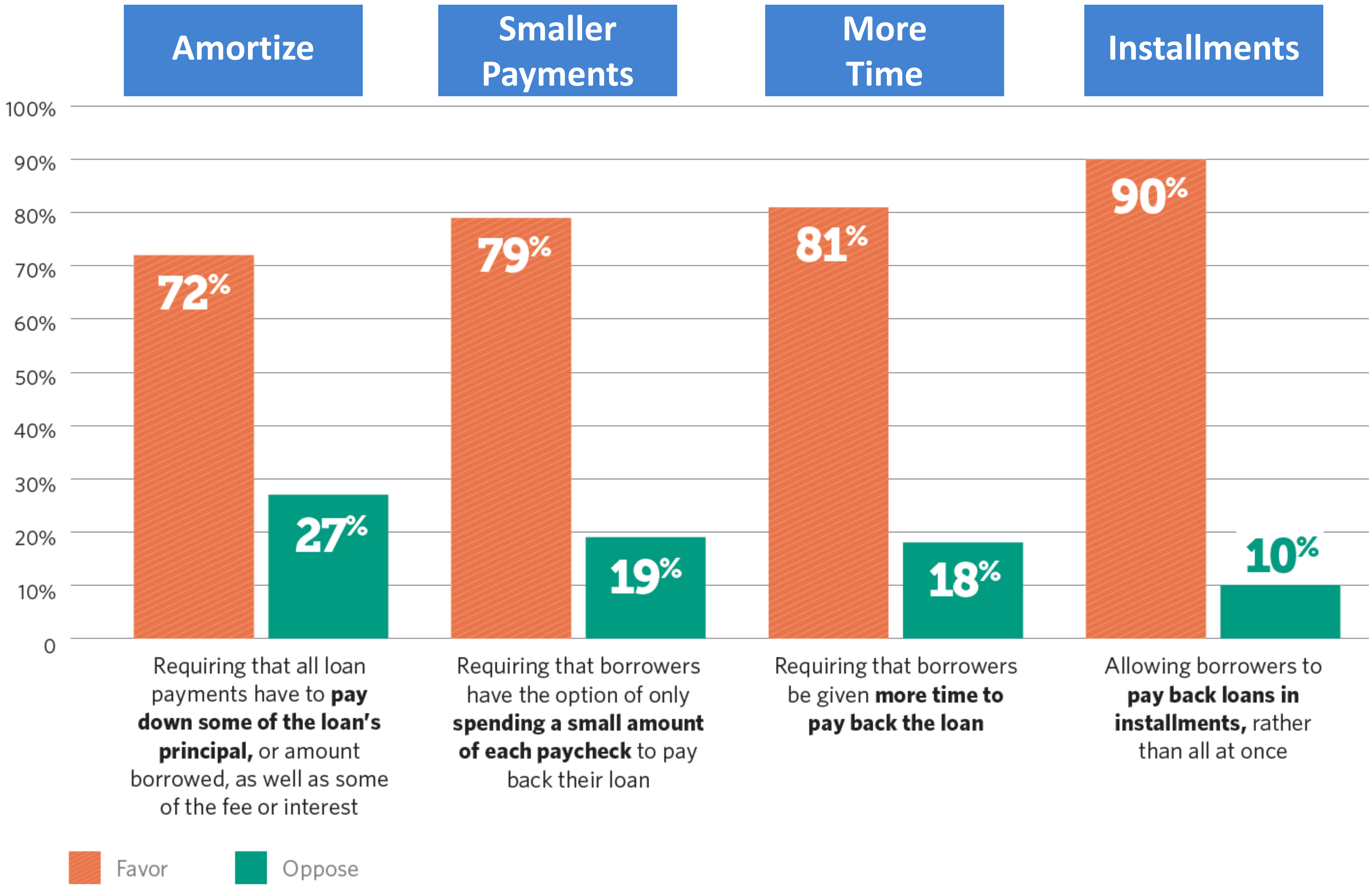
Borrowers Overwhelmingly Support Requiring Installment Payment Structure



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Postscript

A Market Lacking Price Competition

How much does a $500 payday loan cost?

	Advance America	Ace Cash Express	Check into Cash	Check n Go
Florida	$55	$55	$53	$55
Michigan	$65.45	---	$65.45	$65.45
Kansas	$75	$75	$75	$75
Alabama	$87.50	$87.50	$87.50	$87.50
Nevada	$92.50	$85	$110	$125

Costs listed on company websites as of November 1, 2013

A Market Lacking Price Competition

State grouping	Average cost to borrow $300 for 5 months	Median stores per 100,000 residents
Lower than average rate cap	$281	3.0
Average rate cap	$435	7.2
Higher than average rate cap	$528	14.9
No rate cap	$604	12.9