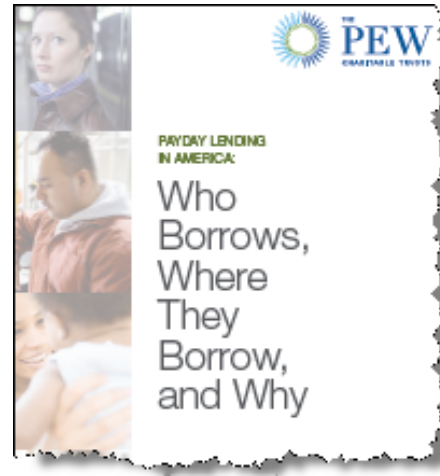


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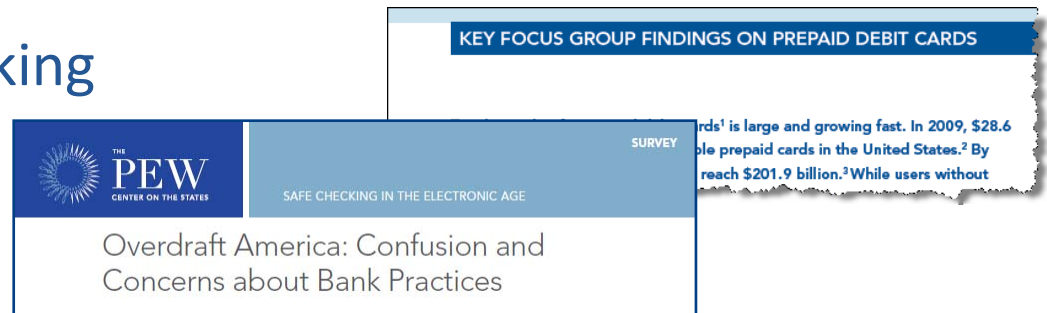
Payday Lending in America: Who Borrows, Where They Borrow, and Why

Presentation to Illinois Asset Building Group
November 15, 2012

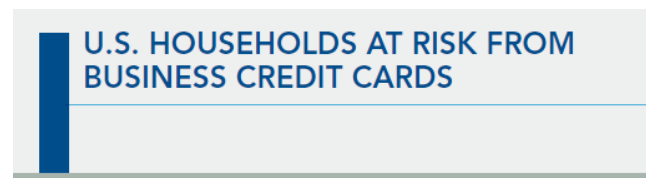
- pewtrusts.org/small-loans



- pewtrusts.org/safechecking



- pewtrusts.org/creditcards



- Borrower has an income source and checking account
 - Post-dated check or electronic authorization to debit account
- Entire loan due on next payday (e.g. two weeks later)
 - If cannot repay entire loan, pays fee to renew or borrows again
- Average loan size \$375
 - Fees range per state law: \$10 per \$100 (261% APR) to \$20 per \$100 in storefronts (521% APR); or average of \$25 per \$100 online (652% APR)
 - Some variation for bank Deposit Advance Products (DAPs)

- First-of-its-kind survey of American payday loan borrowers
 - Random Digit Dialing, including cell phones, Spanish, minimum of six attempts per phone number

Two-part survey:

- Omnibus (49,684 total screens)
 - Demographic and usage findings based on first 33,576 screens
 - Margin of error +/-0.2 percentage points
- Follow-up survey with 451 storefront payday borrowers
 - Margin of error +/-4.6 percentage points
- 10 two-hour borrower focus groups in five cities

1. Who Uses Payday Loans?
2. Why Do Borrowers Use Payday Loans?
3. What Would Borrowers Do Without Payday Loans?
4. Does Payday Lending Regulation Affect Usage?

1 Who Uses Payday Loans? Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest.

- In the past five years, have you used payday loan or cash advance services, where you borrow money to be repaid out of your next paycheck?
- And was that physically through a store, or on the Internet?

1. Who Uses Payday Loans?

EXHIBIT 1: PAYDAY LOAN USAGE BY DEMOGRAPHIC

Percentage of Each Subgroup Reporting Payday Loan Usage

Certain demographic groups are more likely than others to have used a payday loan in the past five years.

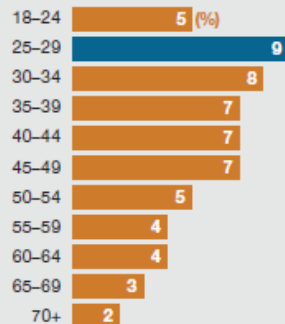
OVERALL

5.5 percent of all adult Americans have used a payday loan.

All adults 5.5 (%)

AGE

9 percent of adults aged 25-29 have used a payday loan.



People ages 25 to 49 have used payday loans at a higher rate than the general population. By contrast, loan use is below average among 18-to-24-year-olds.

EXHIBIT 14:

PAYDAY LOAN BORROWER DEMOGRAPHICS

Demographic	Percentage of All Payday Borrowers	Percentage of All American Adults
Renters	58	35
Homeowners	41	65
Single	24	31
Living with partner	57 percent higher for renters than for homeowners;	N/A*
Married	62 percent higher for those earning less than \$40,000 annually than for those earning more;	50
Separated/divorced		13
Widowed		6
Full-time employed		59**
Part-time employed	82 percent higher for those with some college education or less than for those with a four-year degree or more;	6
Unemployed		N/A*
Disabled	103 percent higher for those who are separated or divorced than for those of all other marital statuses (single, living with a partner, married, or widowed); and	23
Retired		6
Homemaker		5
Student	105 percent higher for African Americans than for other races/ethnicities.	

Respondents with household incomes less than \$40,000

1. Who Uses Payday Loans? [Report p.12]

EXHIBIT 3:

PAYDAY LOAN USAGE BY GEOGRAPHIC GROUPING

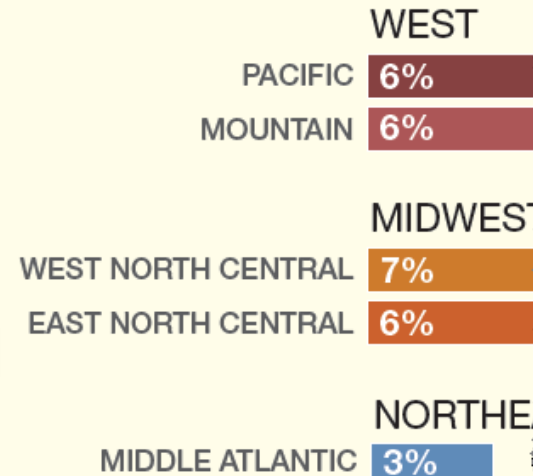
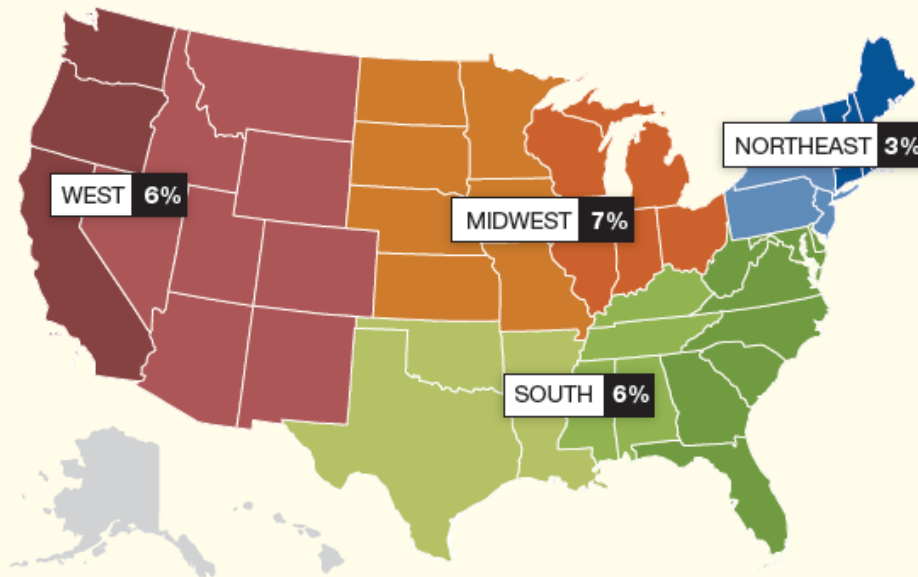
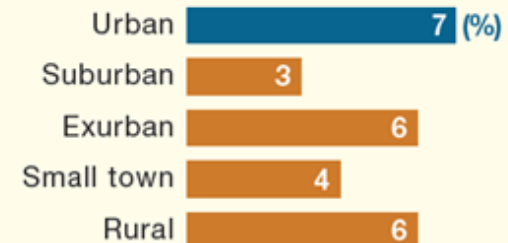


EXHIBIT 2:

PAYDAY LOAN BORROWING MORE COMMON IN CITIES

7 percent of those living in cities have used a payday loan.

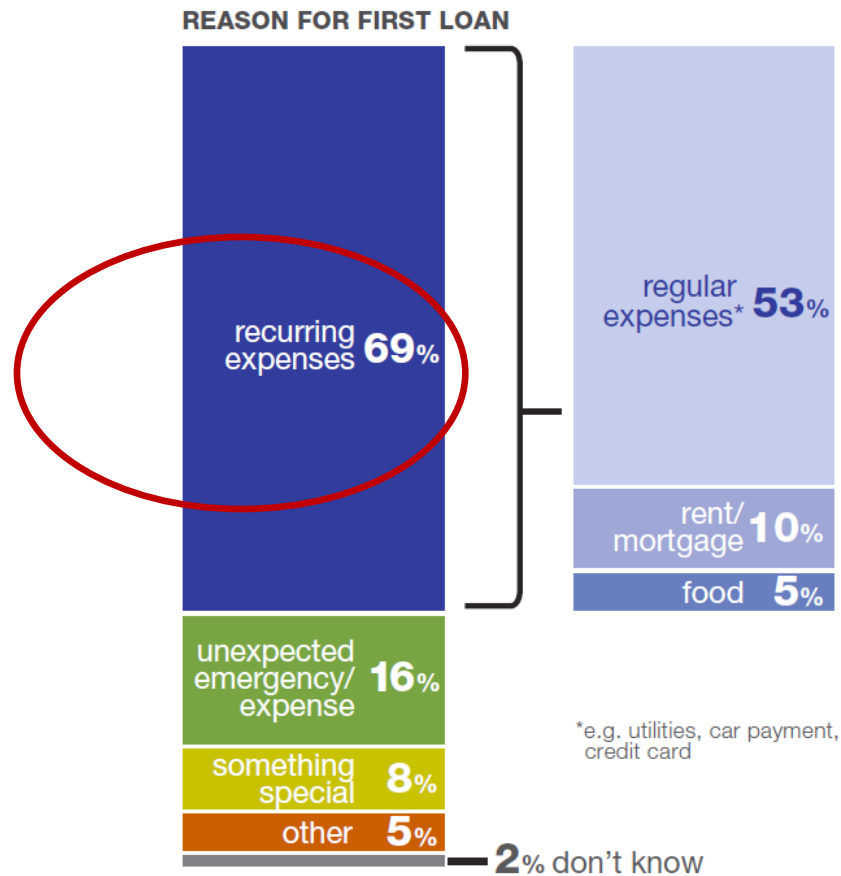


2 Why Do Borrowers Use Payday Loans? Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

2. Why Do Borrowers Use Payday Loans?

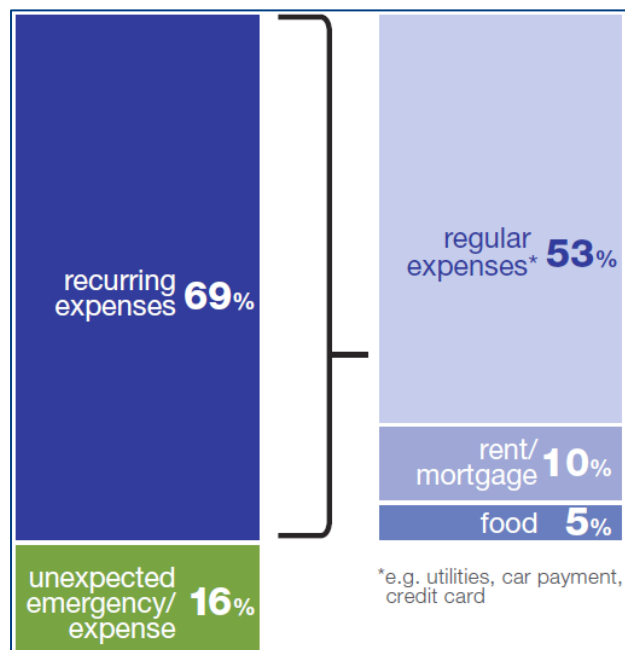
EXHIBIT 4:

MOST BORROWERS USE PAYDAY LOANS FOR RECURRING EXPENSES



Packaging vs. Experience

- Short-term loan
- To cover small, often unexpected expenses
- Designed to solve temporary cash-flow problems
- Not intended for long-term use



Average Borrower:

8 loans per year

\$375 loan, \$520 in fees (\$895 total paid)

Indebted five months during the year



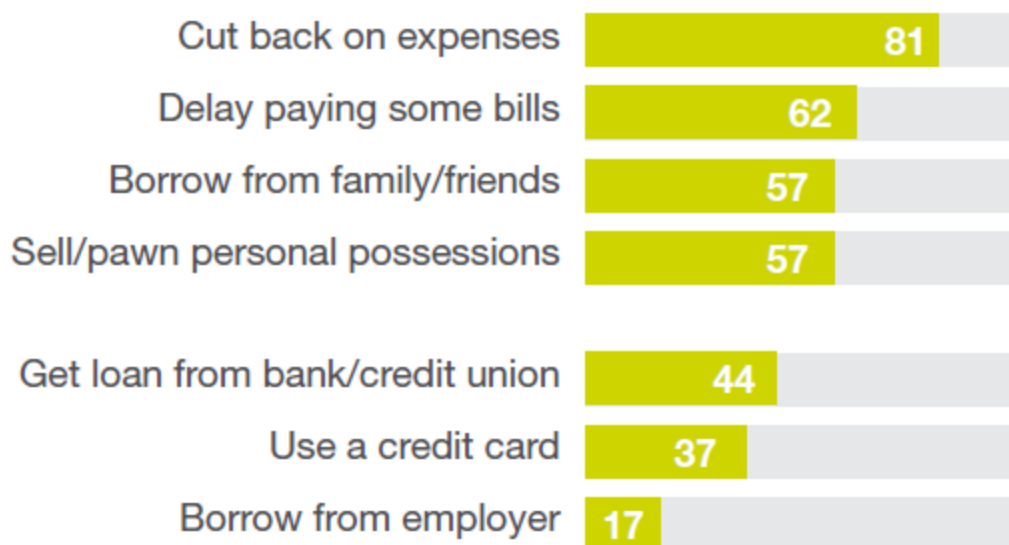
3 What Would Borrowers Do Without Payday Loans? If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions.

3. What Would Borrowers Do Without Payday Loans?



EXHIBIT 5:

ALTERNATIVES IF PAYDAY LOANS WERE UNAVAILABLE



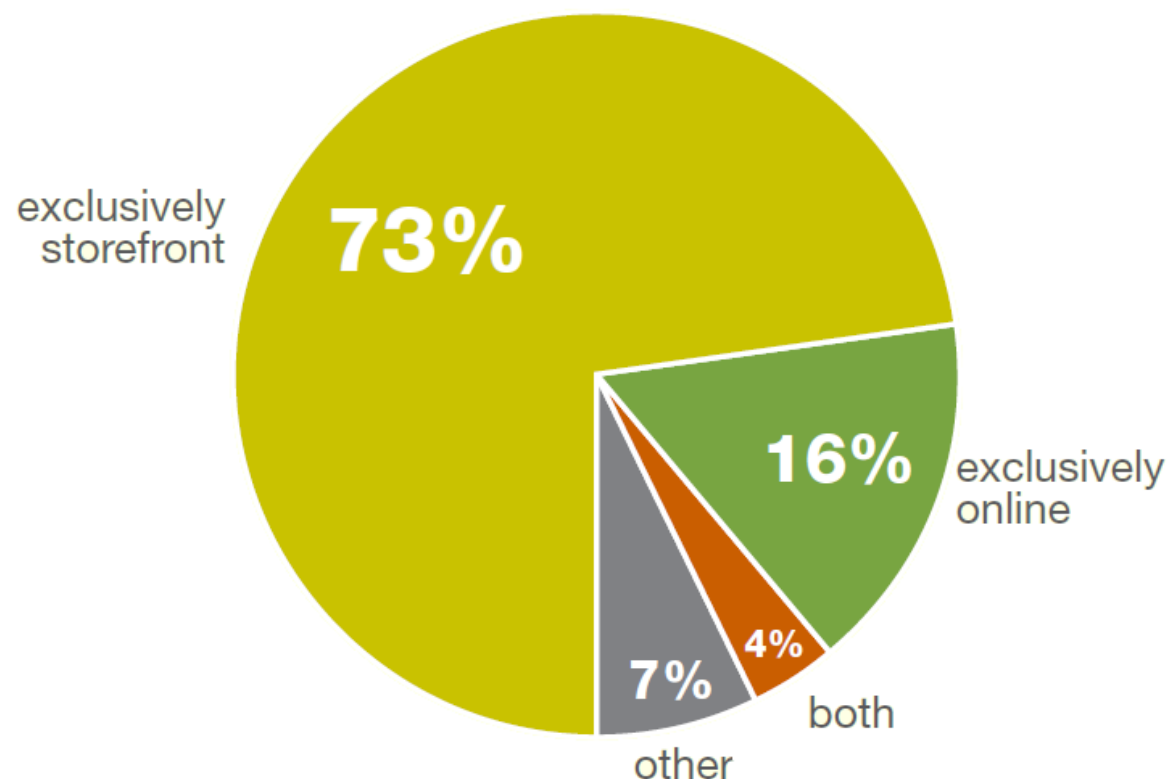
Borrowers are more likely to choose options that do not connect them to a formal institution.

4 Does Payday Lending Regulation Affect Usage? In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

Where Do Borrowers Get Payday Loans?

EXHIBIT 12:

HOW PEOPLE OBTAIN PAYDAY LOANS



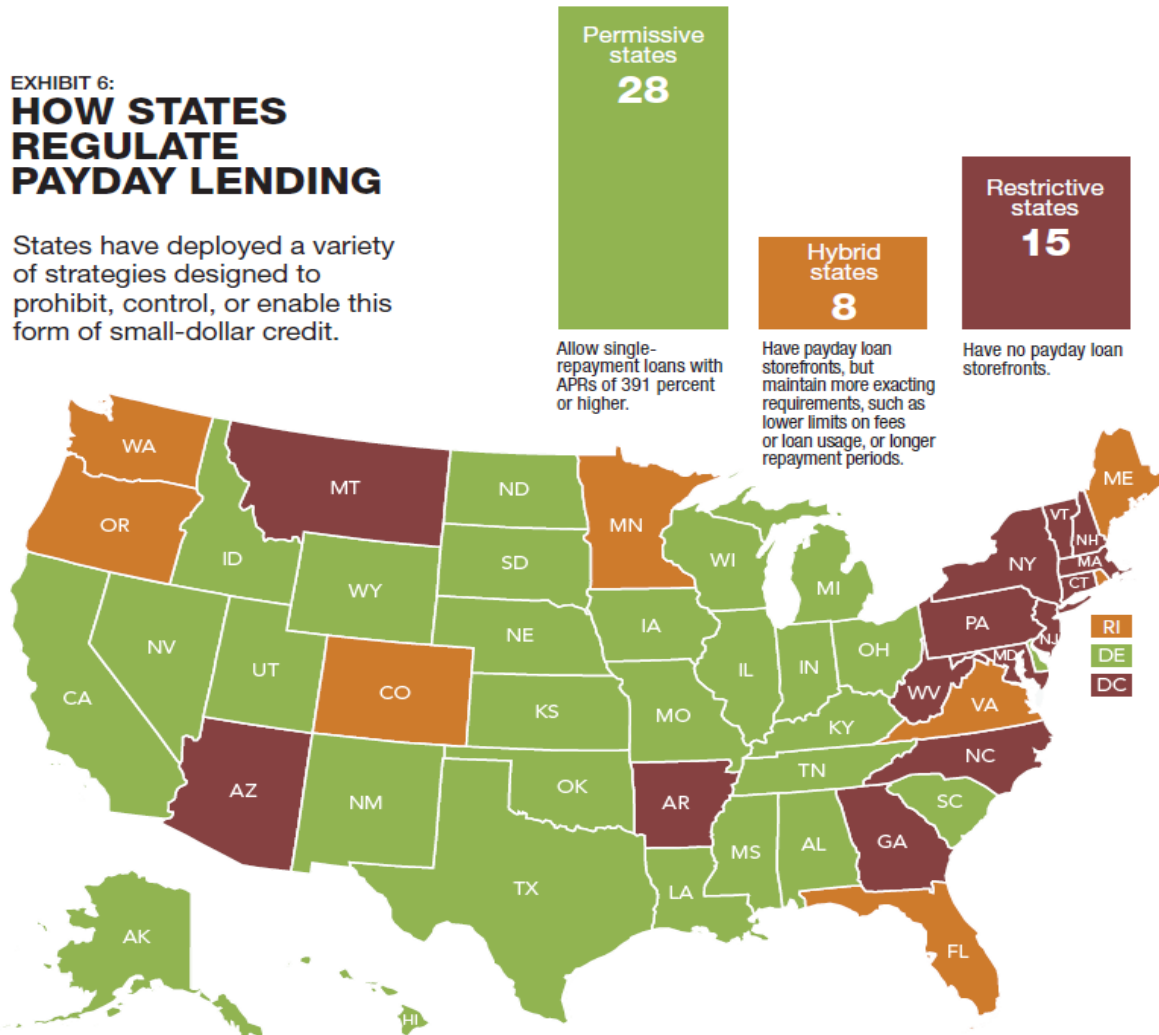
NOTES: In absolute terms, 4.0 percent of all survey respondents have used payday loans exclusively from storefronts, 0.9 percent have used payday loans exclusively from the Internet, 0.2 percent have used payday loans from both storefront locations and the Internet, and 0.4 percent of respondents have used payday loans that were neither storefront-based nor Internet-based. *Other sources may include banks, credit unions, or employers, among others.

Payday Lending Regulation Is Not Leading to Increased Online Borrowing

- **Permissive** states are the least regulated and allow initial fees of 15 percent of the borrowed principal or higher
- **Hybrid** states have relatively more exacting requirements than permissive states
- **Restrictive** states either do not permit payday lending or have price caps low enough to eliminate payday lending in the state

EXHIBIT 6:
**HOW STATES
REGULATE
PAYDAY LENDING**

States have deployed a variety of strategies designed to prohibit, control, or enable this form of small-dollar credit.



Payday Lending Regulation Is Not Leading to Increased Online Borrowing

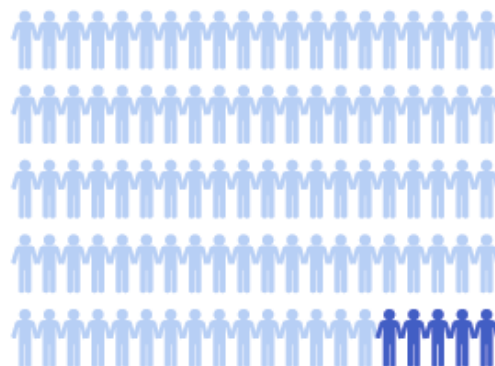
EXHIBIT 9:

METHOD OF ACQUIRING PAYDAY LOANS BY STATE LAW TYPE

	BORROW FROM STOREFRONT ONLY	BORROW FROM ONLINE OR OTHER*
national	4.01%	1.48%
Permissive states	5.22%	1.37%
Hybrid states	5.06%	1.28%
Restrictive states	1.29%	1.58%

EXHIBIT 7:

In states that restrict storefront payday lending, 95 of 100 would-be borrowers elect not to use payday loans at all—just five borrow online or elsewhere.

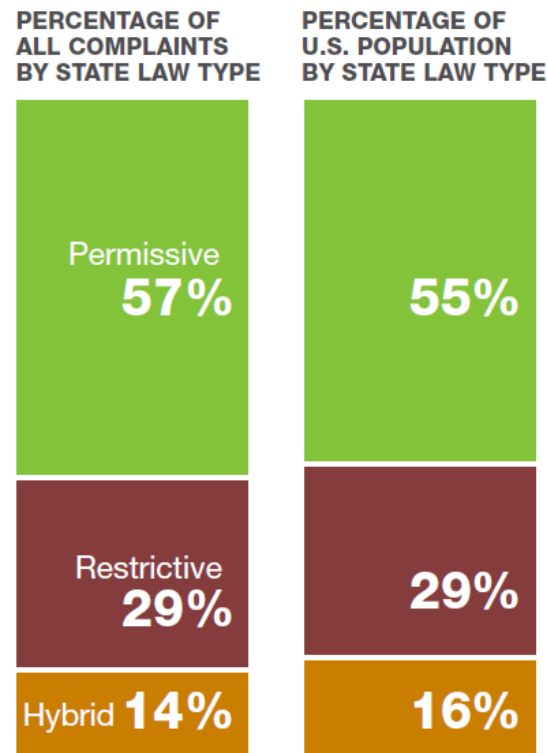


Payday Lending Regulation Is Not Leading to Increased Online Borrowing

EXHIBIT 11:

STATE LAWS ARE NOT DRIVING PAYDAY LOAN COMPLAINTS

The percentage of complaints against payday lenders received by the Better Business Bureau in each state law grouping closely mirrors the percentage of the population living in those states, suggesting that regulation is not driving complaints.



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RESEARCH from the Project

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State Payday Loan Regulation and Usage Rates

As federal policy makers work toward a national payday lending policy, here is a summary of state payday lending laws, including loan usage rates. Note that these summaries should be used for general informational purposes only.

Permissive States

28

Allow single-repayment loans with APRs of 391 percent or higher.

Hybrid States

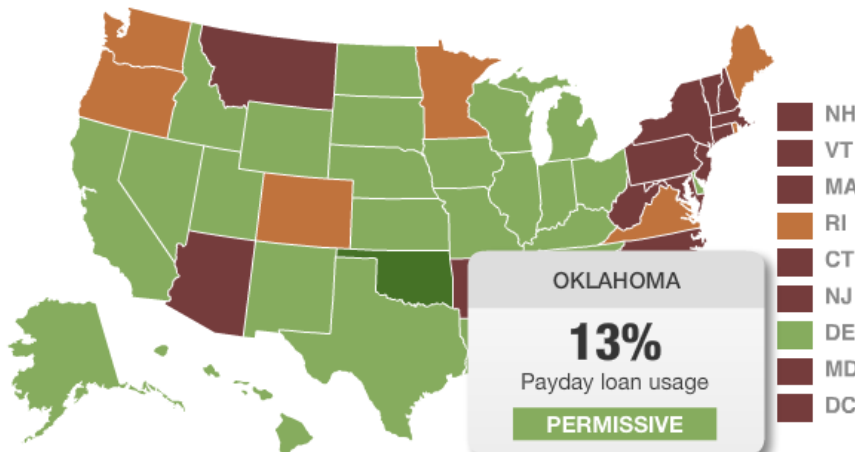
8

Have payday loan storefronts, but maintain more exacting requirements, such as lower limits on fees or loan usage, or longer repayment periods.

Restrictive States

15

Have no payday loan storefronts.



Oklahoma

Payday loan usage rate
13%

Pew Classification
Permissive

Statutory Citation
59-3101 *et seq.*

Maximum Loan Amount
\$500 exclusive of the finance charge



www.pewtrusts.org/small-loans

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