Center for American Progress

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Who Borrows From Payday Lenders?

An Analysis of Newly Available Data

Amanda Logan and Christian E. Weller March 2009

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Introduction and summary

Payday lending storefronts dot the landscape of many communities in America. Anecdotal evidence has suggested that payday lenders tend to service those least able to afford their interest rates, which on an annualized basis average 400 percent or more, but government survey data has never been publicly available for a definitive analysis of families who borrow from payday lenders.

That is, until now. This paper uses recently released data from the Federal Reserve Board to examine the financial and demographic characteristics of our nation's payday loan borrowers. This is the first time the Federal Reserve's data set, the Survey of Consumer Finances, has included data on payday loan use. The paper thus offers a fresh look at the characteristics of payday loan borrowers. And what did we discover? Specifically:

- Families who had taken out a payday loan within the past year tend to have less income, lower wealth, fewer assets, and less debt than families without payday loans.

- Families who borrowed from a payday lender in the past year were more likely to be minorities and single women than their counterparts. They also tended to be younger and had less educational attainment.

- Approximately 4 out of 10 families who borrowed from a payday lender within the past year owned their own home, while nearly 7 out of 10 families who had not taken out a payday loan were homeowners.

- Only 14 percent of families who withdrew a payday loan within the past year had ever been delinquent on a payment for any type of loan. This was nearly three times as large as the share of families without a payday loan who had also not been delinquent on payment.

- Roughly one-quarter of families who had borrowed from a payday lender within the past year identified themselves as savers, compared to nearly half of families who did not withdraw a payday loan.

- Payday loans are taken out primarily for convenience, to cover an emergency, and to pay for basic consumption needs, such as gas and food.

These findings largely echo figures available on payday lending industry websites and studies published by private researchers concerning data collected during the first half of this decade. But our analysis provides a more comprehensive comparison between payday loan borrowers and nonborrowers.

The payday lending industry

Payday lenders as we know them today were largely unheard of across the United States before the 1990s,[1] but they have since grown into a national industry with millions of customers and billions of dollars in revenue.[2]

Payday loans—also known as payday advances—are often marketed as a convenient, short-term loan and a lower-cost alternative to bouncing a check, paying service charges for a returned check, or accruing fees for late bill payments. Payday loans also are marketed successfully because they avoid the nonmonetary consequences of delinquent payments, such as damage to a credit score.[3] Borrowers typically only need to prove that they have a steady source of income and a checking account in order to be approved for a payday loan.[4] Given the easy access to payday loans, it is not surprising to see that payday lenders serve an estimated 19 million payday borrowers.[5]

At the same time, though, the growth of payday lenders has raised concerns by issue organizations and members of Congress, largely because of the high costs associated with these loans.[6] In exchange for the relatively small amount of cash—typically between $300 and $500—that the borrower receives after handing over a postdated check, the borrower must repay the loan by their next payday, usually within two weeks, plus a fee.[7] This fee, which varies by state, generally averages $16 for a $100 loan. That translates into a fee of $52 for the average $325 loan, meaning that borrower was charged an annual percentage rate of roughly 400 percent for their two-week loan.[8]

When the loan is due, borrowers can either return to the lender to pay the amount owed in order to reclaim their check or they can simply allow the lender to cash the check that they gave the lender when taking out the loan. If borrowers are unable to pay the amount owed or do not have enough money in their checking account to cover the loan on the due date and still have enough money left to handle all of the expenses until the next payday, then they have several relatively pricey options. The lender could elect to cash the borrower's check and if there are insufficient funds in the borrower's checking account, there may be overdraft fees, a returned check charge, and in some states, a late fee. Borrowers can also renew their loan and pay another fee—$52 dollars on average—to extend the loan by two weeks, sometimes referred to "rolling over" the loan. Or, in states where renewing the loan is not allowed, the borrower can return to the lender, pay off the loan in full, take out a new loan immediately or wait a short period, depending on state regulations.

All of these options—bouncing the check, rolling over the loan, or engaging in a back-to-back transaction, as the latter is sometimes referred to—come with fees that can add up to a significant amount for the borrower rather quickly. And they can ultimately help what was originally a "short-term [loan] become long-term debt at triple-digit interest rates,"[9] according to Uriah King and Leslie Parrish of the Center for Responsible Lending. Some borrowers are able to pay off their loan balance in full by their due date, but many are not. A January 2009 Center for Responsible Lending issue brief estimated that of the 19 million payday loan borrowers in America, nearly 12 million of those borrowers find themselves trapped in a cycle of at least five payday loan transactions per year.[10]

According to a 2008 issue brief from the Center for Responsible Lending, the typical payday loan borrower ultimately has to pay $800 for a $300 loan.[11] This is because many borrowers are unable to pay off their loan plus lender fees in full when they are due and still have enough money left to cover their expenses until their next payday. This means they begin a cycle of borrowing—for example, rolling over the original amount into a second, third, and fourth payday loan—that lasts much longer and costs much more than they had originally anticipated.[12] In fact, the Center for Responsible Lending estimated in a 2007 report that more than 60 percent of payday loans are taken out by borrowers who have at least 12 payday loan transactions annually and nearly one-quarter are withdrawn by customers who have at least 21 payday loan transactions annually.[13] Additionally, the Center for Responsible Lending estimated that every year payday lending costs Americans $4.2 billion in "excessive fees."[14]

The payday loan industry continues to emphasize that it provides a viable product that helps consumers to "bridge the unexpected need for short-term credit when other options are not available to them."[15] Yet researchers at the Federal Deposit Insurance Corporation stated in 2005 that "[w]hen used frequently or for long periods, the costs [of a payday loan] can rapidly exceed the amount borrowed and can create a serous financial hardship for the borrower. The FDIC believes that providing high-cost, short-time credit on a recurring basis to customers with long-term credit needs is not responsible lending."[16]

A fresh look at payday loan borrowers

So who are the people borrowing from payday lenders? The following sections discuss the demographic and financial characteristics of families who withdrew a payday loan within the past year and families who did not take out such a loan. These characteristics are based on data from the Federal Reserve's triennial Survey of Consumer Finances. The SCF is a national survey of approximately 4,400 families, using a sample design of "a standard, geographically based random sample and a special oversample of relatively wealthy families" which are weighted accordingly.[17]

The SCF is conducted every three years and is sponsored by the Federal Reserve Board in cooperation with the Department of Treasury.[18] The survey gathers a wealth of detailed information about financial characteristics of American families, including their income, net worth, financial and nonfinancial assets, debt, use of financial institutions, and recent and planned expenditures. It also looks at their attitudes on financial and economic conditions and demographic characteristics, such as age, race, and educational attainment of heads of households.[19] Data from the SCF are very useful and unique in that no other national survey gathers comparable information on families' assets and debt. As the SCF website states:

> *No other study for the country collects comparable information on the finances of U.S. families. Data from the SCF are widely used, from analysis at the Federal Reserve and other branches of government to scholarly work at the major economic research centers.*[20]

2007 was the first year that the SCF asked respondents whether they had taken out a payday loan in the past year. The new survey data were released in February 2009, meaning that this paper is, to the best of our knowledge, a one-of-a-kind analysis of payday loan borrowers.[21] Overall, just 2.4 percent of families surveyed reported having withdrawn a payday loan within the last year. That may seem like a small percentage of overall borrowers, but the demographic and financial characteristics of these two groups—payday loan borrowers and nonpayday loan borrowers—are considerably different.

Demographic characteristics of payday borrowers

Married couples, single women, minorities, less educated, and young

Families in 2007 who had taken out a payday loan within the past year tended to be younger than those who had not utilized such a loan.[22] The mean age of the head of families who withdrew a payday loan within the last year was 39, 11 years younger than the mean age of 50 for the head of families who did not take out a payday loan (Table 1). The median age of both payday loan borrowers and nonpayday loan users was lower, at 36 years and 49 years, respectively.

Who turns to payday lenders?

Demographic characteristics of heads of households

	Took out a payday loan	Did not take out a payday loan
Age		
Mean age	39	50
Median age	36	49
Race		
Share white	62%	78%
Share nonwhite	38%	22%
Education		
Share without high school diploma	15%	14%
Share with a high school diploma or GED	39%	33%
Share with some college but no degree	27%	18%
Share with a college degree	19%	36%
Marital status		
Share married	40%	59%
Share single men	19%	14%
Share single women	42%	27%

Notes: Authors' calculations based on 2007 Survey of Consumer Finance Data. All dollar amounts are expressed in 2007 dollars.

These findings are akin to what researchers have previously noted, largely using private survey data. For example, citing multiple academic researchers, a 2006 Department of Housing and Urban Development report and literature review summarized that typical payday loan borrowers tend to be younger—often under 45.[23] Additionally, a 2001 report that relied on a December 28, 2000 to January 9, 2001 telephone survey of a sample of roughly 500 payday loan customers who borrowed from payday lenders who were members of the Community Financial Services Association of America—the national payday loan trade association—found that two-thirds of payday loan customers were younger than 45 and over a third were under age 35.[24]

The CSFA , which "represents more than half of the nearly 24,000 payday advance locations nationally,"[25] also reports that 68 percent of payday loan customers that their members serve are younger than 45.[26] Additionally, the Financial Service Centers of America, Inc., "a national trade association that represents more than 7,000 neighborhood financial service outlets across the United States," reports that the typical payday loan borrower to which their members lend is between the ages of 24 and 44.[27]

The SCF data also reveal that payday loans are disproportionately taken out by families headed by single women, followed closely by married couples. Forty-one percent of families who borrowed from a payday lender were headed by single women while 40 percent of payday loan borrowers were headed by a married couple. Just 19 percent of payday loan borrowers were single men in 2007. In comparison, married couples comprised the majority (59 percent) of nonpayday loan users, while 27 percent were headed by single women and only 14 percent were headed by single men.

Industry figures differ somewhat from the SCF data. Payday loan industry-generated data from the CFSA reports that the majority of payday loan customers are married.[28] Previously published research also found that the majority of payday loan borrowers were either married or living with their partner.[29] Similar to the SCF data, though, some prior research has found that payday lenders tend to be disproportionately female.[30]

The 2007 SCF data show that the educational attainment of payday loan borrowers tends to be less than that of nonborrowers. The largest share of payday loan borrowers (39 percent) had a high school diploma or equivalent General Educational Development, or GED certificate, but no college degree. Individuals with some college education but no degree comprise the next largest share, totaling 27 percent of families who had borrowed a payday loan. In contrast, a much smaller share of heads of families who had taken out a payday loan had a college degree (19 percent) than heads of families who had not taken out a payday loan (36 percent).

Again, these results appear to be in line with payday lender industry data and previous research.[31] FISCA notes that the majority of payday loan borrowers have a high school diploma with some college education or a college degree. The CFSA reports that 94 percent of payday loan customers have at least a high school diploma and that 56 percent have attended college or have a degree.[32] The 2001 paper—which relied on a survey of 500 payday loan customers—was very similar to the 2007 data. It found that the largest share of payday loan borrowers had just a high school diploma, followed by individuals with some college education but no degree, then by those with a college degree, and finally, those lacking a high school diploma.[33]

Finally, the 2007 SCF data illustrate that minorities disproportionately utilized payday lenders in 2007. Thirty-eight percent of families who had borrowed a payday loan within the last year were nonwhite while just 22 percent of families who did not take out such a loan were nonwhite. Previous research has also found that minority families are more likely to have borrowed from a payday lender than white families.[34] Additionally, payday industry data indicates that African Americans make up a larger share of payday customers than of the general population.[35]

While the 2007 SCF did not pose questions concerning heads of households' military status, it is worth noting that previous research has found that military families are also more likely to borrow from a payday lender than other families. In particular, a 2005 CRL paper found that one-fifth of military members had taken out a payday loan in 2004 and that military families were three times more likely to have borrowed from a payday lender than nonmilitary families.[36]

Additionally, a 2006 Department of Defense report reviewed predatory lending practices directed at members of the military and their families, including payday, car title, tax refund anticipation, and installment loans. It concluded that "predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all-volunteer fighting force."[37] The report further stated that "service members need better enforcement from Congress and state credit regulators to prevent predatory lending abuses."[38]

Financial characteristics of payday borrowers

Less income, less wealth, fewer assets, and less debt

The mean and median incomes of families who utilized payday loans were notably lower than those of families who did not use such a loan. The 2007 SCF data show that the mean income of families who took out a payday loan was $32,614, contrasted to a mean income of $85,473 for those who did not use a payday loan. Similarly, the median income of payday loan borrowers was $30,892 while the median income of families who did not utilize a payday lender's services was $48,397.

Again, industry figures show similar income data as the SCF data for payday borrowers. CFSA reports that the majority of the borrowers that their members lend to have an annual income between $25,000 and $50,000.[39] FISCA states that the payday loan borrowers their members serve "have an average annual household income of more than $40,000 or more."[40]

Researchers have previously noted that payday loan borrowers tend to have low incomes and moderate incomes, with averages included in the 2006 HUD report ranging from

$25,000 to $50,000.[41] The 2001 report that relied on a phone survey of a sample of payday loan customers found that a majority (52 percent) of payday loan borrowers had a family income from $25,000 to $49,999.[42]

Similarly, the net worth of payday loan borrowers was lower than that of individuals who had not taken out a payday loan. According to the 2007 SCF data, families who had borrowed from payday lenders had a mean net worth of $22,616. Those who did not deal

Who borrows from payday lenders?

Financial characteristics of borrowers

	Took out a payday loan	Did not take out a payday loan
Income		
Mean income	$32,614	$85,473
Median income	$30,892	$48,397
Net worth		
Mean net worth	$22,616	$469,374
Median net worth	$-	$80,510
Assets		
Mean assets	$73,309	$639,467
Median assets	$4,550	$201,000
Debt		
Mean debt level	$45,019	$98,878
Median debt level	$10,200	$28,910
Saver status		
Share savers	27%	48%
Share nonsavers	73%	52%
Homeownership status		
Share homeowners	41%	69%
Share renters	59%	31%
Borrowing history		
Share who had applied for any type of loan within the past five years and were denied	33%	10%
Share who had applied for any type of loan within the past five years and were not denied	67%	90%
Delinquency history		
Share who had been delinquent on any type of loan	14%	5%
Share who had not been delinquent on any type of loan	76%	95%

Notes: Authors' calculations based on 2007 Survey of Consumer Finance Data. All dollar amounts are expressed in 2007 dollars.

with payday lenders enjoyed a mean net worth more than 20 times that of payday loan users—$469,374. Alternatively, the median net worth of payday loan borrowers was $0, while families who did not take out a payday loan had a median net worth of $80,510.

Another element of individuals' financial picture is the total value of their assets. In 2007, payday loan borrowers' mean asset value was $73,309, less than an eighth of the mean value of nonpayday loan borrowers' assets, which stood at $639,467. The median asset value of families who withdrew a payday loan was $4,550, while those who did not take out a payday loan had a median asset value more than 44 times as large—$201,000.

Payday borrowers are much less likely to be homeowners than nonborrowers. Forty-one percent of families who had withdrawn a payday loan within the past year owned their own home, while 59 percent were renters. In comparison, 69 percent of families who did not take out a payday loan were homeowners and 31 percent were renters.

Industry-provided statistics data echo the SCF data, with the CFSA reporting that 42 percent of payday loan borrowers are homeowners.[43] Previous research has also found that payday loan borrowers are more likely to rent than to be a homeowner.[44]

Owning a home often means that a family carries a large amount of debt, including a mortgage. This is part of the reason that those who did not take out a payday loan had lower mean and median debt levels than those of payday loan borrowers. According to data from the 2007 SCF, payday loan borrowers had a mean debt level of $45,019. In comparison, families who did not take out a payday loan had a mean debt level of $98,878, or slightly more than twice that of payday loan borrowers.

The median debt level of families who withdrew a payday loan was also notably lower than that of those who did not take out a payday loan, with levels of $10,200 and $28,910, respectively. This means families who did not turn to payday lenders had a median debt level that was nearly three times that of payday loan borrowers' median debt. This finding differs from prior findings. Previous research, though, has found that payday borrowers tend to have higher levels of debt relative to their income and are also more likely to use consumer credit.[45]

The borrowing history of families who withdrew a payday loan within the last year was also dramatically different than that of families who did not take out a payday loan. The 2007 SCF data show that more than three times as large a share of payday loan borrowers had previously applied for any type of loan within the last five years and were denied (33 percent) as compared to nonpayday loan users (10 percent).

In assessing a family's credit history, the SCF also examined whether families had ever been delinquent on any type of a loan. While only 14 percent of families who had taken out a payday loan within the last year had also been delinquent on a loan, this share was still nearly three times as large as the share of families who did not take out a payday loan and had been delinquent on a loan (5 percent).

Further, payday borrowers are less likely to self-identify as savers than nonborrowers.[46] Just over a quarter (27 percent) of families who took out a payday loan said that they were savers, while nearly half (48 percent) of families who did not withdraw a payday loan indicated that they were savers.

Payday loans for convenience, emergencies, and everyday items

Why do the folks who borrow from payday lenders do so? For the first time, the 2007 SCF asked payday loan borrowers this question. While more than one-third payday loan borrowers (34 percent) said it was for the convenience factor, more than one-quarter (29 percent) cited an emergency and more than one-fifth (21 percent) cited a basic consumption need, such as paying for gas or for their car. Interestingly, just 8 percent said that they used a payday loan because it was the only option available to them.

The 2001 report that cited a survey of 500 payday loan customers did not provide respondents with all of the response options. But they too found that a small share (7 percent) of borrowers withdrew the payday loan because there was no other alternative available to them.[47]

Additionally, the 2001 report asked respondents what was the purpose of their payday loan and found that nearly two-thirds used it for an emergency, including an unplanned expense (47 percent) or a temporary income reduction (19 percent), while a little more than one-third used it for a discretionary purpose, including a planned expense (12 percent) or "other" (23 percent).[48]

Why borrow from payday lenders?

Reason	Share of Borrowers
Convenience	34%
Emergency	29%
Basic consumption need	21%
Home	9%
Only option available	8%

Note: Authors' calculations based on 2007 Survey of Consumer Finance Data.

Conclusion

Based on the 2007 SCF data from the Federal Reserve, families who withdrew a payday loan within the last year tended to have a lower income, net worth, asset level, and debt level than families who had not withdrawn a payday loan. These families were also less likely to be a homeowner or a self-identified saver and were more likely to have previously been delinquent on a loan and also to have had a loan application denied. The heads of households of families who borrow from a payday lender also tend to be younger, more likely to be single women, have less educational attainment, and are more likely to be minorities than their non-borrowing counterparts.

Because payday loans are accompanied by high fees to some extent, which on an annualized basis amount to around 400 percent, the use of these types of loans may impede the wealth creation for many borrowers who already have less wealth to begin with. Given the explosive growth in payday lending transactions, payday lending practices and regulations deserve the close scrutiny of policymakers.

With the exception of the Military Lending Act, which capped the annual interest rate that can be applied to many payday loans made to active-duty military families beginning with loans made on October 1, 2007, regulation of payday lending is left to the states.[49] In 2005, the FDIC ended the "rent-a-bank" practice that payday lenders had employed, whereby they had contracts with banks that were federally protected in states with regulations that had limited or essentially prohibited payday loans and effectively exported a rate from a state without a cap on payday loan interest rates to a state that had a cap.[50] During the 111th Congress, Sen. Richard Durbin (D-IL) reintroduced the Protecting Consumers from Unreasonable Credit Rates Act, which would put a national cap of 36 percent on consumer loans.[51] Additionally, the Financial Product Safety Commission Act of 2009, introduced by Senators Durbin, Charles Schumer (D-NY), and Edward Kennedy (D-MA) would help "ensure the fairness, safety and sustainability of credit and payment products, potentially including payday loan."[52]

While some states have implemented tight regulations or even outlawed payday lending, others largely leave lenders to navigate loopholes in weak consumer protection laws.[53] Policymakers—especially at the state level—are pushing for, and, in some cases, have enacted legislation that puts a cap on the annual percentage rate that payday lenders can charge borrowers.[54]According to the Consumer Federation of America, roughly one-quarter of states along with the District of Columbia and two U.S. territories "have small loan laws or usury caps that effectively prohibit payday lending at triple-digit interest rates."[55]

State legislation on payday lending is ever-evolving, with the National Conference of State Legislators reporting that a total of 102 bills related to payday lending were filed in 30 states during the first half of 2008 alone.[56] This is a good sign that the problem with payday lenders is on the minds of state policymakers. Restrictions on payday loans, though, will have to be considered carefully.

Only a minority of payday borrowers indicated that these were loans taken out for convenience reasons. The majority of these loans were borrowed for several reasons: no other options were available, a family had to cover basic consumption needs, and for emergency purposes. Restrictions on payday loans thus will have to be balanced with more savings opportunities and other, lower-cost credit opportunities for families who now rely on payday loans.

Appendix

Wording of payday lending questions asked in the 2007 Survey of Consumer Finances

Question x7063

During the past, have you (or anyone in your family living here) borrowed money that was supposed to be repaid in full out of your next paycheck? If yes: Please do not include personal loans from family members or friends.

Question x7064

Why did you choose this type of loan?

Buy food	Pay other bills / loans
Buy gas	"Christmas"
Buy medicine/medical payments	Help family
Pay utilities	"Emergency" / "need quick money" n.e.c.
Pay rent	"Convenient" n.e.c.
Vehicle expenses other than gas	"Only option" n.e.c.

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46 Savers are families, who indicated that they "save income of one family member, spend the other", "spend regular income, save other income", or "save regularly by putting money aside each month". They are classified as non-saver if they "don't save - usually spend more than income they", "don't save - usually spend about as much as income", or "save whatever is left over at the end of the month - no regular plan."

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51 Letter from 100 + Diverse National and State Groups to Senator Durbin.

52 Letter from 56 National, State Organizations to Senators Durbin and Schumer and Representatives Delhaunt and Miller, March 10, 2009, available at http://www.consumerfed.org/pdfs/FPSC_letter.pdf (last accessed March 20, 2009).

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