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Who Borrows From Payday Lenders?

An Analysis of Newly Available Data

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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.

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