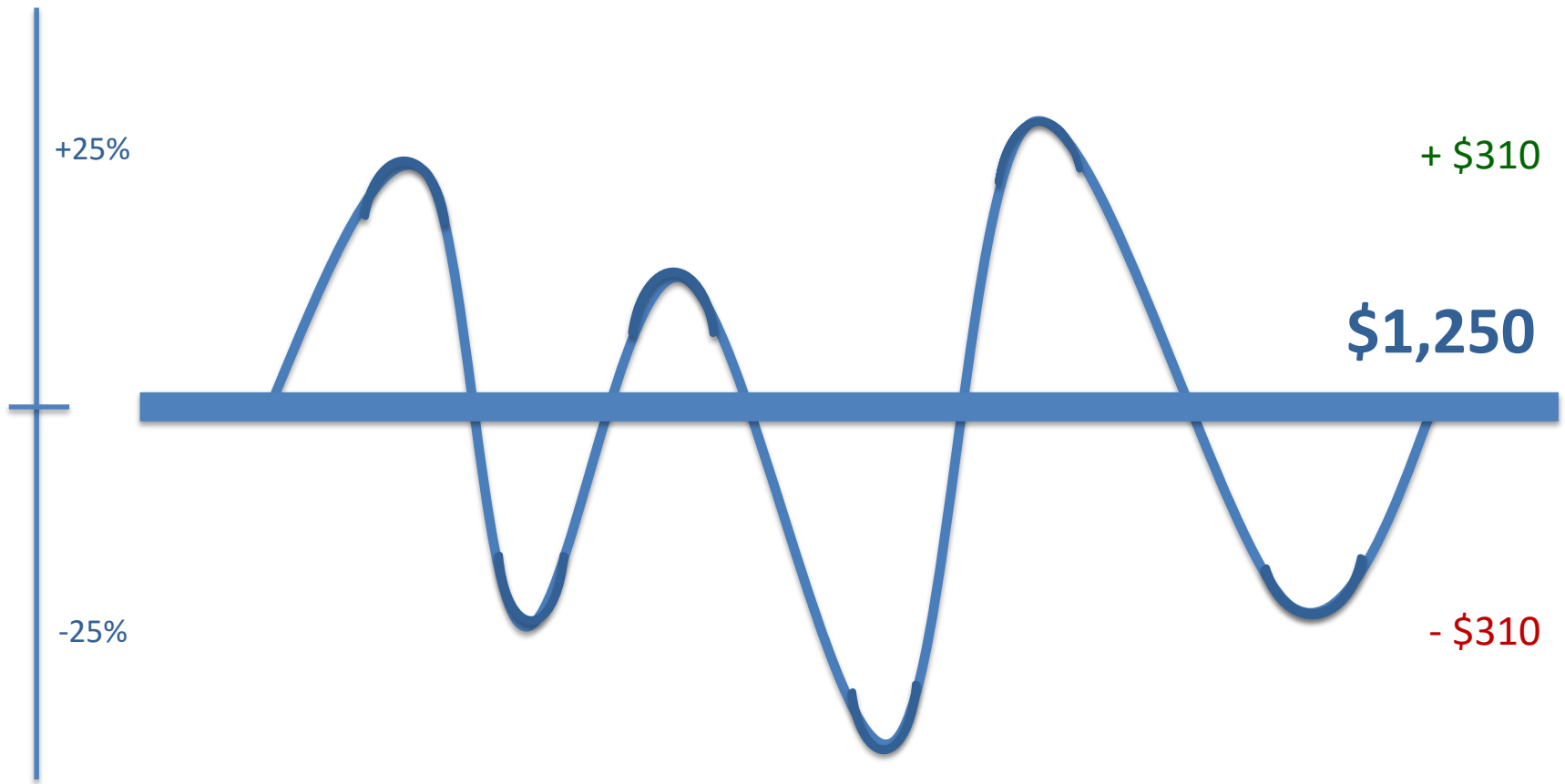


Payday and Small-Dollar Loans: Research and Policy Solutions

Briefing for Hawaii Stakeholders

Dec, 2017



Income volatility

- >25% gain or drop compared to average income
- Affects about half of U.S. households (HHs)
- Greater volatility in low-to-moderate income HHs
 - Average **2½** “dip” months, **2½** “gain” months per year
 - HHs near poverty line: one-quarter of monthly income is “unpredictable”
 - Hourly workers especially impacted

Credit might help

- Credit cannot overcome poverty wages
- But it can help smooth income...
- IF it is properly structured...
- and IF it is economically sustainable

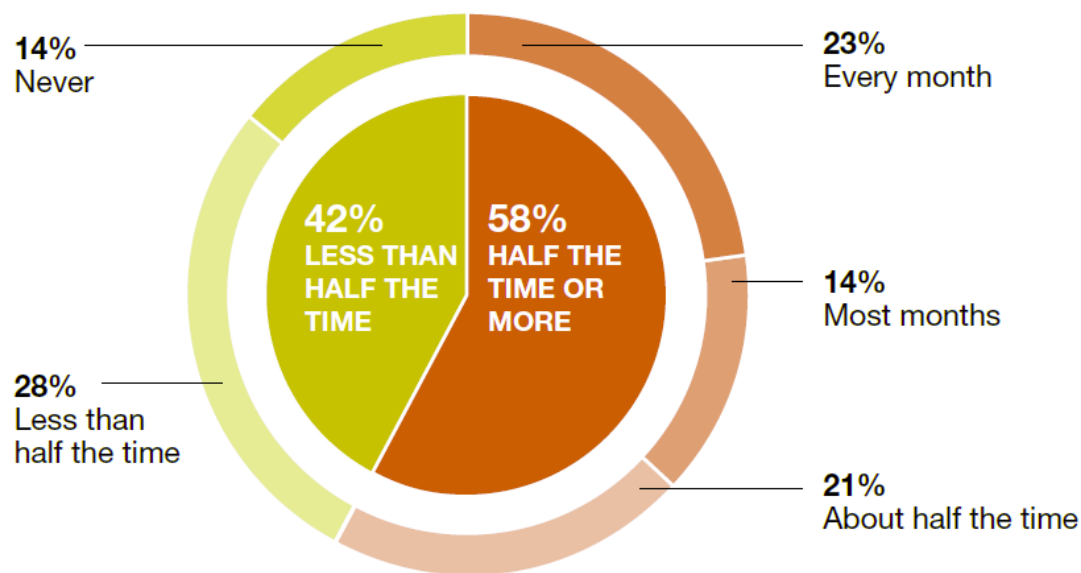
Payday loans *make it worse*

Profile of payday borrowers

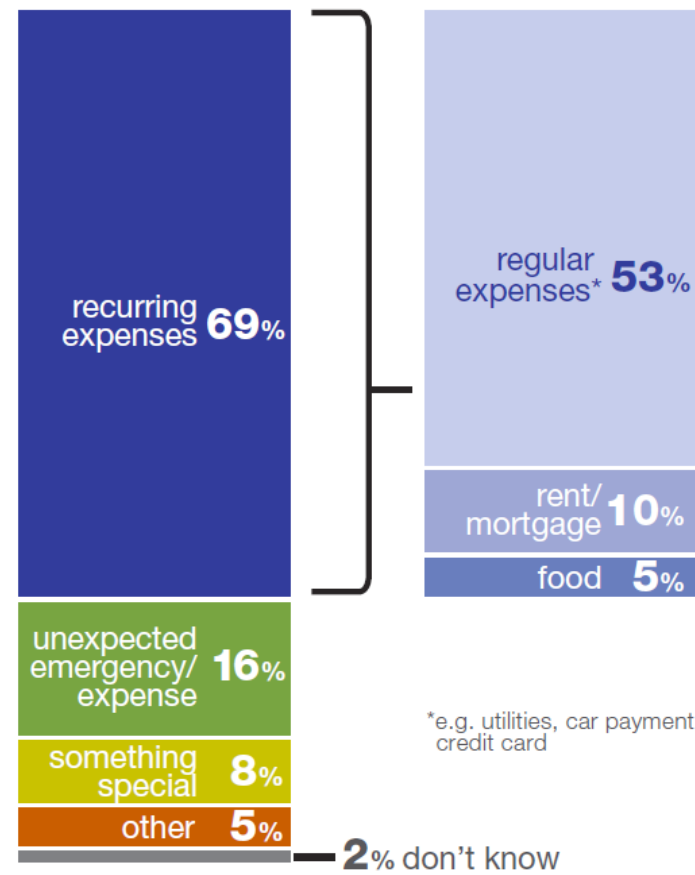
- 12 million users per year, spending \$9 billion+
- Have checking account – required for a loan
- Have income – about \$30,000 per year
- “Thick file” credit histories
 - >90% have a credit score, average 517
 - Most have credit cards, usually maxed out

Most use payday loans for monthly bills

FREQUENCY OF TROUBLE MEETING BILLS:



REASON FOR FIRST LOAN



Core Problems with Payday Loans

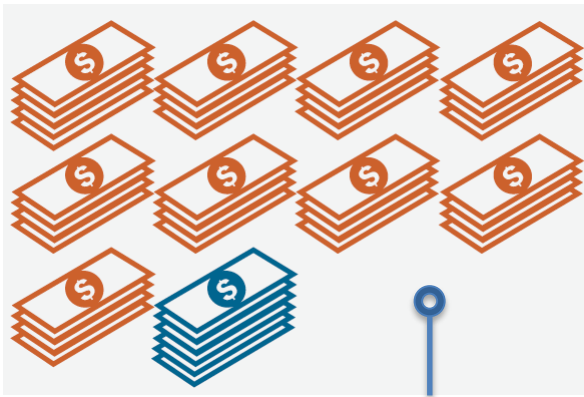


Unaffordable Payments

Renewing is affordable,
but paying off is not

Amount due in two weeks
on a typical loan of \$375

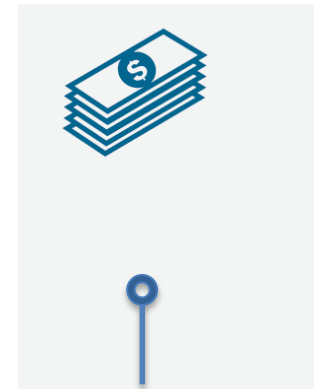
\$430
principal &
\$55 fee



36%
of income

OR

Amount to renew or re-borrow
without paying down principal



\$55

5%
of income

Unaffordable Payments

What is an affordable payment?



= \$60
payment
for a
borrower
earning
\$1,200 per
two weeks

Unreasonable Durations

Two weeks is too short...
But loans can also be *too long*

Punishing amortization
schedule

Unaffordable
payments

Spiraling costs

Issuer	Principal borrowed	Loan duration	Monthly payment	Finance charges
Speedy Cash	\$500	18 months	\$90.35	\$1,126.30
Advance America	\$500	6 months	\$306.97	\$1,341.84
Castle Payday	\$500	11 months	\$291.25	\$2,703.75
CashCall	\$2,525	47 months	\$294.46	\$11,314.62

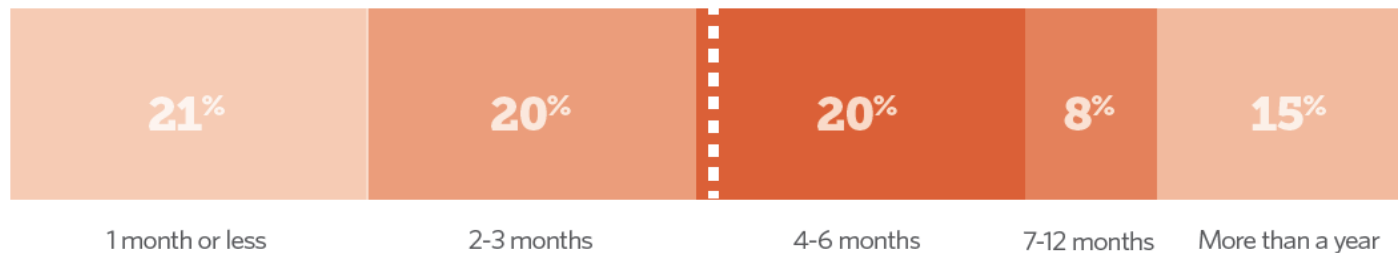
Note: The referenced Speedy Cash loan is available in Arizona as an auto title installment loan. The referenced Advance America loan is available in Texas as an extended loan. www.pewtrusts.org/small-loans

Unreasonable Durations

4 to 6 Months Is Considered a Reasonable Length for a \$500 Loan
Most respondents say one month is too short, more than a year too long

Shortest period of time to pay back \$500 loan

Median: 4 months



Longest period of time to pay back \$500 loan

Median: 6 months





Excessive Charges

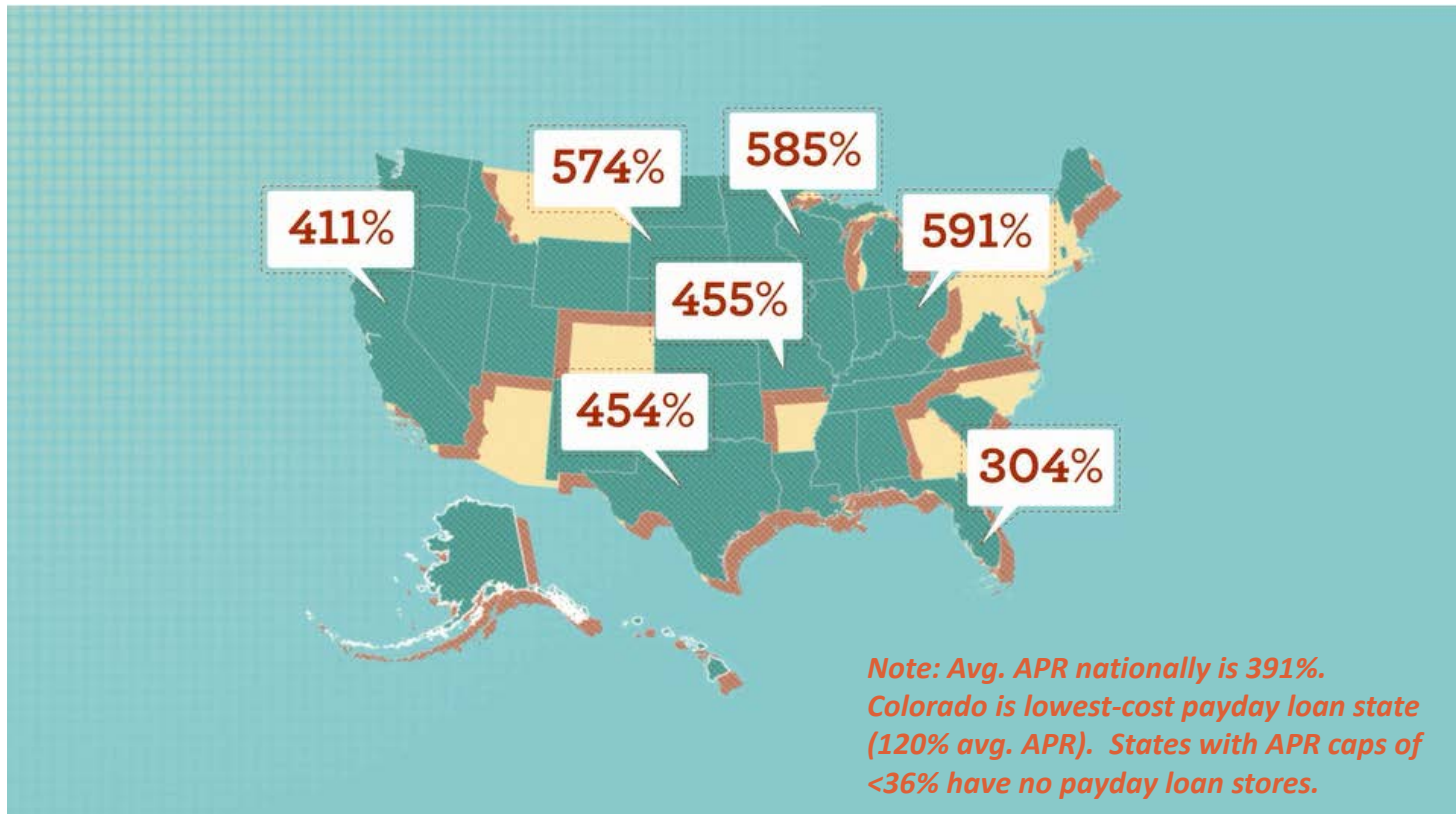
Payday market is not price competitive

- Borrowers are shopping based on speed, convenience and certainty of approval, not price
- Lenders typically charge maximum state allows
- Multi-state companies profitably charge 3-4x less in CO to virtually the same credit-risk borrowers

See: Pew, “How State Rate Limits Affect Payday Loan Prices (2014)”

Excessive Charges

Hawaii: 461% APR



Excessive Charges

How much does a \$500 payday loan cost for 2 weeks?

	Advance America	ACE Cash Express	Check Into Cash	Check 'n Go	Typical APR
Colorado	\$22	\$22	\$22	---	120%
Florida	\$55	\$55	\$53	\$55	304%
Michigan	\$65.45	---	\$65.45	\$65.45	369%
Kansas	\$75	\$75	\$75	\$75	391%
Missouri	\$95	\$85	\$85	\$125	455%
Texas	\$102	\$127	\$102	\$127	454%

The prices charged reflect maximum allowable under state law, except Missouri & Texas. In Hawaii, the max. allowable charge results in a 461% APR.

Excessive Charges

Prices higher than necessary to maintain access to credit

	HAWAII	COLORADO
Credit widely available?	YES	YES
Avg. cost to borrow \$300 for two weeks	\$53	\$16 [\$37 less]
Avg. fee to borrow \$300 for 5 months*	\$529	\$172 [\$357 less]
% of paycheck for repayment	36%	4%

- Colorado is the lowest-priced non-bank market. CO law allows 45% interest plus certain limited fees. It proves that payday loans can exist at lower cost.
- Bank and credit union loans would cost even less, but regulatory barriers remain....

*Average borrower is in debt for about 5 months of the year

The market is changing: Longer-term payday installment loans now in half the states

– risks and opportunities

Texas payday loan market swung from 27% installment to 67% installment in just 3 years

Payday Loan Fees	2012	2015
Single-Payment Payday Loan Fees	\$682,731,583	\$414,231,672
Payday Installment Loan Fees	\$254,358,191	\$826,886,430
Payday Installment Loan Fees As % of Market	27%	67%

Sources: Texas Office of Consumer Credit Commissioner, *Credit Access Business (CAB) Annual Data Report* (2012), accessed Aug. 4, 2016, <http://occc.texas.gov/sites/default/files/uploads/misc/cab-annual-2012.pdf>.

Texas Office of Consumer Credit Commissioner, *Credit Access Business (CAB) Annual Data Report* (2015), accessed Aug. 4, 2016, <http://occc.texas.gov/sites/default/files/uploads/reports/cab-annual-2015.pdf>.

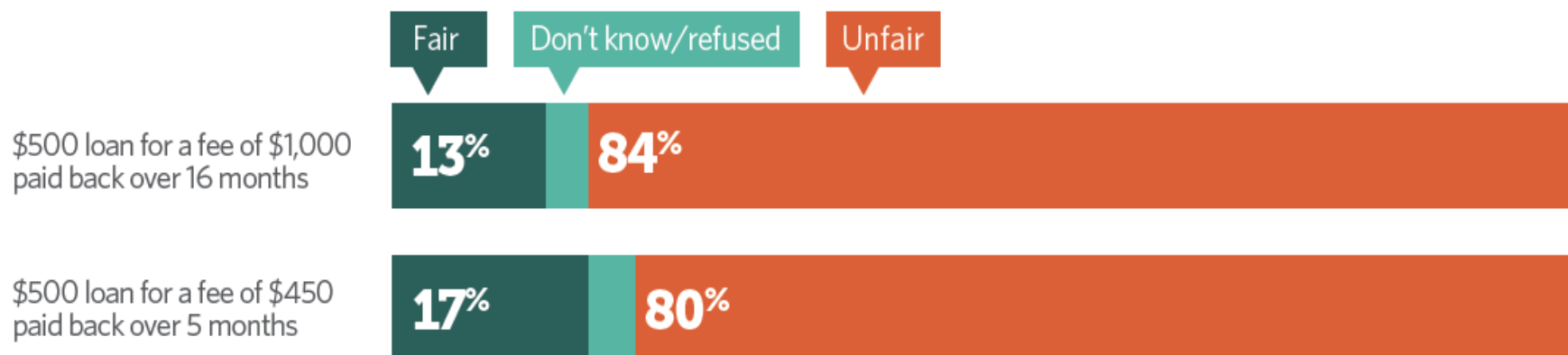
But Without Sensible Safeguards Payday Installment Loans Are Unaffordable and Unnecessarily Expensive

Lender (state)	Loan amount	Total cost	Loan duration	Monthly payment
ACE Cash Express (TX)	\$600	\$586	Four months	\$297
CashNetUSA (NM)	\$600	\$952	Seven months	\$222
Advance America (WI)	\$500	\$595	Five months	\$219
Plain Green Loans (multiple states)	\$500	\$578	Six months	\$180
Speedy Cash (IL)	\$500	\$542	Six months	\$174

Borrowers often pay more in fees than they received in credit

Americans View Current Payday Installment Loan Charges as Unfair

Similar to some current payday installment loans



WILL there be credit?
SHOULD there be?

Rent-to-Own

Borrow from
friends / family

Credit union
PAL Loans

Pawn

Overdraft

Float
utility bills

New bank small
installment
loans?

Payday loans
(under 45 days)

CFPB Payday Loan Rule
(will curb # of loans, if enforced)

Payday
installment loans
(over 45 days)

State law: —36% APR cap (prohibition)
—Installment loan reform

IF there is credit, what should it look like?

—5 essential elements to make loans safe, fair, and affordable

1. Affordable payments

- Most borrowers can't afford monthly payments larger than 5% of monthly pretax paycheck (about \$125/mo. for typical borrower)

2. Costs spread evenly over life of loan

- Limit charges to interest plus a monthly fee; no up-front fees, etc.

3. Reasonable amount of time to repay

- For a \$500 loan, about six months is right

4. Lower cost

- CO payday loans cost 4x less; see also Ohio H.B. 123 (2017)

5. Guard against harmful practices

- E.g. no prepayment penalty; see Ohio H.B. 123 (2017)

- Is it necessary to enact these kinds of rules?
 - Yes: It is necessary either to ban high-cost lending entirely, or enact these kinds of rules.
 - Payday lenders get special legal powers to make high-cost loans to financially fragile borrowers, secured by access to their checking accounts. Strong rules are essential to ensure this transaction is safe. Clear rules also benefit lenders by keeping costs down and allowing profitability at much lower prices.
- Should we also limit the number of loans?
 - Makes sense to limit to 1 per lender at a time. But no need for overall cap or database, if loans themselves are fair.
- Are people better off with or without credit?
 - Unknowable! But what *is clear*: people are better off with safer, more affordable loans (e.g. CO) than with payday loans (e.g. HI)

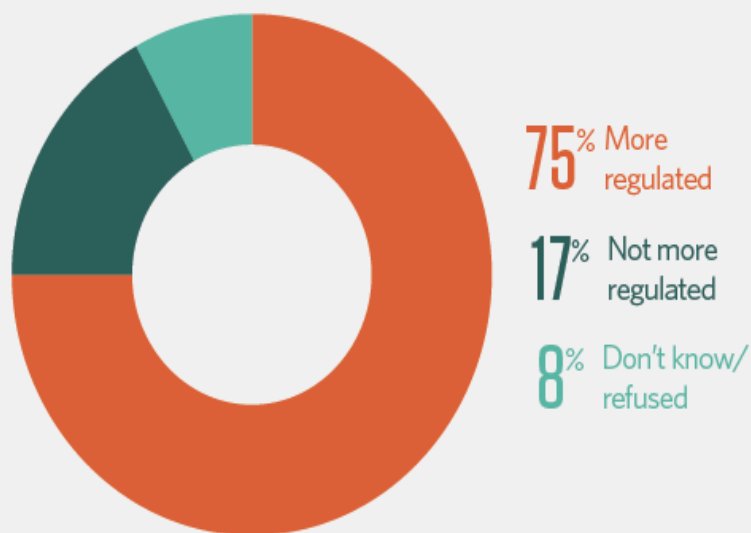
Large majorities support reform

—both borrowers and the general public

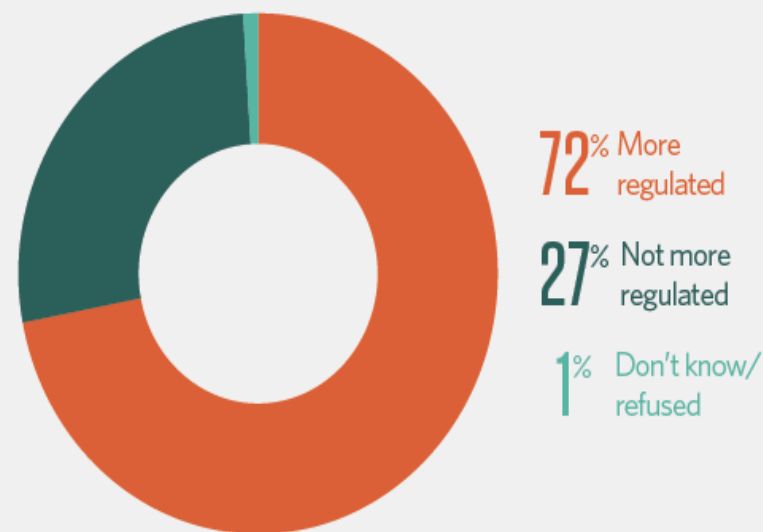
3 in 4 Americans Want Payday Loans to Be More Regulated

This finding reflects similar opinions expressed by payday borrowers

American adults

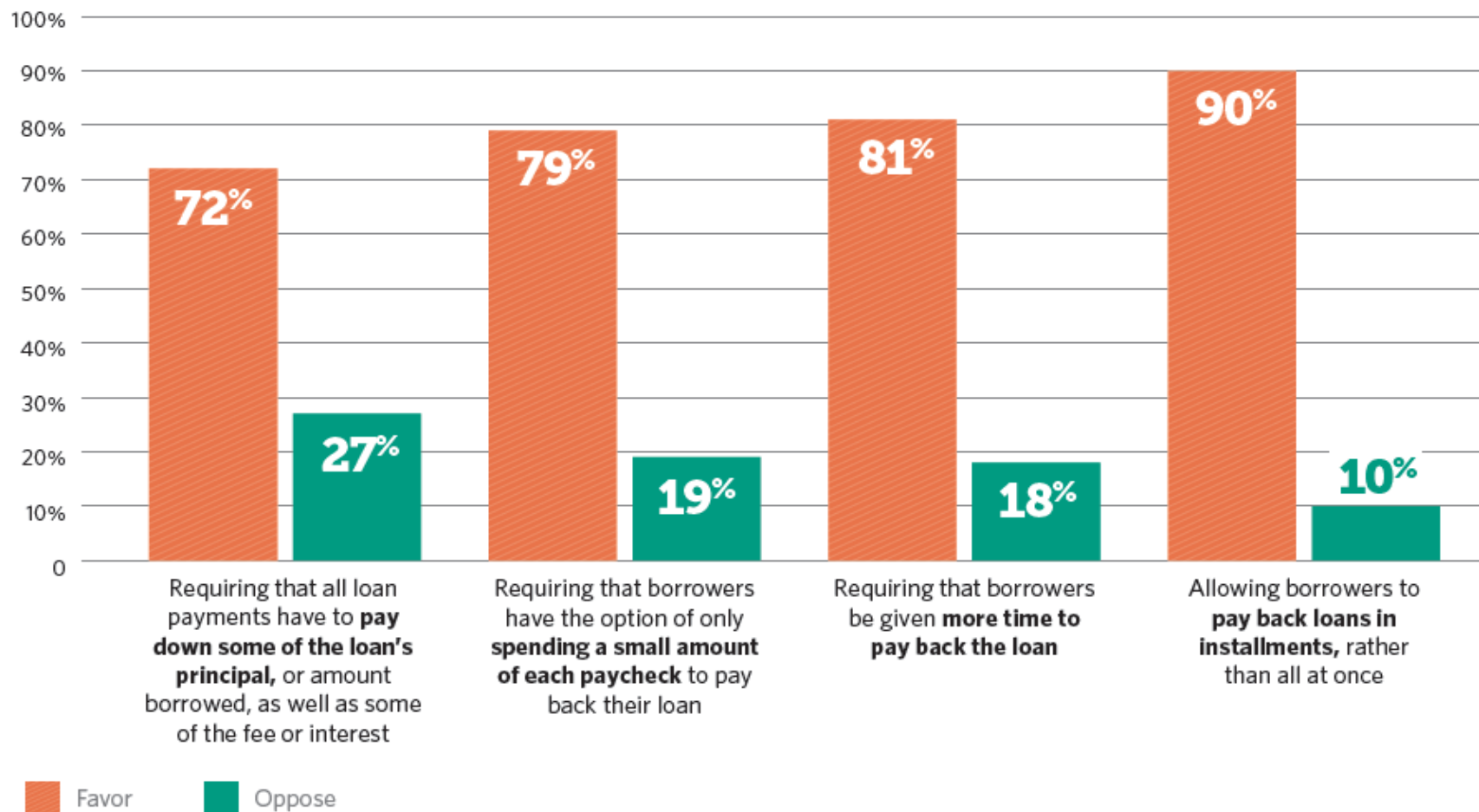


Payday borrowers (2013)



www.pewtrusts.org/small-loans

Payday borrowers overwhelmingly support reform





www.pewtrusts.org/small-loans

Project Director:

Nick Bourke
202.552.2123
nbourke@pewtrusts.org

State Coordinator:

Gabe Kravitz
202.540.6944
gkravitz@pewtrusts.org

Media Contact:

Mark Wolff
202.540.6390
mwolff@pewtrusts.org

Colorado Case Study (2010 Law):

*Access to credit remained available with
safeguards that improved outcomes for borrowers*

Colorado case study

2010: Eliminated the conventional, 2-week payday loan.
Replaced it with a 6-month installment loan featuring:

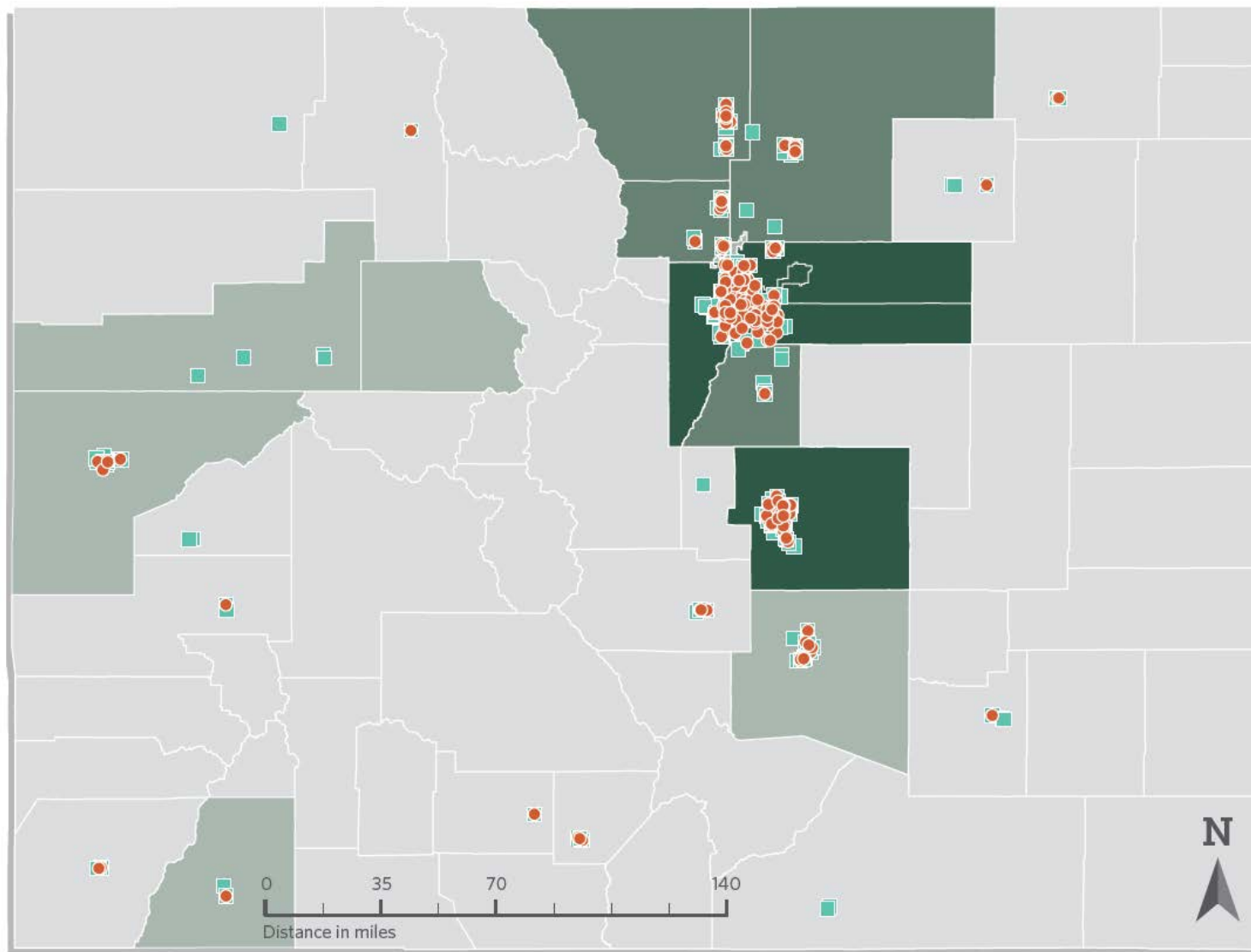
1. Affordable payments
 - Average borrower pays 4-5% of paycheck, not one-third+
2. Fully amortizing loan with equal installment payments
 - Fees pro-rata refundable (*critical* – avoids loan flipping)
 - No prepayment penalties
3. Lowest (non-depository) payday price in country
 - But still high: avg. APR 120% w/ interest and fees
 - Average loan of \$389 repaid in 3 months, costs \$116

In 2010, Colorado required payday loans to become installment loans (max \$500) w/ more affordable payments and critical safeguards:

1. Maintained access to credit
2. Kept lenders in business (fewer stores serving more people each)
3. Payments more affordable (4% of paycheck now vs. 38% before)
4. Total spent by borrowers on fees declined 42%
5. Lender-charged bounced check fees declined 48%
6. Defaults per year have declined 23%
7. Less oversight required to ensure consumer safety, because reform was structural: loans are safer and more affordable
8. Credit counselors and elected officials report fewer people coming to them with payday loan problems

See e.g., Pew, “Trial, Error, and Success in Colorado’s Payday Lending Reforms” (2014)

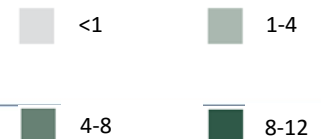
Stores still widely available after CO law change



Percentage of Colorado's population that lives within 20 miles of a payday loan store:

- Before the law change: **93%**
- After the law change: **91%**

Percent of total population by county



● Location open after law change (Aug. 1, 2013)

■ Location open before law change (April 1, 2010)

www.pewtrusts.org/small-loans

pewtrusts.org/small-loans

Data: 5% Payment Standard

- National survey of borrowers (compare self-reported amounts with income)
- 22 focus groups with borrowers
- Dataset of 200,000+ subprime installment loans purchased from credit bureau
- Subprime installment loan data from AFSA
- Colorado's successful payday loan reform
- Small-dollar loan programs from banks and CUs
- Fees paid to renew payday loans (but not repay)