



Payday Lending in America

Series summary

Payday loans are controversial. They typically offer about two weeks of credit, due in full on the borrower's next payday, at annual interest rates of around 400 percent. While borrowers find fast relief, they are often left indebted for months, struggling to repay a loan that was marketed as a short-term solution. Proponents argue that payday loans are a useful form of credit for consumers who lack access to more conventional banking services, but opponents claim they overburden people who are already struggling to make ends meet.

The Pew Charitable Trusts' *Payday Lending in America* series details fundamental problems with payday loans and suggests solutions for promoting a safer and more transparent marketplace for small-dollar loans.

Selected findings

- 12 million Americans take out payday loans each year, spending approximately \$7.4 billion annually. The average loan is \$375.
- A payday loan is characterized as a short-term solution for unexpected expenses, but the reality is different.
 - The average borrower is in debt for five months during the year, spending \$520 in interest to repeatedly reborrow the loan.
 - 69 percent of first-time borrowers use the loan for recurring bills (including rent or utilities), while just 16 percent deal with an unexpected expense such as a car repair.
- Payday loans are unaffordable.
 - Only 1 in 7 borrowers can afford the more than \$400 needed, on average, to pay off the full amount of these lump-sum repayment loans by their next payday.
 - Survey and market data show that most borrowers can afford to put no more than 5 percent of their paycheck toward loan payment and still be able to cover basic expenses. In the 35 states that allow lump-sum payday loans, repayment requires about one-third of an average borrower's paycheck.
- Most payday loan borrowers have trouble meeting monthly expenses at least half of the time.
- 41 percent of borrowers have needed a cash infusion, such as a tax refund or help from family or friends, to pay off a payday loan.
- Payday loans do not eliminate overdraft risk. Most borrowers also overdraw their bank accounts.
- A majority of borrowers say payday loans take advantage of them. A majority also say they provide relief.
- Borrowers want changes to payday loans.
 - By almost a 3-1 ratio, borrowers favor more regulation of the loans.
 - 8 in 10 borrowers favor a requirement that payments take up only a small amount of each paycheck.
 - 9 in 10 favor allowing borrowers to pay back the loans in installments.

- Safeguards are needed to ensure affordability and protect consumers from the risk of lender-driven refinancing, noncompetitive pricing, excessive loan durations, and abusive repayment or collection practices.
 - Such safeguards can be applied in a way that works for lenders. Payday lenders continue to operate after a recent law change in Colorado, but borrowers spend less, and payments are far more affordable.
 - In states that enact strong legal protections, the result is a large net decrease in payday loan usage. Rates of online borrowing are similar in states with payday loan storefronts and those with none.

Policymakers should fix the problems with payday lending in the 35 states where it exists.

The Consumer Financial Protection Bureau and other state and federal policymakers should act now:

- Limit payments to an affordable percentage of a borrower's periodic income. (Research indicates that monthly payments above 5 percent of gross monthly income are unaffordable.)
- Spread costs evenly over the life of the loan.
- Guard against harmful repayment or collection practices.
- Require concise disclosures that reveal both periodic and total costs.
- States should continue to set maximum allowable charges on loans for those with poor credit.

Payday Lending in America reports

Who Borrows, Where They Borrow, and Why (2012)

How Borrowers Choose and Repay Payday Loans (2013)

Policy Solutions (2013)

Other resources available from Pew

Payday Loans Explained (video)

How Payday Loans Work (infographic)

Payday Loan Affordability Fast Facts (infographic)

Payday Borrowers Want Reform (infographic)

Pew's Policy Recommendations to Fix Payday Loan Problems (infographic)

For more information, please visit:

pewtrusts.org/small-loans

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