Payday Loans Cost 4 Times More in States With Few Consumer Protections

States that have enacted reforms preserved widespread access to credit

Overview

Since 2010, four states—Colorado, Hawaii, Ohio, and Virginia—have passed comprehensive payday loan reforms, saving consumers millions of dollars in fees while maintaining broad access to safer small credit.[1] In these states, lenders profitably offer small loans that are repaid in affordable installments and cost four times less than typical single-payment payday loans that borrowers must repay in full on their next payday. This proves that states can effectively reform payday lending to include strong consumer protections, ensure widespread access to credit, and reduce the financial burden on struggling families.

However, in most other states, single-payment payday loans remain common. The large, unaffordable lump-sum payments required for these loans take up about a third of the typical borrower's paycheck,[2] which leads to repeated borrowing and, in turn, to consumers carrying debt for much longer than the advertised two-week loan term. In previous research, The Pew Charitable Trusts has found that single-payment loan borrowers re-borrow their original principal, paying multiple fees, for five months of the year on average.[3] Additionally, some lenders have shifted from single-payment to high-cost installment payday loans to evade consumer protections.[4]

In 2014, Pew reviewed state payday loan regulations and prices to better understand marketplace trends.[5] This brief updates that study using data from regulators in the 32 states that allow payday lending (18 states and Washington, D.C., do not) and advertised pricing from the nation's six largest payday lenders to determine available loan types and costs as well as applicable consumer protections. This analysis shows that lawmakers in states that allow payday lending and wish to preserve the availability of small credit can do so and protect consumers at the same time by enacting comprehensive reforms.

Payday loan reforms ensure availability of credit

By adopting balanced reforms, Colorado, Hawaii, Ohio, and Virginia have lowered the cost of small credit, provided essential consumer protections, and preserved loan availability. For instance, after Colorado changed its law in 2010 to allow borrowers to repay in installments over time and at costs and interest rates that are about three times lower than before the reform, loan sizes remained largely unchanged, total days of credit issued did not drop, the number of borrowers declined by less than 10%, and loans continued to reach roughly the same population of borrowers.[6]

Similarly, in 2018, Ohio passed bipartisan legislation that established clear rules and a level playing field for lenders. And by early 2022, the state had licensed nearly 120 locations to offer small loans. Several of these lenders are new to Ohio and had avoided operating in the state before the reforms because of a lack of regulatory clarity and an oversaturation of high-cost lenders. The total number of stores in Ohio declined after reform, which was expected. But the remaining stores became much more efficient, serving an average of 1,266 unique customers annually, compared with the national average of just 500. This increased efficiency enabled lenders to profitably offer loans at prices that are about four times lower than what they had previously charged, as required by the reform.[7]

Further, since Virginia's payday loan laws went into effect in January 2021, new firms, such as financial technology and installment lenders, have expanded into the state's small-credit marketplace, offering lower-cost loans and providing competition for incumbent lenders that updated their products to comply with the reforms.[8] Although Virginia law had previously favored high-risk products by allowing much higher rates for single-payment loans and lines of credit than for small installment loans, the state now requires a safer, more transparent, and lower-cost installment structure.[9] And lenders in the state are able to operate profitably in various ways, via storefront or online, and by offering only loans or a mix of loans, check cashing, and other financial services.

The success of Ohio and Virginia's reforms is thanks in part to the model created by Colorado in 2010, which protected consumers and provided a profitable market for lenders.[10] Although lenders warned at the time that Colorado's reform would drive them out of business, 11 years later, four of the nation's largest payday loan chains continue to offer small installment loans in the state.[11]

Single-payment loans still a large share of most states' small-credit market

Payday lenders operate stores in 32 states, of which only Oklahoma and the four that passed comprehensive reforms have fully shifted from high-risk, single-payment loans to those using an installment structure. Eighteen states and D.C. either have laws that explicitly prohibit payday lending or have low price caps that effectively do so.

Single-payment loans continue to be issued in 27 states, and lenders have tended to maintain them as the dominant product offering in states where it is legal to do so. For instance, they are the most common type of payday loan offered in 22 of those states and the only one offered in 13 of them. (See Figure 1.) In nine of those 22 states, lenders also offer payday installment loans or high-rate lines of credit, but they typically issue fewer of those than of single-payment loans. For example, from July 2020 to June 2021, Florida lenders originated approximately 3 million single-payment payday loans, but just 600,000 payday installment loans.[12]

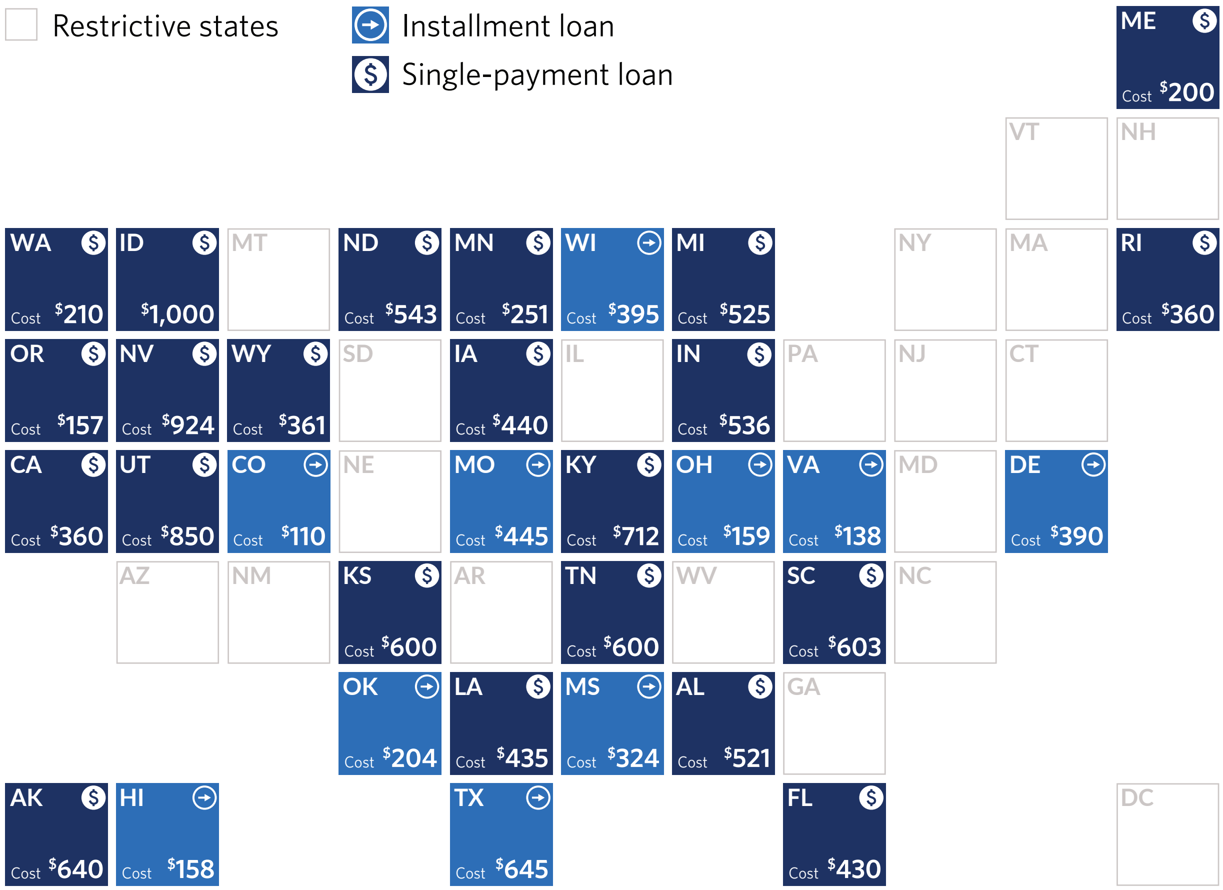
In addition, seven states have laws that effectively limit maximum loan amounts to less than $500. Although these states also have lower borrowing costs, that is often a result only of the small loan sizes rather than actual lower prices compared with states that permit loans of $500 or higher. Most of these seven states have annual percentage rates (APRs) over 200%, with single-payment loans as the most common payday product.

Lenders generally charge borrowers higher rates on single-payment payday loans than on installment ones even when both are allowed under state law. In Idaho, for instance, lenders charge an average APR of 652% (25% per pay period) for a single-payment $500 payday loan. As a result, borrowing the same $500 repeatedly over four months will cost $1,000 in fees, nearly double the $532 that borrowers pay for a comparable installment loan offered by the same group of lenders.

Figure 1

Single-Payment Payday Loans Dominate in 22 States

Most common loan type and average cost to borrow $500 (or maximum amount allowed) for 4 months, by state



Notes: Restrictive states have strong laws that bar payday lenders from operating; a change in New Mexico law that was signed March 1, 2022, and will take effect Jan. 1, 2023, makes it the nation's 18th restrictive state. Pew defines "most common loan type" by the number of days of credit extended in states where regulatory data was available, and by loan volume in states where data was unavailable. To analyze most common loan types, Pew used three data sources: regulatory data for the 10 states where it was available; new laws in the two states (Hawaii and Virginia) that recently reformed payday lending; and the type of loan offered by the largest number of payday lenders for the remaining 20 states, which had published limited or no regulatory data in the past three years. Seven states have statutory maximum loan sizes or fee limits that effectively restrict loans to less than $500. In Maine and Oregon, lenders offer payday loans up to $300; in Rhode Island, up to $450; in Iowa, up to $445; in California, up to $255; and in Louisiana, up to $350. And in Tennessee, payday lenders issue loans up to $425. If loan sizes were standardized at $500 for these states, the equivalent costs to borrow that amount for four months would be $400 in Rhode Island, $494 in Iowa, $706 in Tennessee, $621 in Louisiana, $333 in Maine, $262 in Oregon, and $706 in California.

Sources: Pew's analysis of Hawaii House Bill 1192 (2021); Virginia Senate Bill 421 (2020); state regulatory reports; advertised pricing of the nation's six largest payday loan chains

Not all payday installment loans benefit consumers

Installment repayment structures are not, by themselves, sufficient to protect borrowers. A robust set of consumer protections is required to deliver better payday loans. In states that have enacted comprehensive payday loan reforms, installment loans are safer and more affordable, but, elsewhere, payday installment loans usually carry excessive prices, prolonged terms, and unaffordable payments. Borrowers in states without adequate regulatory safeguards pay only a small fraction of principal in each monthly installment and APRs in the 200s, 300s, or even higher. (See Figure 2.) Pew's prior research has found that typical payday loan borrowers can afford payments equal to approximately 5% of their income or $125 a month, but high-cost installment loans often require payments that exceed $200—and even $300—a month.[13]

This model can produce long-term debt at high costs, similar to single-payment payday lending.[14] For example, lenders in Delaware, Missouri, Texas, and Wisconsin charge annual rates of more than 300% for payday installment products. According to state regulatory data, a $500, four-month installment loan in Texas costs $645 in finance charges at an APR of 527%, with the borrower ultimately repaying $1,145.

By comparison, in the four states that have passed comprehensive reforms, lenders charge about four times less for that same loan: Virginia residents, for example, pay $138 in finance charges to borrow $500 for four months. These states' laws deliver much lower prices, reasonable time to repay, and affordable installments, the three key components of successful reform.

Recommendations

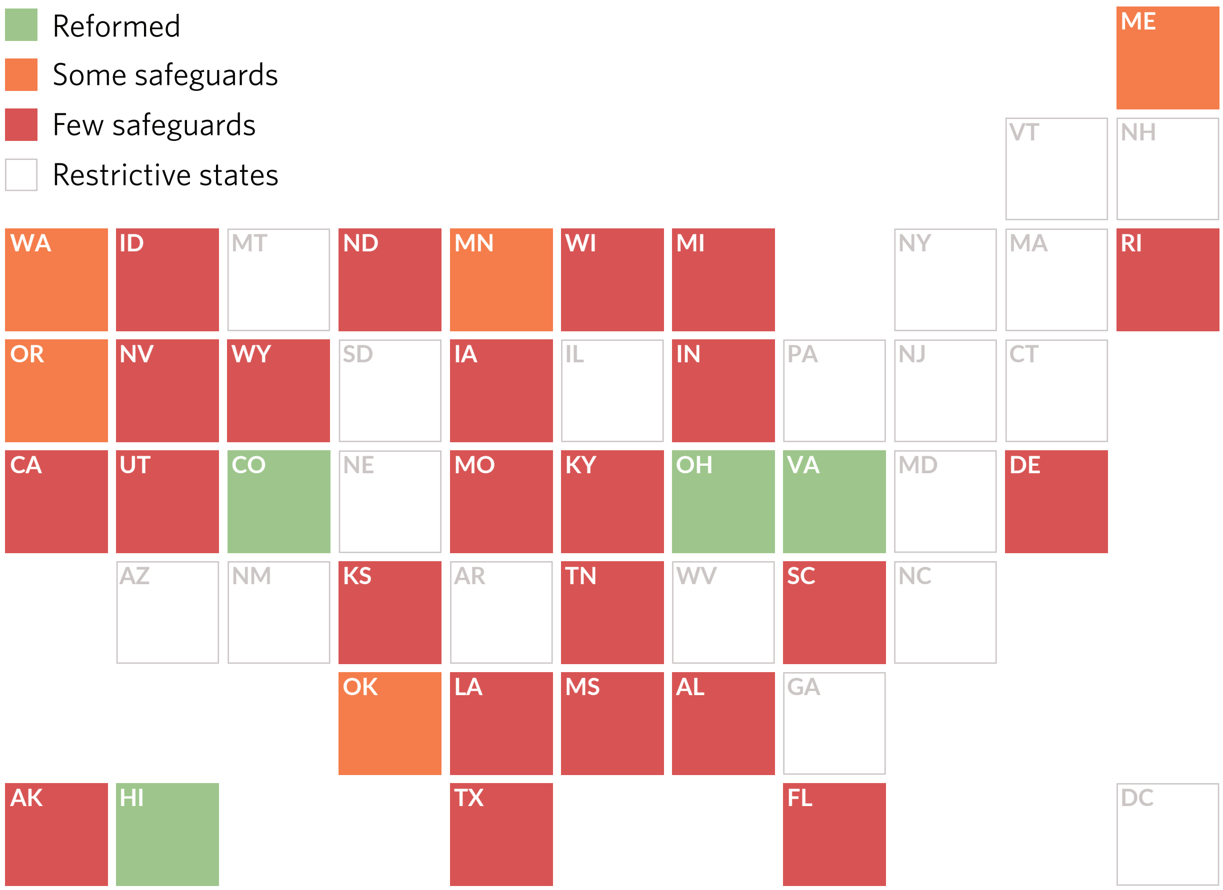
To prevent problems caused by unaffordable payday loan products, Pew recommends that the 18 states without payday lending continue to prohibit high-cost loans and that other states either choose to follow those states' lead or enact comprehensive reforms like those in Colorado, Hawaii, Ohio, and Virginia. The experiences of those four states provide a clear blueprint for policymakers seeking to protect consumers and enable access to small-dollar credit. And their approaches share four key ingredients: fair prices that are viable for lenders and borrowers, affordable payments, reasonable time to repay, and widespread access to safer credit.

Further, federal agencies should support state reform efforts by preventing single-payment loans nationally, curbing other harmful lending practices, and ensuring that diverse providers, including payday lenders, consumer finance companies, financial technology firms, banks, and credit unions, offer safer, lower-cost installment loans instead of loans with balloon payments.

Figure 2

Most States Still Offer Limited Protections for Payday Loan Borrowers

Strength of small-credit regulation, by state



Notes: “Few safeguards” means the state allows: lending without meaningful protections to ensure affordable payments; APRs over 250%; some single-payment loans; and repeat usage of single-payment loans. “Some safeguards” means the state requires lower-than-average prices and provides some protections against high costs or repeated usage. Restrictive states have strong laws that bar payday lenders from operating. New Mexico has enacted a change in state law that will take effect Jan. 1, 2023, and makes it the nation’s 18th restrictive state. In states that have enacted reforms, prices are meaningfully lower than average, credit is widely available, and rules are in place to ensure that borrowers have adequate time to repay in affordable installments.

Sources: Pew’s analysis of state laws, state regulatory data, and advertised pricing from the nation’s six largest payday loan chains

Conclusion

State policymakers can and should effectively protect consumers from loans with excessive costs and other harmful terms.[15] Single-payment payday loans still exist in 27 states and are the most common type of payday loan in most of them, even when lenders also issue payday installment loans and lines of credit. Lawmakers in states with payday lending who wish to preserve access to small loans should enact comprehensive reforms like those in Colorado, Hawaii, Ohio, and Virginia.

Appendix: Methodology

Researchers from Pew reviewed available state regulatory reports on loans issued by payday lenders to determine the most common types of payday loans in each state. (See Figure A.1.) For states that have not published relevant data in the past three years, Pew reviewed advertised product options and pricing information from the six largest payday loan chains in the U.S. and used that information to calculate dollar costs and annual percentage rates. In states that limit loan sizes to less than $500, dollar costs are based on the largest loan size allowed.

In APR calculations of single-payment payday loans, the modal term, 14 days, is used. The dollar costs calculated for a four-month loan term equal eight pay cycles, or 112 days. (See Table A.1.) In APR and cost calculations of payday installment loans, monthly payments are based on a four-month loan term.

Table A.1

Payday Loan Cost by State

Category	State	Average cost to borrow $500 or max. loan allowed for 4 months	Average APR charged
Reformed	Colorado*	$110	114%§
Reformed	Ohio	$159	124%§
Reformed	Virginia†	$138	126%
Reformed	Hawaii‡	$158	144%
Some safeguards	Washington	$210§	126%§
Some safeguards	Oregon	$157#	140%§
Some safeguards	Minnesota	$251	163%
Some safeguards	Oklahoma	$204	183%
Some safeguards	Maine	$200#	239%
Few safeguards	Wyoming	$361	235%
Few safeguards	Rhode Island	$360#	261%
Few safeguards	Florida	$430§	281%§
Few safeguards	Mississippi	$324	282%
Few safeguards	Alabama	$521§	312%§
Few safeguards	Iowa	$440#	322%
Few safeguards	Delaware	$390	334%

Few safeguards	Wisconsin	$395	338%
Few safeguards	Michigan	$525	342%
Few safeguards	Indiana	$536	349%
Few safeguards	North Dakota	$543§	354%§
Few safeguards	California	$360#	361%§
Few safeguards	Missouri	$445	377%
Few safeguards	Kansas	$600	391%
Few safeguards	South Carolina	$603	393%
Few safeguards	Louisiana	$435#	405%
Few safeguards	Alaska	$640	417%
Few safeguards	Tennessee	$600#	460%
Few safeguards	Kentucky	$712	464%
Few safeguards	Texas	$645§	527%§
Few safeguards	Utah	$850§	554%§
Few safeguards	Nevada	$924	602%
Few safeguards	Idaho	$1,000	652%

Notes: Eighteen states and Washington, D.C., are restrictive: They have strong laws that prohibit high-cost small loans outright or set low rate limits. Payday lenders do not operate in these jurisdictions, and they are omitted from the table. The 18 states are Arizona, Arkansas, Connecticut, Georgia, Illinois, Maryland, Massachusetts, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, South Dakota, Vermont, and West Virginia.

* Colorado voters passed a ballot initiative in 2018 that resulted in payday lenders operating under a different statute with slightly lower pricing than was in place from 2010 to 2018, which in turn was about three times lower than what was in place before 2010, with loans still repayable in equal installments.

† Virginia enacted a law in April 2020 that shifted payday lending from a single-payment to an installment structure with lower pricing. The average cost and APR shown are based on the new law, which took effect Jan. 1, 2021.

‡ Hawaii enacted a law in June 2021 that shifted payday lending from a single-payment to an installment structure with lower pricing. The average cost and APR are based on the new law, which took effect Jan. 1, 2022.

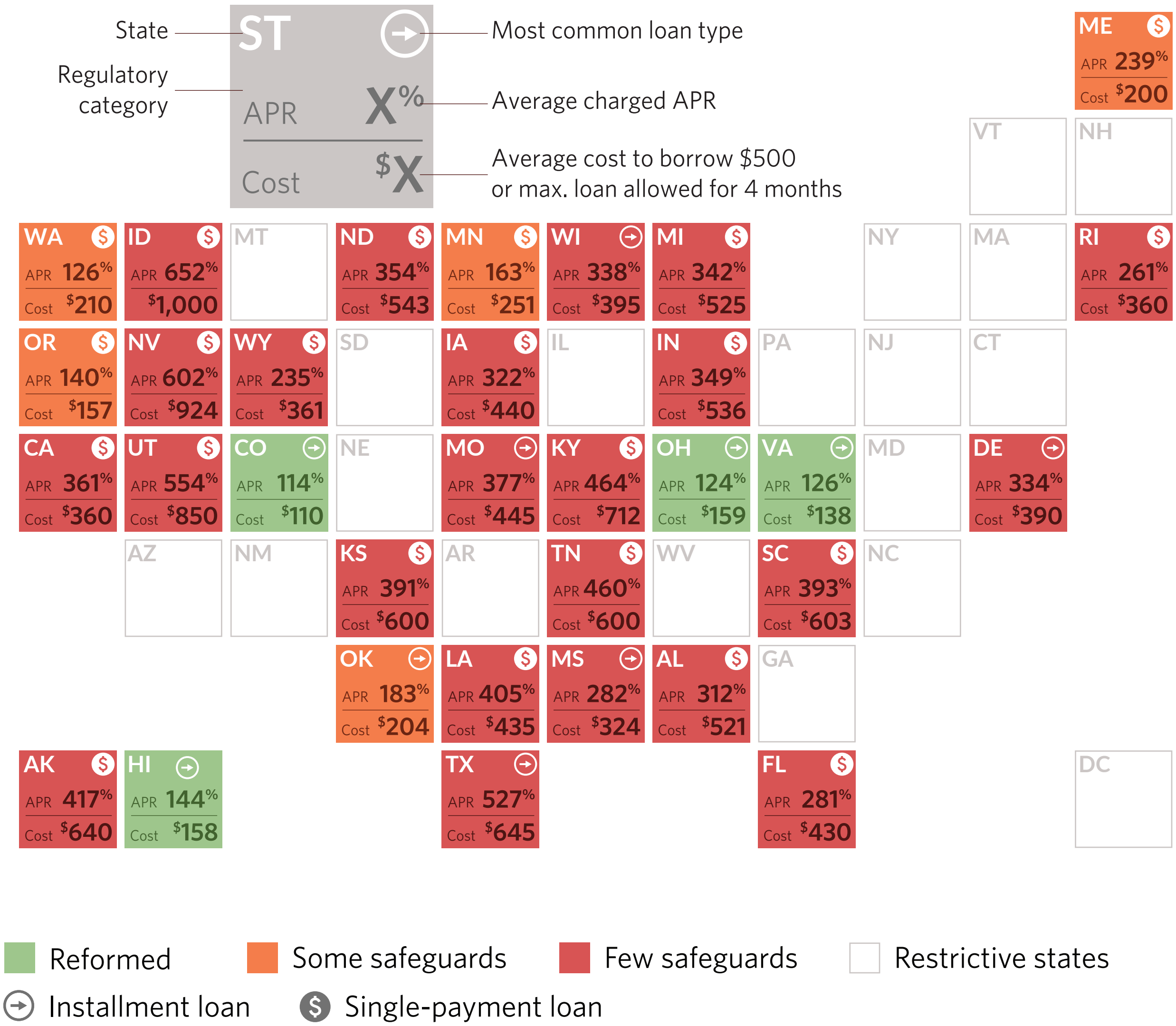
§ Researchers used state regulatory data in calculations of average payday loan cost and APR charged.

Maximum loan size allowed or offered is below $500. In Maine and Oregon, lenders offer payday loans up to $300; in Rhode Island, up to $450; in Iowa, up to $445; in California, up to $255; and in Louisiana, up to $350. And in Tennessee, payday lenders issue loans up to $425.

Sources: Pew's analysis of Hawaii House Bill 1192 (2021); Virginia Senate Bill 421 (2020); state regulatory reports; advertised pricing of six largest payday loan chains in the U.S.; Colorado Uniform Consumer Credit Code Annual Report (2020)

Figure A.1

Payday Lending Costs, Most Common Loan Type, Regulation, and Average APR, by State



Notes: The most common loan product in a state is based on the latest regulatory data and is determined by the number of days of credit extended if that information is available, or by loan volume if the information is not available. If a state published no regulatory data in the past three years, the most common product is determined by the type of loan offered by the largest number of payday lenders, and the average payday loan cost is calculated based on the advertised pricing of the most common product by the same group of payday lenders. Eighteen states and Washington, D.C., are restrictive: They have strong laws that prohibit high-cost small loans outright or set low rate limits. Payday lenders do not operate in these jurisdictions, and they are omitted from the table. The 18 states are Arizona, Arkansas, Connecticut, Georgia, Illinois, Maryland, Massachusetts, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, South Dakota, Vermont, and West Virginia.

Sources: Pew's analysis of Hawaii House Bill 1192 (2021); Virginia Senate Bill 421 (2020); state regulatory reports; advertised pricing of six largest payday loan chains in the U.S.

Endnotes

1 The Pew Charitable Trusts, "Payday Lending in America: Policy Solutions" (2013), 29, https://www.pewtrusts.org/en/research-and-analysis/reports/2013/10/29/payday-lending-in-america-policy-solutions; The Pew Charitable Trusts, "Hawaii Adopts Comprehensive Payday Lending Reform" (2021), https://www.pewtrusts.org/en/research-and-analysis/articles/2021/06/17/hawaii-adopts-comprehensive-payday-lending-reform; Charles Babington, "How Ohio Brought Fairness to Payday Loans" (The Pew Charitable Trusts, 2019), https://www.pewtrusts.org/en/trust/archive/spring-2019/how-ohio-brought-fairness-to-payday-loans; The Pew Charitable Trusts, "How Virginia's 2020 Fairness in Lending Act Reforms Small-Dollar Loans" (2020), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2020/10/how-virginias-2020-fairness-in-lending-act-reforms-small-dollar-loans. Colorado passed payday loan reform in 2010 and then voters approved a related ballot initiative in 2018 that made small changes to the state's law but preserved an installment repayment structure and had similar pricing. Discussion of Colorado in this brief is based on current law unless otherwise noted.

2 The Pew Charitable Trusts, "Payday Lending in America: Policy Solutions," 29-30.

3 Ibid., 4.

4 The Pew Charitable Trusts, "From Payday to Small Installment Loans: Risks, Opportunities, and Policy Proposals for Successful Markets" (2016), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/08/from-payday-to-small-installment-loans.

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8 Virginia Bureau of Financial Institutions, "Short-Term Lender Licensees" (2022), https://www.scc.virginia.gov/getattachment/7bf02873-32fe-4b7d-8587-6d181635f924/pay.pdf.

9 The Pew Charitable Trusts, "How Virginia's 2020 Fairness in Lending Act Reforms Small-Dollar Loans."

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11 A. Horowitz, "A Wealth of Evidence Backs High-Cost Loan Reform," *The Roanoke Times*, Feb. 11, 2020, https://www.roanoke.com/opinion/commentary/horowitz-a-wealth-of-evidence-backs-high-cost-loan-reform/article_c6f3d80a-320e-5930-9b54-111305b2adcc.html.

12 Veritec Solutions LLC, "Florida Trends in Deferred Presentment: State of Florida Deferred Presentment Program Through June 2021" (2021).

13 The Pew Charitable Trusts, "From Payday to Small Installment Loans: Risks, Opportunities, and Policy Proposals for Successful Markets." According to the 2021 third-quarter report from the Texas Office of Consumer Credit Commissioner on Credit Access Businesses (CAB), the average CAB fee charged per transaction for an installment deferred presentment transaction was $128.58 per $100 borrowed, which equates to a 527% APR and monthly payment of $286 for a $500, four-month payday installment loan.

14 Ibid.

15 The Pew Charitable Trusts, "As Payday Loan Market Changes, States Need to Respond" (2018), https://www.pewtrusts.org/en/research-and-analysis/articles/2018/08/22/as-payday-loan-market-changes-states-need-to-respond.

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