



CFPB Proposal for Payday and Other Small Loans

A Survey of Americans

The Pew Charitable Trusts

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Overview

Payday loans typically carry annual percentage rates of 300 to 500 percent and are due in a lump sum, or balloon payment, on the borrower's next payday, usually about two weeks later. These loans are advertised as quick fixes for unexpected expenses, but repaying them consumes more than a third of an average borrower's paycheck, leading to repeated borrowing for an average of about half the year. Approximately 12 million Americans use payday loans annually, spending an average of \$520 in fees to repeatedly borrow \$375.¹

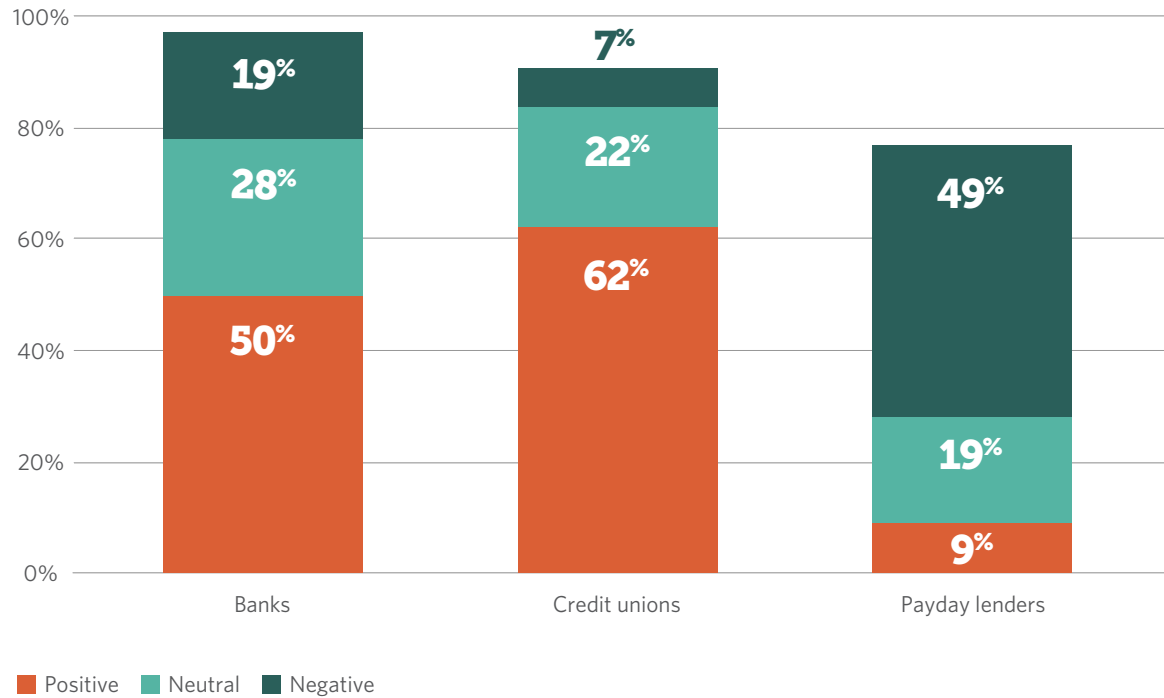
In March 2015, the Consumer Financial Protection Bureau (CFPB), the federal agency with authority over payday loans, proposed a framework for regulating these and similar loans.² The Pew Charitable Trusts then conducted polling in May to gauge Americans' views on payday lending, the key elements of the CFPB proposal, and the types of loans that would be likely to result from it. The survey found that:

- 75 percent of respondents believe that payday loans should be more regulated; similarly, in a 2013 Pew survey, 72 percent of payday loan borrowers said they wanted more regulation. (See Figure 2.)
- By large margins, the public favors each of the major components of the CFPB framework, including requiring loans to be repayable in affordable installments. (See Figure 3.)
- Respondents overwhelmingly see as unfair the prices charged for loans currently offered by payday lenders, some of which probably would still be available under the proposed CFPB framework. (See Figure 5.)
- By a ratio of more than 5-to-1, respondents favor allowing banks to offer small loans at lower prices than those charged by payday lenders. (See Figure 3.)
- Respondents believe the types of small loans that would probably be offered by banks have fair prices, even though the rates are higher than those for mainstream credit, such as credit cards. (See Figures 5 and 6.)

Figure 1

Only 1 in 10 Americans View Payday Lenders Positively

Attitudes toward financial institutions, by type



Negative views of payday lenders outnumber positive ones by a 5-1 ratio.

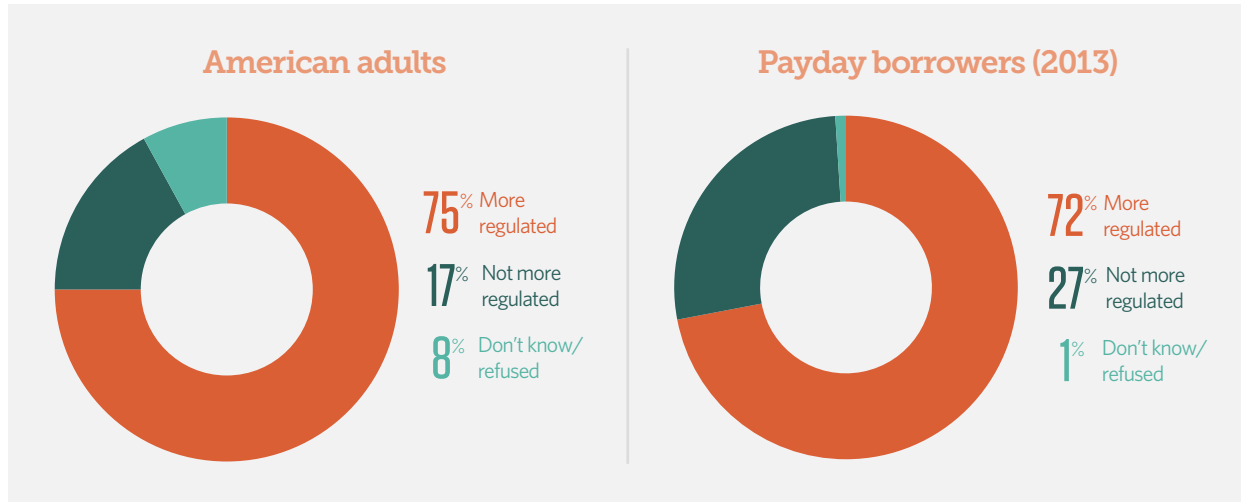
Note: Respondents were read the following statement: "I'm going to read you the names of some types of financial institutions. For each, please just tell me if your opinion of that institution is very positive, somewhat positive, neutral, somewhat negative, or very negative." Results are based on 1,018 interviews. Data do not add to 100 percent because "don't know" and "refused" were omitted from this chart.

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Figure 2

3 in 4 Americans Want Payday Loans to Be More Regulated

This finding reflects similar opinions expressed by payday borrowers



Note: Respondents were read the following statement: "Now I'd like to ask you some questions about payday lending. Payday lenders are companies that generally operate through storefronts or the Internet. They make small loans, often at high interest rates, that are usually due back on the borrower's next payday." Then they were asked: "Which of these statements comes closer to your point of view? 1) Payday loans should be more regulated; 2) Payday loans should not be more regulated." Results are based on 1,018 interviews.

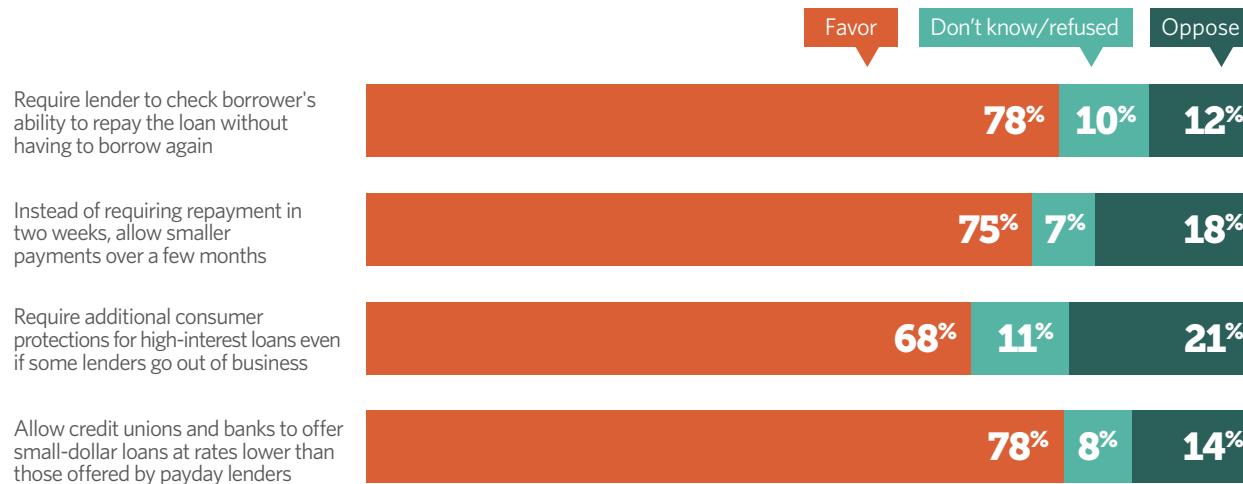
Source: Survey results for payday loan borrowers were published in a previous report by The Pew Charitable Trusts: *Payday Lending in America: How Borrowers Choose and Repay Payday Loans* (2013), [http://www.pewtrusts.org/-/media/Assets/2013/02/20/Pew_Choosing_Borrowing_Payday_Feb2013-\(1\).pdf](http://www.pewtrusts.org/-/media/Assets/2013/02/20/Pew_Choosing_Borrowing_Payday_Feb2013-(1).pdf).

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Figure 3

Americans Overwhelmingly Support the CFPB Proposal's Key Elements

Respondents favor new payday loan guidelines by at least a 3-1 ratio



Note: Respondents were read the following statement: "There is a government agency that regulates payday lending called the Consumer Financial Protection Bureau, or CFPB. The CFPB has proposed some new regulations for payday lending. I'd like to get your opinion on some of these ideas. Please tell me if you favor or oppose each. a) For some loans, payday lenders would legally have the responsibility to make sure that customers could afford to repay the loan without having to borrow again to do so; b) Repaying a payday loan generally takes up about one-third of the borrower's next paycheck, and the loan is due back in two weeks. Instead of requiring repayment in two weeks, the proposal would allow borrowers to make smaller payments spread over a few months; c) If loans with interest rates above 36 percent required stricter consumer protection rules, some payday lenders would probably go out of business, while others would continue to operate. Would you favor or oppose requiring additional consumer protections for high-interest loans?; d) Some bank customers have low credit scores and can't get credit cards. This proposal would allow credit unions and banks to offer them loans at rates lower than those offered by payday lenders." Results are based on 1,018 interviews.

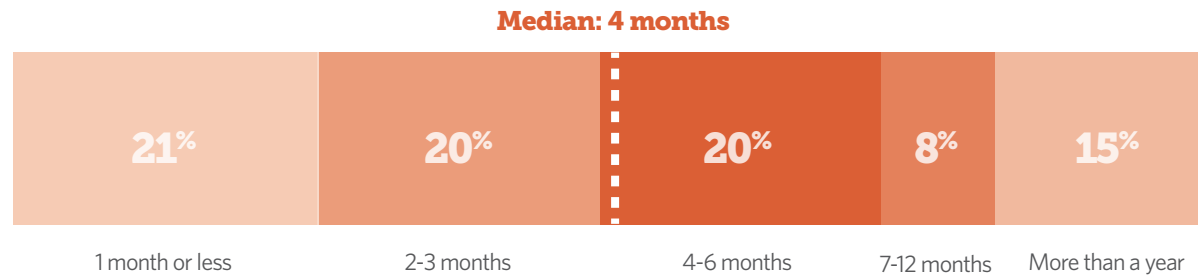
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Figure 4

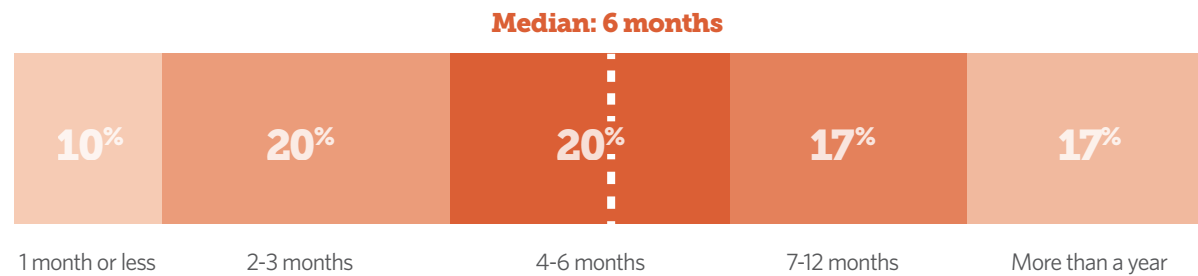
4 to 6 Months Is Considered a Reasonable Length for a \$500 Loan

Most respondents say one month is too short, more than a year is too long

Shortest period of time to pay back \$500 loan



Longest period of time to pay back \$500 loan



Note: Half of respondents (518) were asked: "If a person who is living paycheck to paycheck gets a \$500 loan, what is the shortest amount of time that seems reasonable to require that person to pay it back?" The other 500 were asked: "If a person who is living paycheck to paycheck gets a \$500 loan, what is the longest amount of time that seems reasonable for that loan to go on?" Data do not add to 100 percent because "don't know" and "refused" were omitted from this chart. This question was open-ended, with no response options read.

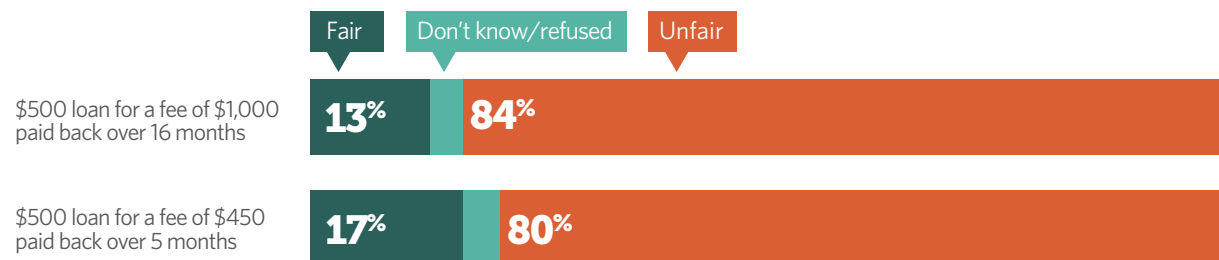
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Some lenders make \$500 loans that are due in full after two weeks, while others stretch repayment over more than a year. The CFPB proposal would allow lenders to continue offering some two-week loans and would not limit the length of other loans.

Figure 5

Americans View Current Payday Installment Loan Charges as Unfair But 3 in 4 say an \$80 fee is fair for a \$500 loan paid back over 4 months

Similar to some current payday installment loans



Hypothetical bank small loan



Note: Respondents were read the following statement: “Here are some examples of small loans that might be available to people who have low credit scores. For each, please tell me whether you think the terms seem fair or unfair. a) \$500 for a fee of \$1,000 paid back over 16 months, so a person who borrows \$500 will pay back \$1,500; b) \$500 for a fee of \$450 paid back over 5 months, so a person who borrows \$500 will pay back \$950; c) \$500 for a fee of \$80 paid back over 4 months, so a person who borrows \$500 will pay back \$580.” Results are based on 1,018 interviews. The annual percentage rates (APRs) for these loans, which were not read to respondents, are 207 percent for Loan A, 313 percent for Loan B, and 75 percent for Loan C. The order in which these questions were read was randomized in the survey.

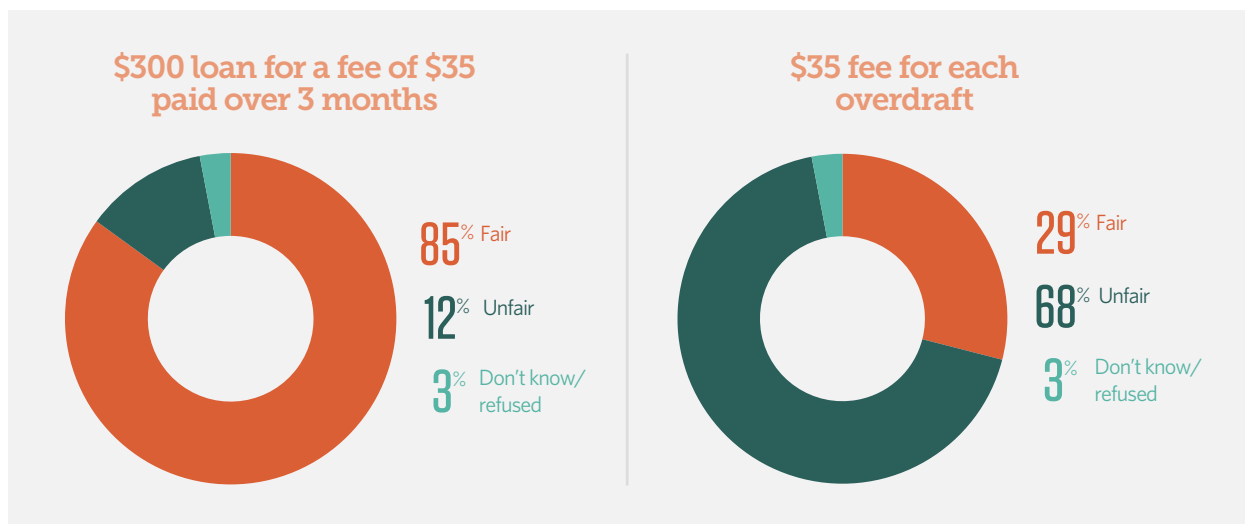
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By overwhelming margins, Americans view payday loan prices as unfair. In contrast, they consider the approximate prices that banks would probably charge for such loans to be fair. Figure 5 shows respondents’ opinions about two high-cost payday installment loans that would probably continue to exist under the CFPB’s proposal and a lower-cost, small installment loan that banks might offer.

Figure 6

More Than 8 in 10 Say a \$35 Fee for a Three-Month, \$300 Loan Would Be Fair

But two-thirds consider checking account overdraft fees to be unfair



Americans consider checking account overdraft fees to be unfair, but they view a similar fee for a three-month, \$300 loan as fair. The CFPB is considering new policies for regulating overdraft practices and small-dollar loans.

Note: Respondents were asked: "If banks and credit unions offered a three-month, \$300 loan for a fee of \$35, do you think that loan would be fair or unfair?" and "Today, banks typically charge a fee of around \$35 for each overdraft. Do you think that's fair or unfair?" Results are based on 1,018 interviews.

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Methodology

On behalf of The Pew Charitable Trusts, Social Science Research Solutions (SSRS) conducted a nationally representative random-digit-dialing (RDD) telephone survey of 1,018 adults. Interviews were conducted May 27-31, 2015. The margin of error including the design effect is plus or minus 3.7 percent. SSRS conducted 512 interviews via cellphone and 36 in Spanish. A more detailed methodology is available at http://ssrs.com/wp-content/uploads/2014/02/SSRS_Omnibus_Methodology_115.pdf.

Endnotes

- 1 The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* (2012), 8, http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pes_assets/2012/PewPaydayLendingReportpdf.pdf.
- 2 Consumer Financial Protection Bureau, *Small Business Advisory Review Panel for Potential Rulemakings for Payday, Vehicle Title, and Similar Loans: Outline of Proposals Under Consideration and Alternatives Considered*, March 26, 2015, http://files.consumerfinance.gov/f/201503_cfpb_outline-of-the-proposals-from-small-business-review-panel.pdf. For a summary of the proposal, analysis, and recommendations, see http://www.pewtrusts.org/-/media/Assets/2015/07/CFPB-Primer_ARTFINAL.pdf.

For further information, please visit:

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