A Complex Portrait: An Examination of Small-Dollar Credit Consumers

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Executive Summary

Every year, millions of American consumers use small-dollar credit (SDC) products for quick access to cash. Yet, these products—payday loans, pawn loans, direct deposit advance loans, auto title loans, and non-bank installment loans—often come with high fees or interest rates and can lead consumers into a cycle of repeat usage and mounting debt. This study seeks to elucidate the reasons why so many consumers rely upon these potentially dangerous products and to glean what can be learned from their experiences to promote the development of high-quality credit solutions.

While some of the needs that borrowers seek to fill with SDC may be better served by non-credit options such as budgeting guidance, better jobs, income support, or savings tools, these solutions will not entirely address the needs that high-quality credit can fill. Having the ability to borrow, under reasonable terms, can help consumers weather a financial shock, support the ability to save, build a positive credit history, and facilitate a wealth-building purchase. To accomplish this, high-quality credit must be affordable, marketed transparently, priced fairly, structured to support repayment without creating a cycle of repeat borrowing, and should support credit-building. Unfortunately, most SDC products currently available do not meet these criteria, and relatively little is known about the full SDC experience from the consumer's point of view and across multiple channels.

To understand why consumers use these products, how they choose among them, how they fare afterwards, and what they think about their experiences, the Center for Financial Services Innovation (CFSI), with the support of the Ford Foundation, surveyed over 1,100 small-dollar credit (SDC) consumers, plus an additional 500 non-SDC consumers for comparison. The findings suggest several important implications for financial services providers, policymakers, consumer advocates, and others working to improve the quality of small-dollar credit products and to expand high-quality options and alternatives.

SDC Consumers: Who They Are

Confirming previous research, the survey showed that, compared with non-SDC consumers, SDC consumers are less educated, live in larger households, and are more concentrated in the South. While some middle-income households do use SDC products, SDC consumers tend to have lower incomes, and many report having financial difficulties and lacking traditional forms of credit.

Key findings:

• An estimated 15 million consumers used at least one SDC product in the past year

• 59% of SDC consumers had only a high school education or less, compared to 45% of non-SDC consumers

• The average household size of an SDC consumer was 3.2 members compared to 2.8 for a non-SDC consumer

• The average household income for an SDC consumer was $32,000 compared to $40,000 for non-SDC consumers, although 20% of SDC consumers had an average household income between $50,000 and $75,000 (Note: the study only surveyed consumers with household income below $75,000)

• Only 27% of SDC consumers had a credit card, compared to 61% of non-SDC consumers

SDC Consumers: How They Decide

Consumers use a variety of SDC products for different reasons. Some use SDC products to fill consistent gaps between expenses and income; some use them to meet cash flow problems where bills and paychecks are misaligned; and others use them in response to an unexpected event, such as a job loss or car repair. Notably these findings differ significantly depending on if the consumer is using a very short-term credit product (payday, pawn, and deposit advance) or a short-term credit product (non-bank installment loans and auto title loans). Consumers prioritize speed and access in choosing SDC products, in addition to price, suggesting a degree of urgency in the decision to borrow. In many cases, consumers chose SDC products over non-SDC options, such as credit cards, overdraft, and loans from friends and family.

Key findings:

• The top 3 uses for an SDC product included: utility bills (36%), general living expenses (34%), and rent (18%) (Note: respondents could select multiple answers)

• The top 3 reasons for funds shortage included: living expenses consistently more than income, bill or payment due before paycheck, and unexpected events such as emergency expenses or income drops (Note: respondents could select multiple answers)

• Users of very short-term loans were almost twice as likely as users of short-term loans to borrow for routine expenses like utility bills (42% versus 28%) or general living expenses (41% versus 20%)

• In addition to borrowing, SDC consumers also reported cutting back on their general spending (43%) and going without something they need (40%) in order to address their cash shortage

• While 66% of SDC consumers had no savings, more than half of those that did have savings chose not to use it all and relied on credit instead

• The top 3 loan attributes that mattered most to SDC consumers were: quick access to money, ability to qualify, and clear terms

SDC Consumers: How They Fare

Although experiences varied significantly, many SDC consumers struggled with repeat usage, particularly users of payday and pawn loans who were often in debt for a considerable part of the year due to the high levels of repeat borrowing. There is a strong connection between both loan-to-income ratio and credit need and the likelihood of rolling over, extending, or refinancing a loan, suggesting a need for sound underwriting.

Key findings:

• When asked about their most recent loan, nearly 40% of payday and pawn borrowers report not paying back their original loan when it first came due; of those who did rollover or extend their loan, payday users averaged 5.1 rollovers and pawn users averaged 2.4 loan extensions

• When looking across the entire year, payday borrowers took out an average of 11 payday loans or extensions, remaining in debt for approximately 150 days out of the year; pawn loan borrowers took out an average of 7 pawn loans, remaining in debt for approximately 200 days out of the year

• 24% of installment loan users and 29% of auto title loan users did not repay their loan on its original terms, with those consumers averaging approximately 3 refinances each

• 35% of deposit advance borrowers reported using the product again the next month

• Regression analysis revealed two factors highly correlated with repeat loan usage: 1) The ratio of loan size to income, and 2) When consumers stated that their need for credit came from a consistent shortfall of income relative to expenses

SDC Consumers: What They Think

While a slight majority of SDC customers reported a satisfactory experience, a significant number reported quite negative experiences. Within the products considered, payday loans and auto title loans received the lowest ratings and deposit advance received the highest.

Key findings:

• 30% of SDC consumers reported the loan costing more than expected

• 27% of SDC consumers reported the loan taking more time than expected to repay

• Of all SDC products, only deposit advance had a slight majority of consumers (53%) reporting they would use the product again without hesitation

• 22% of payday and auto title loan users said that they would not use the product again

A Complex Portrait

The overall picture that emerges from our research illustrates the sheer diversity and complexity of needs, choices, and experiences faced by SDC consumers.

Key implications of our research:

• Many consumers would benefit from a multiplicity of safe, affordable, high-quality credit products and tools designed to meet different needs for different people, while for some consumers, the best long-term solution may not involve credit at all

• In order to meet consumer needs safely, high-quality credit solutions will need to balance affordability and sound underwriting with speed, convenience, and accessibility

• High-quality credit can play a role in consumers' lives alongside (and possibly linked to) savings

• Underwriting based on the ability to repay and understanding of consumer need will be critical to preventing repeat usage

• Strong consumer protections and innovation in high-quality credit will both be necessary to better address the struggles and needs of SDC consumers

The opportunity and need are great to improve the marketplace for high-quality small-dollar credit products. Well-designed products have the potential to help consumers turn a moment of crisis into an opportunity to improve their financial well-being. Keeping the needs, perspectives, and experiences of borrowers at the forefront of the dialogue on small-dollar credit is critical to moving the marketplace in a direction where such high-quality products go from aspiration to reality.

Introduction

Every year, millions of American consumers use small-dollar credit (SDC) products for quick access to cash. Yet, these products—payday loans, pawn loans, direct deposit advance loans, auto title loans, and non-bank installment loans—often come with high fees or interest rates and can lead consumers into a cycle of repeat usage and mounting debt. This study seeks to elucidate the reasons why so many consumers rely upon these potentially dangerous products and to glean what can be learned from their experiences to promote the development of high-quality credit solutions.

Previous CFSI research has shown that SDC consumers typically borrow for a variety of reasons: to pay bills, cover basic living expenses, pay for an unexpected expense, or make up for a drop in income.[1] These findings can be interpreted in different ways. They suggest that some SDC consumers may have too little income to cover their expenses and that they might benefit from better jobs or stronger income supports. Other consumers may have sufficient income but could potentially reduce their need to borrow with greater budgeting guidance to manage their day-to-day finances. The numbers also make it clear that increased savings could help many households weather disruptions in earning power or fund major purchases without taking on costly debt.

For several reasons, however, income supports, budgeting guidance, and additional savings will not entirely fill the need for high-quality credit. First, unexpected emergencies and unplanned expenses will occasionally surprise even those who are well prepared. Second, well-structured credit can indirectly support the ability to save by enabling a person to fund short-term spending without dipping into longer-term savings. Finally, borrowing can help build a positive credit history, a critical financial asset in its own right, since credit scores can affect decisions to hire employees, rent apartments, set insurance rates, and, of course, offer more traditional forms of credit that can facilitate a wealth-building purchase, such as a home.

To meet the genuine credit needs of consumers, small-dollar credit must be high quality. That is, it must be marketed transparently and priced fairly. It must be affordable and structured to support repayment—without creating a cycle of repeat borrowing or "rolling over" of the loan—and should support credit-building.

Unfortunately, the vast majority of SDC products currently available do not meet these criteria. And, while there is a great deal of information available about the national volume of payday loans and the dangers of overuse, relatively little is known about SDC usage from the consumers' point of view and across multiple products. To better serve SDC consumers, we need deep consumer knowledge that can help providers develop new and better products and encourage policymakers to pursue solutions that safely meet borrowers' needs.

With these goals in mind, the Center for Financial Services Innovation (CFSI), with funding from the Ford Foundation, has conducted a multi-stage consumer research project to examine the needs, decisions, and experiences of SDC consumers. This report represents the first publication of that research, a quantitative examination of a nationally representative sample of over 1,100 consumers of SDC products. We sought to better understand who these consumers are, what precipitates their use of credit, how they shop and choose among different credit products, what happens as they use these products, and how they fare in the end.

The research reveals a complex variety of SDC needs, products, and experiences. The data here is organized around key themes, some of which corroborate earlier knowledge of SDC consumers, and others that shed new light. We hope that this research contributes to a nuanced conversation regarding small-dollar credit and inspires the marketplace to produce the variety of safe, affordable, high-quality credit products that consumers need and deserve.[2]

Study Methodology

This report is based on online research conducted by GfK between January 5 and January 27, 2012. Survey respondents were randomly sampled from GfK's KnowledgePanel, which is statistically representative of the U.S. population, of adults ages 18 and over with household incomes below $75,000 (see the appendix for more information on representativeness within KnowledgePanel).[3]

An "SDC consumer" (N=1,121) was defined in this survey as a person who has used a payday loan, pawn loan, direct deposit advance, auto title loan, or non-bank installment loan of $5,000 or less at least once in the past 12 months. These respondents received the entire questionnaire, which included questions about their overall credit usage across multiple products, followed by a series of questions about one recent loan experience with a specific product. To serve as a comparison, we also surveyed "non-SDC consumers" (N=500), who are defined by having used at least one of several traditional credit options, such as a credit card or personal loan from a bank (see appendix for full list), and no SDC products in the past 12 months. These consumers were only asked questions about their overall credit usage.

The margin of error for the overall SDC sample is +/- 4%. All statistical testing of proportions and means was conducted at the 95% confidence level, and all subgroup findings are representative of that subgroup. Any comparisons made between subgroups (e.g., SDC consumers versus non-SDC consumers) within the text of this paper are statistically significant. Data in the tables and charts is reported as received and may be directional but not statistically significant when comparing among subgroups.

Overview of SDC Products Examined

In selecting the small-dollar credit products for our survey, we considered nontraditional products used primarily by credit-constrained consumers. We also chose not to include credit products with specified uses for loan funds, such as rent-to-own credit and subprime auto loans. Instead, we focused on products that provide funds the consumer may use at his or her discretion. We examined the following products:[4]

Payday loans: Loans of generally $300–$500 with full repayment due two weeks after the date of the loan. Payday loans come with a flat borrowing fee, typically between $15 and $20 per $100 borrowed. When the loan is made, lenders typically obtain a post-dated check for the amount of owed principal and fees or receive electronic access to a customer's checking account. If the loan is not repaid at maturity, the lender has the option to cash the check or withdraw from the account as a means of repayment.

Pawn loans: Loans of typically a few hundred dollars or less with a maturity of around 30 days and a borrowing fee of approximately 20% of the loan's value. The loans are secured by physical items such as jewelry or electronics that customers provide to lenders when the loan is made. If the loan is not repaid, the lender may sell the item.

Direct deposit advance:[5] Loans or advances offered as add-ons to checking accounts. These products allow customers to borrow against a credit line—typically $500 to $1,000—with funds transferred to their transaction account and repaid via an automatic deduction when they receive their next direct deposit payment. Customers are typically charged a flat borrowing fee of $7.50–$10 per $100 loaned.[6]

Installment loans: Loans ranging from several hundred to several thousand dollars offered by nonbank providers and repaid in a series of installments. The length of the loan repayment fluctuates depending on the amount borrowed and borrower preference but is typically 6 to 18 months. Borrowers are charged periodic interest over the life of the loan, with annual interest rates ranging from 20% or 30% for larger, longer loans to over 200% for smaller, shorter loans.[7]

Auto title loans: Loans offered by nonbank providers and secured by the title to a used car. Borrowers keep the car during the loan term, but lenders may take possession of it if the borrower defaults. Loan sizes are typically near $1,000 but can range from a few hundred dollars to over $2,500, depending on the value of the borrower's car and state regulations. Borrowing fees are typically in the range of 10% to 25% of the loan value per month. Traditionally, loans have been structured as one-month loans with a single repayment, but many lenders offer longer-term loans through installment repayment plans, interest-only repayment plans, or open-end lines of credit secured by auto titles.[8]

SDC Consumers: Who They Are

Based on our results, over 13 million consumers, with household incomes below $75,000, used an SDC product at least once in the previous 12 months prior to taking our survey.[9] Although we did not survey consumers with above $75,000 in household income, we estimate that there are approximately 15 million SDC consumers across the entire income spectrum.[10] The information respondents provided about their backgrounds and financial situations help to paint a picture of SDC borrowers and their financial challenges. Select demographic data from the survey appears in *Table 1: Demographics of SDC Consumers*.

In terms of demographics, SDC consumers stand out in several significant ways. First, they are less educated as a whole than non-SDC consumers and the overall population. Particularly given current economic conditions, less education can mean lower-paying jobs, less stable work, and a greater likelihood of experiencing an unexpected drop in income. In 2011, the unemployment rate among those with less than a high school diploma was 14.1%, drastically higher than the rates of 9.4% for those with a high school diploma and 4.9% for those with a bachelor's degree or even more education.[11]

SDC consumers are highly concentrated in the South, where there is also a greater concentration of unbanked and underbanked consumers.[12] African-Americans are also highly overrepresented among SDC consumers. Users of SDC products live in slightly larger households. More specifically, SDC households tend to have more children than non-SDC households (averaging 1.01 children/household, compared with an average of 0.71 children), which could place additional pressure on their finances.

Table 1: Demographics of SDC Consumers

	SDC Consumers	Non-SDC Consumers	Overall Population[(1)]
Education			
% with Bachelor's Degree or Higher	10%	23%	18%
Region			
Northeast	8%	18%	17%
Midwest	21%	24%	22%
South	50%	35%	39%
West	21%	24%	22%
Household Size (Mean)	3.2	2.8	NA
Race/Ethnicity			
White, Non-Hispanic	46%	64%	63%
African-American, Non-Hispanic	29%	11%	14%
Other, Non-Hispanic	6%	7%	6%
Hispanic	20%	18%	17%

1) Statistics from March 2011 Current Population Survey (conducted by the Bureau of Census for the Bureau of Labor Statistics)

SDC Consumers' Financial Position

Information on respondents' financial situations provided greater insight into why consumers might use SDC products. First, these consumers tended to have below-average incomes, with annual household income averaging approximately $32,000, compared with nearly $40,000 for non-SDC consumers.[13] Fewer dollars coming in can make it harder to save and means a smaller cushion for dealing with occasional spikes in monthly expenses, leading some households to borrow to fill the gap.

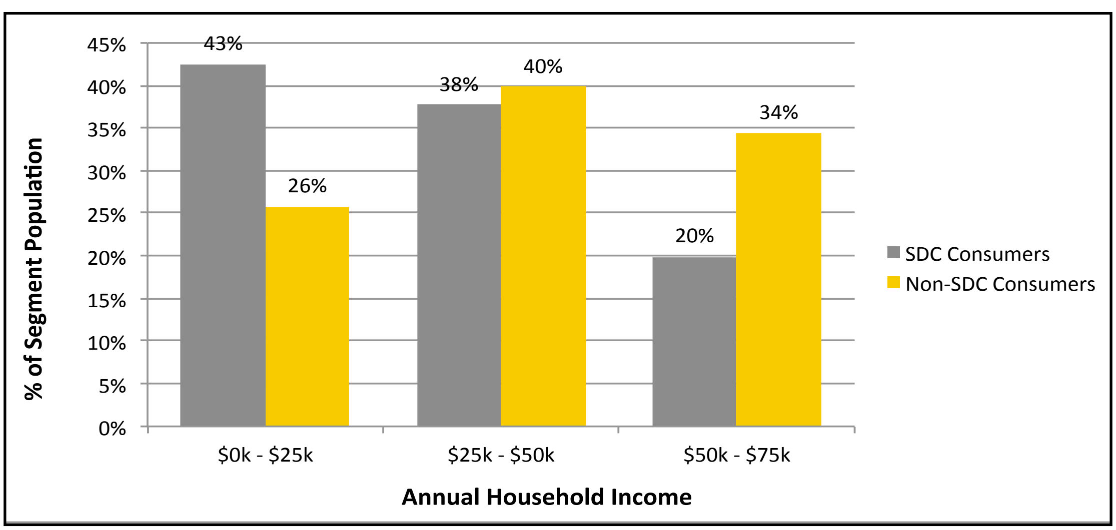
At the same time, consumers with larger incomes are hardly immune from the circumstances that can lead to SDC use, as demonstrated in *Chart 1: Distribution of Income for SDC and Non-SDC Consumers*.

Approximately 20% of SDC consumers in our survey population had annual incomes between $50,000 and $75,000, meaning they make more than the median annual income of all American households.[14] While we surveyed only consumers with annual incomes below $75,000, other research has shown that households with higher incomes also use SDC products, albeit at smaller rates.[15] Thus, the need for high-quality options extends beyond low-income consumers to reach a broader range of American families.

Many SDC consumers reported financial difficulties. Nearly 45% of respondents perceived their personal financial situation to be "poor," a significantly higher portion than the 27% of non-SDC consumers who rated their situation that way. Perhaps as a consequence of or a contributor to their challenging financial situation, SDC consumers also tended to borrow more frequently than their counterparts. On average, they reported taking out 6.5 loans of under $5,000 in the past year, almost twice as many as the average 3.8 among non-SDC consumers.[16] SDC consumers also tended to use a wider variety of loans, averaging 2.1 different borrowing options, compared with 1.4 for non-SDC consumers.

Though they borrow more frequently, SDC consumers often have less access to traditional options when choosing credit products. In particular, they are often saddled with a poor or damaged credit profile that makes more traditional credit products inaccessible. Of those SDC consumers claiming

Chart 1: Distribution of Income for SDC and Non-SDC Consumers



they knew their credit score, 54% rated their credit as either a 1 or a 2 on a scale of 1 to 5 (1 being "poor," 5 being "excellent").[17] Given this tendency toward poor credit, it is not surprising that only 27% of SDC consumers reported having a credit card, compared with 61% of non-SDC consumers. Why those SDC consumers with access to a credit card still used an SDC product is an important question explored later in this paper.

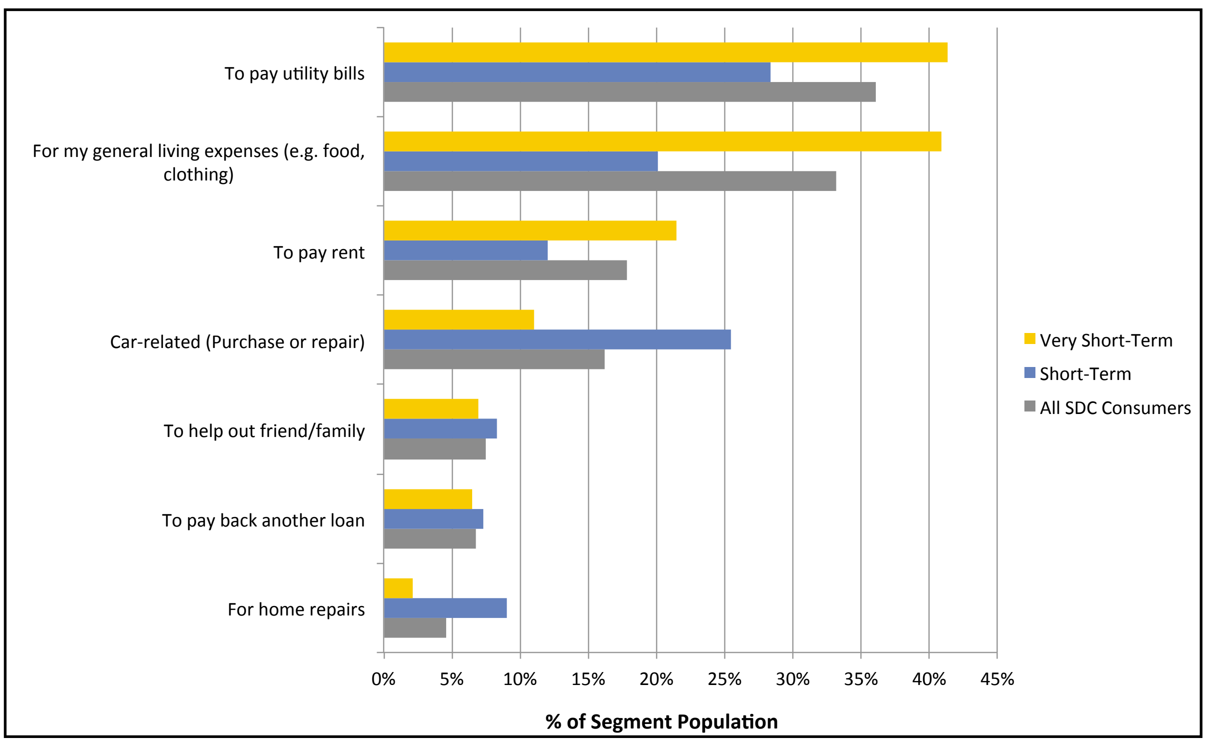
In total, our survey data indicates SDC consumers face many challenges. Relative to non-SDC consumers, they tend to be less educated, with lower incomes and larger families. These attributes can challenge financial stability and put pressure on their financial lives. While households who face these conditions find themselves borrowing more frequently than those who don't, they are less likely to have access to traditional credit offerings.

SDC Consumers: How They Decide

We also sought to explore how SDC consumers decide to borrow and how they go about choosing the most suitable product. To learn more about the decision process, we asked SDC consumers to recall the last time they had used one of the five SDC products included in our survey. We then probed for considerations that had led to their choice.

In analyzing the responses, we recognized a distinct segmentation among the five products. Some are very short-term products—payday, pawn, and direct deposit advance loans—all of which are relatively small (typically under $1,000) with repayment scheduled within a period of two weeks to two months in the form of a single payment. Others are short-term products—installment and auto title loans[18] —which are frequently

Chart 2: Use of SDC Loan Funds



**Respondents could select up to three options. Additional information on the question provided in the appendix.*

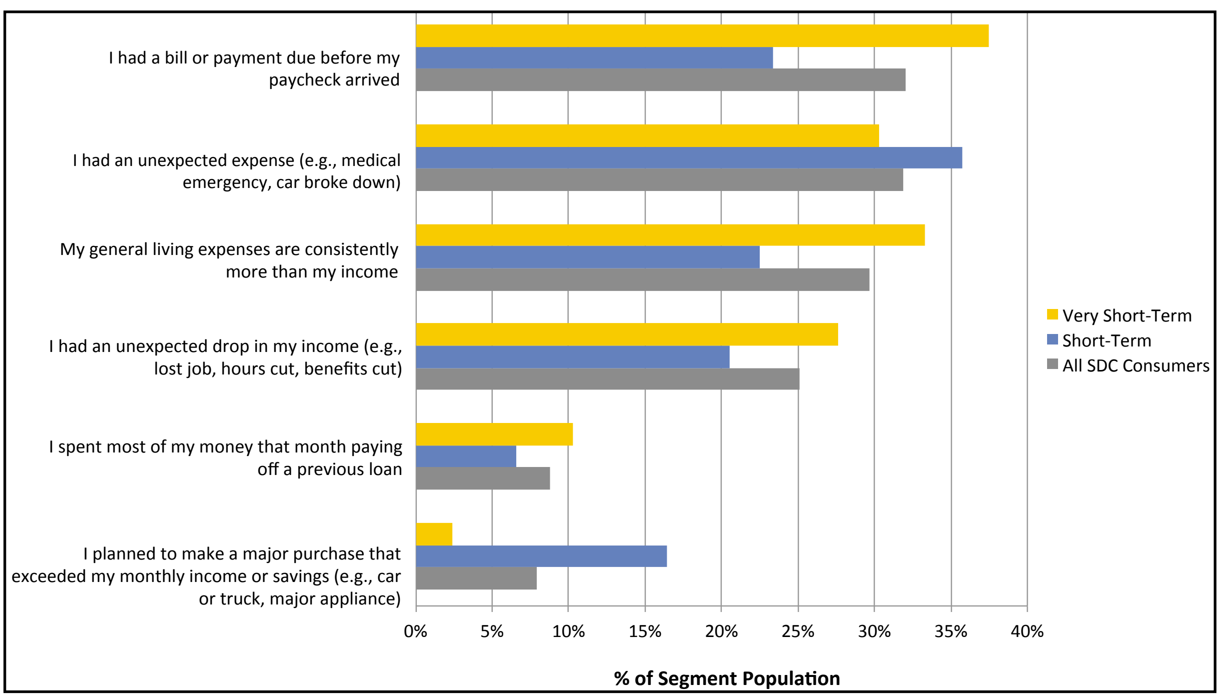
much larger (at or above $1,000) and are often repaid in installments over longer periods of time, from several months to more than a year. Likely because of the differences between the two classes of loans, SDC consumers view and use them in distinct ways. Consequently, we use the very short-term/short-term distinction as a basis for organizing our findings.

At the core of the decision process are the circumstances that created the need for SDC consumers to borrow. That is, what did they need money for and why did they need to borrow to get it? To answer the first question, *Chart 2: Use of SDC Loan Funds* shows the distribution of uses for the borrowed funds.

Across all SDC borrowers, the main uses for borrowed funds related to managing recurring expenses such as utility bills, rent, and food. These borrowers used credit to meet day-to-day household obligations. However, different patterns emerged when comparing reasons for borrowing between very short-term and short-term products. Users of very short-term products were more likely to use them for routine expenses. Approximately 42% of users borrowed to pay utility bills, and 41% borrowed for general living expenses such as food and clothing. By contrast, users of short-term products were less likely to use such loans for routine expenses (28% for utility bills, 20% for general living expenses) but were significantly more likely to borrow to cover larger and less regular purchases or expenses, such as the purchase or repair of a car (26% for ST versus 11% for VST) and home repairs (9% for ST versus 2% for VST).

To get to the root of the problem, we then explored why SDC consumers needed to borrow in the first place. Why did they lack necessary funds to manage household expenses or meet larger, less frequent needs? The answer offers insight into whether and

Chart 3: Reason for Fund Shortage Precipitating SDC Use



**Respondents could select up to three options. Additional information on the question provided in the appendix.*

when credit can be a beneficial option. *Chart 3: Reasons for Fund Shortage Precipitating SDC Use* summarizes responses to the question of why respondents needed to borrow to meet their obligations.

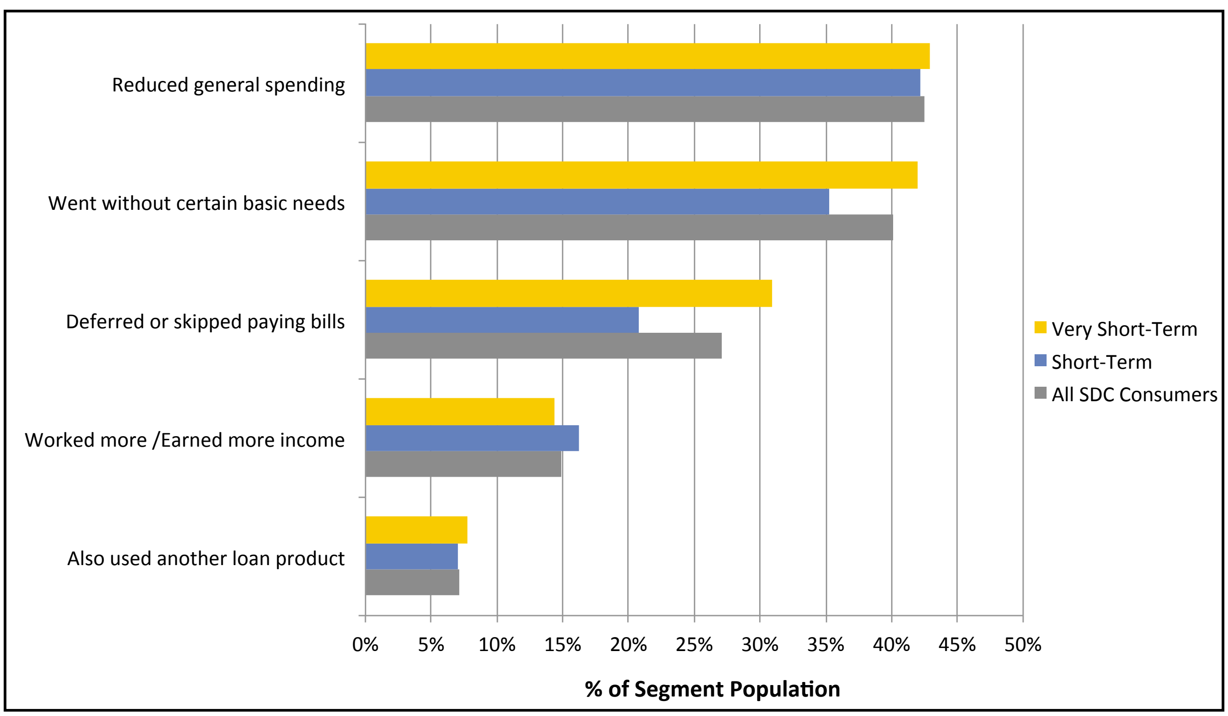
Perhaps most troubling was that nearly 30% of all SDC consumers reported borrowing because their expenses consistently outweighed their income. Instead of using credit to overcome a temporary shortage of funds or support a large purchase, they seem to be on an unsustainable path by attempting to supplement their income with credit. Without having the money in their budget to repay the loan, these borrowers risk falling into the cycle of debt, much like the 9% of SDC consumers who reported borrowing because they spent most of their money repaying a previous loan.

A bill or payment due before a paycheck arrived (32% of all SDC consumers) was another common problem. In this case, borrowers were more likely to turn to very short-term credit than short-term (38% of VST users versus 23% of ST users). These data points paint the picture of households using payday, pawn, and direct deposit advance loans to manage bills within the context of their ongoing financial lives. Borrowers who reported this problem may be using credit to adjust for misaligned timing of their income and expenses.

Two other reasons for a cash shortage related to unexpected events— either an expense (32% of all SDC consumers) or a drop in income (25%). The change in their cash flow—either temporary or permanent—left these consumers short of the money they needed. In these situations, consumers appeared to find very short-term and short-term products both useful.

As expected, short-term users were more likely to borrow to support a major purchase (16% of ST users versus 2% of VST), suggesting

Chart 4: Steps Taken in Addition to Borrowing



**Respondents could select multiple options. Additional information on the question provided in the appendix.*

that the loans were used to cover a large but infrequent expense.

Consumer Strategies after Making the Decision to Borrow

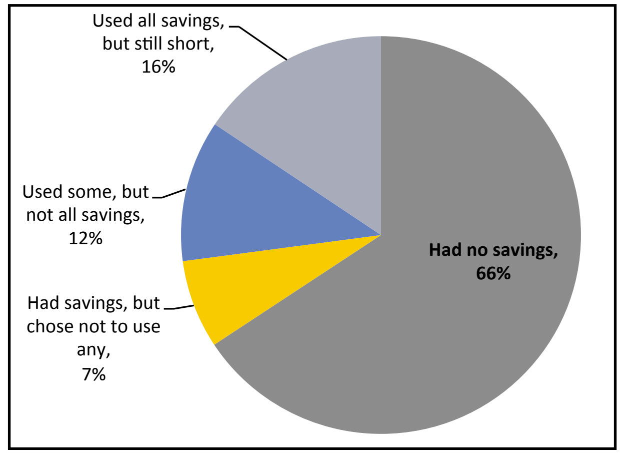
While survey respondents ultimately chose to borrow, they also recognized that they might be able to handle their need for additional money in some other way. Indeed, many reported taking additional steps to manage their situations. Their actions are depicted in *Chart 4: Steps Taken in Addition to Borrowing.*

In addition to borrowing, SDC consumers commonly reconciled their cash flow by cutting back on their general spending (43% of all SDC consumers) and going without something they need (40%). Very short-term users were significantly more likely than short-term users to defer or skip paying bills (31% of VST users versus 21% of ST users), again suggesting that very short-term products are more often used to manage monthly expenses. A small segment—7% of all SDC borrowers—reported using an additional loan product to meet their need, suggesting either a larger need for credit or an inability to access a more suitable credit product.

The survey also revealed interesting insights into the way SDC consumers viewed and used savings in relation to their decision to borrow. *Chart 5: Use of Savings in Addition to Borrowing* outlines respondents' use of savings to compensate for their shortage of funds.

As might be expected, the majority of SDC consumers (66%) had no savings to make up for their shortage of funds. Of those borrowers with savings, 45% used all of their savings but found it was not enough to meet their immediate need. Interestingly, the remaining 55% (or 19% of all SDC consumers) either used only part of their savings or left their savings untouched. This raises the question of why they used expensive SDC products when they had money available. Were their savings earmarked for long-term goals or subject to withdrawal restrictions? Did behavioral biases or the desire for liquidity in case of an emergency influence their decision? Better understanding how borrowers view savings in relation to credit may reveal insights into how to effectively promote savings and reduce use of SDC products.

Chart 5: Use of Savings in Addition to Borrowing



Making the Product Decision

After deciding to borrow, SDC consumers must also decide which product and provider they will use. To explore this decision, our survey asked borrowers to rate the importance of certain loan attributes to their decision, using a scale of 1-5 (1 being "Not Very Important" and 5 being "Extremely Important"). Average ratings for the top 10 attributes are listed in *Table 2: Ratings of Loan Attributes*.

As a whole, SDC consumers most valued the speed of delivery, accessibility, and clarity of terms associated with the loan products

Table 2: Ratings of Loan Attributes

Loan Attributes	Average Rating (Scale of 1-5) All SDC Consumers	Very Short-Term	Short-Term
How quickly I can get the money	4.4	4.4	4.4
I can qualify for this loan	4.4	4.4	4.5
Clear terms/knowing exactly what I'll pay	4.3	4.3	4.4
Amount I can borrow	4.2	4.2	4.3
Term or length of loan	4.1	4.0	4.2
Easy to do/few forms	4.0	4.0	4.0
Ability to pay back over multiple payments	3.9	3.7	4.3
Fees	3.9	3.8	4.1
Feel comfortable/staff is friendly	3.9	3.9	3.9
Store location convenient	3.8	3.8	3.8

they used. Between the two loan classes, short-term users were more likely than very short-term users to place more importance on the length of the loan and the ability to repay it in multiple payments. However, speed and access were most important to users of both classes of loans. Although fees were important to borrowers (average rating of 3.9 out of 5), they were lower on the list of considerations. The importance of speed and access suggests a degree of urgency in borrowing decisions—borrowers most cared about their ability to get a loan and to do so quickly. SDC products cater to these preferences through fast delivery and low hurdles for credit approval.

When choosing a loan product, 69% of SDC consumers did not comparison shop among different providers of the same product. Such consumers may have done so for a number of reasons. An urgent need for cash may have led some to accept the first loan they could get. Consumers may have viewed providers of a particular product as having relatively uniform pricing and terms, leaving little reason to shop around. Or some consumers may have had an existing relationship with a particular provider and returned for a subsequent loan. Further exploring why SDC consumers tend not to comparison shop may help to reveal ways that lenders with high-quality alternatives can attract SDC consumers.

In addition to investigating why borrowers chose a particular SDC product, the survey explored why they had not chosen other traditional forms of credit that may have been available. In particular, some may have had the option of borrowing from friends and family, overdrawing a checking account, or using a credit card. The top three responses given for not using each of these options appear in *Table 3: Top Three Reasons for Not Using Other Credit Options*.

SDC consumers rejected each of these options for different reasons. In line with their negative perceptions of their credit scores, many SDC consumers reported having difficulty either accessing or managing credit

Table 3: Top Three Reasons for Not Using Other Credit Options

Credit Card	Overdraft	Loans from Friends and Family
I don't qualify (32%)	Too expensive (25%)	I did - in addition to SDC (21%)
I maxed out or can no longer use this product (19%)	Too inconvenient (17%)	Too inconvenient (20%)
Too expensive (16%)	I don't qualify (15%)	Not offered near me (17%)

**Respondents could select multiple options. For additional information on the question, see the appendix.*

cards (32% responding "I don't qualify" and 19% responding "I maxed out or can no longer use the product"). Access was a lesser but still significant barrier to using overdraft, though cost was the primary reason (given by a quarter of SDC consumers) for not using it. Borrowing from friends and family appeared to be the most attractive of the three options, with 21% of SDC consumers saying they did so in addition to using an SDC product. However, issues of accessibility ("not offered near me") and convenience led many to refrain from such borrowing.

Overall, the survey shows the complexity of deciding to use an SDC product. A shortage of income, a problem with cash flow, or an unexpected shock can drive someone to borrow money. At the same time, SDC consumers do not rely solely on loans but often cut back on spending, tap into savings, or go without something they need in order to free up the money they need. Credit options that offer speed and accessibility are most important to them, but making loan decisions while under financial and time pressure could lead borrowers toward loans they might find difficult to repay.

SDC Consumers: How They Fare

Next, we evaluated the outcomes of borrowing decisions to determine the degree to which SDC products can cause more harm than good. A central concern about SDC products is the risk that they can lead consumers into a cycle of debt. When consumers have trouble repaying, they may incur extensive fees from repeatedly extending or rolling over outstanding loans. Instead of helping them to overcome financial challenges, SDC loans can cause additional financial difficulties for consumers who are given loans they cannot afford.

Very Short-Term Loan Experiences

We investigated loan experiences to gauge why and how often consumers manage loans successfully or struggle with repayment. Though this data was self-reported and responses were open to consumers' interpretation, we believe it helps to draw a clearer picture of the SDC loan experience. *Chart 6: Very Short-Term Loan Experience* includes key findings regarding a single loan experience for consumers of each of the very short-term products studied.

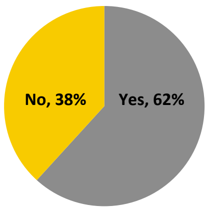
While a slight majority of pawn and payday borrowers repaid their loans on time, many appeared to have had difficulty in doing so, with nearly 40% reporting that they did not pay back their original loan when it came due. Approximately 85% of such borrowers rolled over or extended their loan, incurring

Chart 6: Very Short-Term Loan Experience

PAYDAY LOANS

Did you pay the first loan off on time? [1]

(n=305)



If you DID NOT pay off the first loan on time:

(n=117)

What did you do?

Rolled over or extended the loan	86%
Did not pay off the loan (default)	14%

If you rolled over the loan:

(n=100)

Why did you need to rollover or extend the loan?

After paying living expenses, I didn't have er enough money left over	60%
My income was less than anticipated	40%
I had an unexpected expense or emergency	12%
Another reason	2%

How many times did you rollover the loan?

1-2 times	43%
3-5 times	30%
6+ times	26%
No Answer	1%
Average # of rollovers	*5.1*

In the following month:

(n=286)

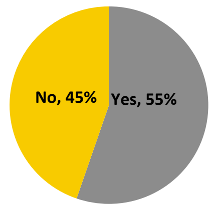
Did you use the product again?[2]

Yes	25%
No	75%

PAWN LOANS

Did you pay the first loan off on time? [1]

(n=255)



If you DID NOT pay off the first loan on time:

(n=114)

What did you do?

Extended or renewed the loan	85%
Did not pay off theloan (default)	15%

If you extended the loan:

(n=97)

Why did you need to rollover or extend the loan?

After paying living expenses, I didn't have enough money left over	60%
My income was less than anticipated	24%
I had an unexpected expense or emergency	16%
Another reason	8%

How many times did you extend the loan?

1-2 times	65%
3-5 times	11%
6+ times	11%
No Answer	12%
Average # of extensions	*2.4*

In the following month:

(n=229)

Did you use the product again?[3]

Yes	19%
No	81%

If you defaulted: [4]

(n=22)

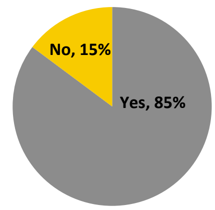
Did you have to relinquish your pawned item?

Yes	75%
No	25%

DIRECT DEPOSIT ADVANCE

Did you pay the first loan without overdrawing your checking account? [1]

(n=130)



If you overdrew your account:

(n=19)

Why did you have insufficient funds for repayment?

After paying living expenses, I didn't have enough money left over	41%
My income was less than anticipated	36%
I had money but used it to cover an unexpected expense or emergency	28%

In the following month:

(n= 130)

Did you use the product again?

Yes	35%
No	65%

1) Excludes respondents whose initial loans were still outstanding and respondents who did not answer the question

2) Excludes respondents with outstanding loans (either an initial loan or a rollover)

3) Excludes respondents with outstanding loans (either an initial loan or an extension)

4) Includes respondents who defaulted on the initial or extended loan an additional fee to push back its due date. The most common reason, reported by 60% of borrowers, was not having enough money for both loan repayment and living expenses. While most extended their loans only once or twice, a sizable number of borrowers did so many more times before repaying or ultimately defaulting on the loan.[19]

When looking across the entire year, the total number of loans or extensions and amount of time spent in debt is particularly disturbing. Based on analysis of our survey data, we estimate payday borrowers took out an average of 11 payday loans or extensions, remaining in debt for approximately 150 days out of the year. Pawn loan borrowers took out an average of 7 pawn loans, remaining in debt for approximately 200 days out of the year.[20]

Examining repayment patterns for the direct deposit advance product is complicated because of its automated repayment mechanism. Direct deposit advance lenders recoup their loan from consumers' checking accounts when direct deposit funds come in. Should direct deposits stop, the lender automatically debits the account after a predetermined period (typically 35 days after the loan is issued). Given that repayments are triggered automatically, borrowers generally cannot extend loans past their due dates as they can with payday and pawn products.

However, 35% of direct deposit advance borrowers reported using the product again in the month after their original loan. Such repeat use may indicate that consumers are borrowing to cover basic living expenses after automated repayments claim needed funds, effectively creating a cycle of debt. Additionally, the forced repayments may cause problems for consumers who do not have sufficient funds in their accounts to cover them. In our survey, 14% of direct deposit advance users reported having their account overdrawn by the automated repayment mechanism. Like payday and pawn users, these borrowers most commonly cited not having money for both loan repayments and living expenses as the reason their funds were insufficient when the lender tapped their account. Again, this may suggest that borrowers could not afford their original loans. Direct deposit advance products limit borrowers' credit lines based on the size of their average direct deposit—a form of income-based underwriting. But further adjusting and refining these measures could potentially help to reduce overdrawn accounts or overuse of the product by consumers who truly cannot afford it.

Regression Analysis of Factors Correlated with Repeat Usage

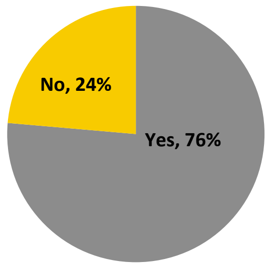
Although the average figures for repeat usage are distressingly high, there was strong variance among individual consumers. To better understand why some consumers slid quickly into the debt cycle while others did not, we conducted regression analysis to find the factors that were most closely correlated with a consumer's propensity to roll over or extend their loan. This analysis found that, for payday loans, the ratio of loan size to income is a significant predictor of how many times a borrower rolls over the loan, net of other sociodemographic and financial characteristics. That is, borrowers who took on higher levels of debt relative to their income are more likely to struggle in repayment. An additional factor strongly correlated with rollover or loan extension was the reason for funds shortage reported by the consumer. In particular, when consumers stated that their need for credit came from

Chart 7: Short-Term Loan Experience

INSTALLMENT LOANS

Did you repay the loan by the end of the original term? [1]

(n=110)



If you DID NOT repay by the original term:

(n=26)

What did you do?

Refinanced or changed/extended the term	86%
Did not pay off the loan (default)	14%

If you refinanced the loan:

(n=22)

Why did you refinance?

To borrow more money	42%
After paying living expenses, I didn't have enough money left over	31%
I had money but used it to cover an unexpected expense or emergency	25%
My income was less than anticipated	16%
To lower the size of my payments	10%
Another reason	9%

How many times did you refinance the loan?

1-2 times	52%
3-5 times	33%
6+ times	12%
No Answer	3%
Average # of refinances	*2.9*

During the loan term:

(n=189)

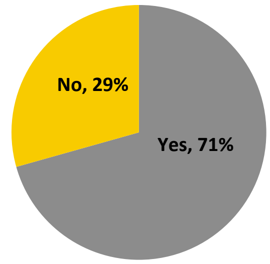
Did you make any late payments?

Yes	10%
No	88%
Refused	2%

AUTO TITLE LOANS

Did you repay the loan by the end of the original term? [1]

(n=140)



If you DID NOT repay by the original term:

(n=41)

What did you do?

Refinanced or changed/extended the term	82%
Did not pay off the loan (default)	18%

If you refinanced the loan:

(n=34)

Why did you refinance?

After paying living expenses, I didn't have enough money left over	32%
I had money but used it to cover an unexpected expense or emergency	30%
To borrow more money	27%
My income was less than anticipated	24%
To lower the size of my payments	6%
Another reason	1%

How many times did you refinance the loan?

1-2 times	57%
3-5 times	17%
6+ times	6%
No Answer/Could not recall	20%
Average # of refinances	*3.0*

During the loan term:

(n=189)

Did you make any late payments?

Yes	28%
No	71%
Refused	1%

If you defaulted: [2]

(n=11)

Did you have to relinquish your car?

Yes	72%
No	28%

1) Excludes respondents whose initial loans were still outstanding and respondents who did not answer the question

2) Includes respondents who defaulted on the initial or extended loan a consistent shortfall of income relative to expenses, essentially those in the most challenging financial situations, they were more likely to roll over or extend their loan. This was true of consumers of all very short-term products —as well as auto title loans—net of other sociodemographic and financial characteristics (for additional information on the regression analysis, see appendix.)

Short-Term Loan Experiences

With larger sizes and typically longer terms, users of short-term products had different loan experiences than users of their very short-term counterparts. *Chart 7: Short-Term Loan Experience* provides a profile of surveyed borrowers' experiences with installment and auto title loans.

Likely because of their relatively longer term and, in some cases, installment loan structures, users of short-term products struggled less with repeat loan use. However, a significant portion of borrowers—24% of installment loan users and 29% of auto title loan users with completed loans—did fail to repay their loan on its original terms. Instead, many refinanced their loans, extending their term and likely increasing their interest payments or borrowing fees. Approximately 30% of both sets of users cited insufficient funds to make repayment and meet living expenses as the reason they had changed the terms of their loans. However, the top reason given for refinancing installment loans was to borrow more money, indicating that some borrowers may have effectively used the product as a line of credit. Though the majority of borrowers who refinanced their loans did so only once or twice, employing such extensions could potentially prolong the burden of debt.

SDC Consumers: What They Think

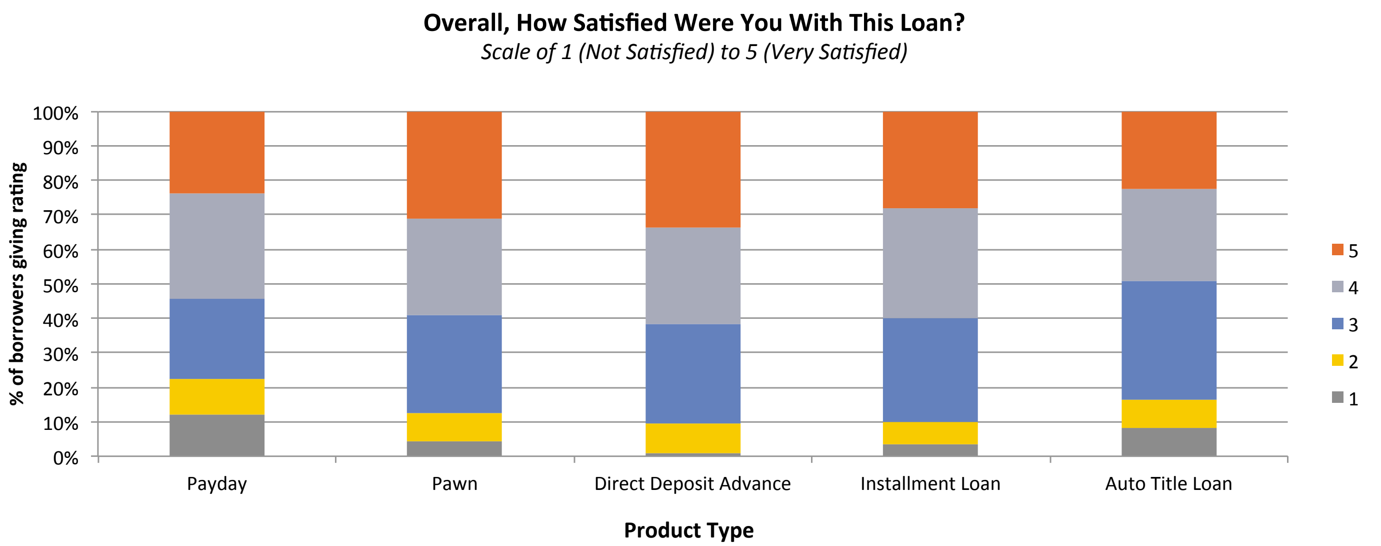
These borrowing experiences influenced and shaped SDC borrowers' perceptions and attitudes toward the products they used. Our survey probed into respondents' overall impressions of their loan experience to gauge how satisfied they were, the degree to which the loan terms aligned with expectations, and their likelihood of using the product again. It should be noted that customer satisfaction results, in particular, are heavily dependent upon expectations. Thus high satisfaction rates do not necessarily connote a high quality product, but rather that the experience met the consumer's expectations for the product. Results are summarized in *Chart 8: Satisfaction, Expectations, and the Likelihood to Use a Loan Product Again*.

Payday borrowers appeared to have relatively poor loan experiences. Compared to the overall group of SDC consumers, they were less satisfied; along with auto title borrowers, they were also more likely to claim higher than expected costs. Perhaps as a result, payday borrowers were more prone to say they would not use the product again (22%).

Direct deposit advance products appeared to register best. Compared to the overall group of SDC products, actual costs for the product were less likely to exceed expectations, with only 15% of borrowers saying they paid more than they thought they would. A majority of borrowers reported that they would use the product again without hesitation, compared to only 5% of borrowers who said they would not use it in the future.

In each product type, a sizable number of borrowers demonstrated difficulty in repaying their loans and considered the products unfair. For them, SDC products may have caused problems instead of solved them, as borrowers struggled to manage loans they may not have been able to afford in the first place. However, many borrowers were able to pay off their loan on time and reported a satisfactory experience. To an extent, these borrowers appear to have managed their credit need by using an SDC product.

Chart 8: Satisfaction, Expectations, and the Likelihood to Use Loan Product Again



	Very Short-Term			Short-Term	
Expectations					
Cost	Payday Loan	Pawn Loan	Direct Deposit Advance	Installment Loans	Auto Title Loan
% reporting cost of loan was **more** than expected	40%	19%	15%	26%	43%
% reporting cost of loan was **less** than expected	10%	14%	18%	6%	17%
Time to Repay					
% reporting it took **more** time than expected to repay the loan	32%	29%	20%	17%	32%
% reporting it took **less** time than expected to repay the loan	13%	15%	16%	17%	19%
Likelihood to Use Loan Product Again					
Would you use the product again?					
Yes, without hesitation	33%	44%	53%	45%	22%
Maybe, if I have no better options	44%	44%	41%	39%	55%
No	22%	10%	5%	14%	22%

Conclusion

This research paints a detailed portrait of the considerable challenges faced by the estimated 15 million SDC consumers in the United States. While our data largely confirms existing knowledge about their demographics and financial situations, the findings on their choices and experiences suggest several new implications for increasing access to high-quality credit that are worth consideration by industry, policymakers, and consumer advocates.

The first implication of our research emerges from our finding that SDC consumers use a variety of SDC products and use different product types to meet different credit needs. This data suggests that consumers would benefit from a multiplicity of high-quality credit products that can meet varying financial circumstances. Different challenges call for products with shorter and longer terms, lump sum and installment payment structures, secured and unsecured terms, and additional products or tools that create broader customer relationships.

In looking more closely at credit need, we see that some consumers use SDC products to fill consistent gaps between expenses and income; some use them to meet cash flow problems where bills and paychecks are misaligned; and others use credit in response to an unexpected event, such as a job loss or car repair. These reasons for borrowing may affect different consumers at different times and may call for very different solutions. For example, installment loans may be best suited for one-time emergencies that can be paid off over time. Low-cost credit lines or credit products tied to a savings vehicle may enable those with cash flow problems to cover the float affordably and build a cushion for the future. For those consumers who use credit to address consistent budgetary inequity or mismanagement, high-quality credit may solve a temporary problem, but over the long-term, solutions that do not involve credit at all—such as income supports or tools to facilitate budgeting or savings—might offer more benefits than a loan the borrower cannot afford. In short, there is no single solution to help consumers manage cash shortages.

The second major implication emerges from the finding that access and speed were the most salient features for consumers when choosing SDC products. This suggests that products with lower fees or interest rates but longer approval periods may not adequately meet the needs of some SDC consumers. In order to meet consumer needs safely, high-quality credit solutions will need to balance affordability and sound underwriting with speed, convenience, and accessibility.

Our finding that certain consumers – those with a high loan-to-income ratio or who report having expenses that consistently exceed their income – are more likely to roll over or extend a loan has major implications for how providers make credit decisions. These connections demonstrate the need for strong underwriting before offering a loan to determine consumers' ability to repay and to more deeply understand the circumstances that lead consumers to seek credit. Further exploring this relationship may help in developing best practices for SDC underwriting that can diminish the risk that borrowers receive loans they cannot afford.

Finally, we remain particularly disturbed by the high number of consumers who end up rolling over or extending their loans multiple times and who report that, in the end, their loan cost more and took longer to repay than expected. This finding, well documented by previous studies, indicates that many SDC products seem to be structured in such a way that encourages rather than prevents repeat and extended usage. Strong consumer protections and innovative, high-quality credit products that align consumer and provider success will both be necessary to better address the struggles and needs of SDC consumers.

To understand more deeply how and why consumers rely on SDC products, CFSI plans to produce additional analyses of this survey's results in the months ahead. We also plan to follow this particular survey with a qualitative examination of consumers who use some of the newer SDC products available. We hope that study will provide an opportunity to hear the individual voices of SDC consumers, to more deeply understand their situations and choices, and to examine new SDC product features that may improve outcomes for consumers. In addition, there is a clear need for industry analysis of SDC transactions to understand the full size and scope of SDC use and for controlled studies of particular SDC product features to better understand their impact on consumer outcomes.

We hope that the profile of SDC consumers revealed here can serve as a valuable tool for advancing the credit dialogue and for remaking the small-dollar credit marketplace. Consumers need and deserve access to a variety of safe, affordable, high-quality loan products that can help them manage their financial lives without causing additional challenges or harm. In the best of circumstances, these products should help consumers turn a moment of crisis into an opportunity to improve their financial well-being. Keeping the needs, perspectives, and experiences of borrowers at the forefront of the dialogue on small-dollar credit is critical to moving the marketplace in a direction where such high-quality products go from aspiration to reality.

Endnotes

1 Center for Financial Services Innovation, “CFSI Underbanked Consumer Study,” 2008.

2 CFSI gratefully acknowledges the involvement of multiple research experts in developing, analyzing, and reviewing this research, including: Rourke O’Brien, Researcher, Princeton University; Dr. Kim Manturuk, Senior Research Associate in Financial Services, University of North Carolina; and Patricia J. Cirillo, PhD, President, Cypress Research Group

3 CFSI’s typical focus is the more than 60 million unbanked and underbanked Americans whose financial services needs are not fully met by traditional financial institutions. While the unbanked and underbanked are well represented in our survey population, we wanted to conduct a broader investigation of Americans using SDC products. The $75,000 income cap reflects our desire to focus on households with incomes below or near the national median.

4 These descriptions are intended to provide a general sense of typical product terms and functionality. Actual product characteristics may vary.

5 Also referred to as “bank payday loans.”

6 Model terms for direct deposit advance products come from the websites of large-scale providers of the product (Wells Fargo, US Bank, Regions, Guaranty Bank, Fifth Third).

7 Model terms for installment loans come from the 2011 Form 10-K for World Acceptance Corporation, a large public lender, and other information provided by industry representatives.

8 Model terms for auto title loans come from Jim Hawkins, “Credit on Wheels: The Law and Business of Auto Title Lending,” Washington and Lee Law Review (September 2011).

9 Our study found that there are 13.45 million SDC consumers with household incomes below $75,000 by applying the SDC incidence rate from our survey of 9.5% to the 141 million adults in the United States with household incomes below $75,000.

10 To arrive at our estimate of 15 million total SDC consumers across the entire income spectrum, we accounted for those with household incomes above $75,000 by using alternative credit usage data from the 2009 FDIC Underbanked Household Study. In that study, 13% of AFS credit users had household incomes above $75,000.

11 See Bureau of Labor Statistics figures at http://www.bls.gov/emp/ep_chart_001.htm.

12 FDIC, “National Survey of Unbanked and Underbanked Households,” (December 2009).

13 The income disparity pertains only to households with under $75,000 in annual income, which were the focus of our survey. The income constraint was used to focus on the borrowing experiences of LMI households.

14 The median income for a U.S. household is $50,000, according to 2010 census estimates. See http://www.census.gov/hhes/www/income/data/incpovhlth/2010/statemhi2_10.xls.

15 FDIC, "National Survey of Unbanked and Underbanked Households".

16 Number of loans includes both SDC products and non-SDC borrowing options. The question of how many loans respondents received was complicated by their use of credit cards, which may be used frequently for payments (i.e., balances paid down each month) but only periodically as a borrowing tool (i.e., balances extended and paid down over several months). Our survey attempted to negotiate the difference by asking consumers, when reporting how many loans they've used, not to consider every time they used a credit card but only when they used it intending not to pay down the balance.

17 Approximately 75% of consumers reported knowing their credit score.

18 While we realize that traditional auto title loans could be considered a very short-term product (smaller size, 30-60 day term), we ultimately elected to categorize them as short-term products for several reasons. A number of industry reports have noted a shift toward higher minimum loan sizes or longer maturities in auto title loans as state regulations were put into place for smaller, shorter-term versions of the product. (Hawkins, "Credit on Wheels"; Leah A. Plunkett, Emily Caplan, and Nathanael Player, "Small-dollar Loan Products Scorecard Updated," National Consumer Law Center (May 2010)). Additionally, a number of auto title loan providers publicly advertise offering installment repayment, terms of over a year and/or open line-of credit structures. These companies include 1-800-Loan Mart, FidelityOne, TitleMax, RPM Lenders and HelpingLoans.com (approximately 53% of our survey respondents reported borrowing from one of these five lenders). Finally, approximately 65% of auto title loan customers surveyed reported having longer than six months to repay their loan. Given that only 4% of customers reported refinancing or changing the terms of their loan more than twice, we believe that the longer time to repay primarily indicated a longer original term.

19 We attempted to determine the rollover/extension propensity of payday borrowers by asking, "What did you do when the loan first came due? That is, what happened at the end of the original term of your payday loan?" and counting those who chose "I rolled over, renewed or extended the loan" from a list of options. To do the same for pawn borrowers, we asked, "Did you pay off loan at the initial due date" and counted those who chose "No, I extended or renewed the loan." Given the structure of the question, consumers who repaid loans on time but took out another loan within their next pay period were likely not included in the "rollover/extension" category.

20 Total annual loan usage for both payday and pawn loans was calculated by combining the survey results for the average number of individual loan experiences (inclusive of rollovers/extensions) per year by the average number of individual loans and rollovers/extensions per loan experience.

Appendix

Additional Information on GfK KnowledgePanel®

KnowledgePanel® members are recruited using a statistically valid sampling method with a published sample frame of residential addresses that covers approximately 97% of U.S. households.

KnowledgePanel® uses an address-based sampling frame. The address-based sample (ABS) involves probability-based sampling of addresses from the U.S. Postal Service's Delivery Sequence File, which covers approximately 97% of the physical addresses in all 50 states. Randomly sampled addresses are invited to join KnowledgePanel® through a series of mailings (in English and Spanish) and by telephone follow-up to non-responders when a telephone number can be matched to the sampled address. Invited households can join the panel by one of several means: completing and mailing back an acceptance form in a postage-paid envelope; calling a toll-free hotline staffed by bilingual recruitment agents; or going to a dedicated KnowledgePanel recruitment website and completing the recruitment information online. Sampled non-Internet households, when recruited, are given a netbook computer and free Internet service so they may also participate as online panel members.

For each study, samples are drawn from among active panel members using a probability proportional to size (PPS) weighted sampling approach. Customized stratified random sampling based on profile data is also conducted, as required by specific studies. In September 2007, GfK was assigned a patent (U.S. Patent No. 7,269,570) for its unique methodology for selecting multiple online survey samples from a panel. The selection methodology, which GfK has used since 2000, assures that multiple sequential KnowledgePanel® samples from a finite panel membership will each reliably represent the U.S. population. For additional information, visit http://www.knowledgenetworks.com/knpanel/

Full Definition of "Non-SDC Consumer"

"Non-SDC Consumers" are those that had not used any of the five SDC products (payday loans, pawn loans, direct deposit advance, installment loans, auto title loans) in the past 12 months, but did use one of the following borrowing options during the same period:

- Loans from friends or family
- Personal loan from a bank or credit union
- Overdraft on a checking account, used intentionally as a loan
- Bouncing a check, used intentionally as a loan
- Credit card, when used with the intent of NOT paying off the balance at the end of the month
- Cash advance on a credit card
- Line of credit (non-credit card)
- Loan from my employer

Additional Information on Select Survey Questions

Chart 2

What did you use the money for in this specific instance?

[Respondents could choose up to three options. Order of presentation randomized for each respondent.]

- To pay medical bills
- To pay rent
- For furniture, appliances, etc.
- To purchase a car
- To fix a car
- For education
- For home repairs
- To help out friend/family
- To pay back money I owed to friends/family
- To pay back another loan
- For a vacation/to travel
- For gift shopping for the holidays
- For business expenses
- To pay utility bills (e.g., electric, water, telephone)
- To pay child support/alimony
- To pay fines/taxes/liens
- For my general living expenses (e.g., food, clothing)
- Another reason (please specify)

Chart 3

Why did you need to borrow money for this loan?

[Respondents could choose up to three options. Order of presentation randomized for each respondent.]

- I had an unexpected expense (e.g., medical emergency, car broke down)
- I had an unexpected drop in my income (e.g., lost job, hours cut, benefits cut)
- I had a bill or payment due before my paycheck arrived
- I spent most of my money that month paying off a previous loan
- My general living expenses are consistently more than my income
- I planned to make a major purchase that exceeded my monthly income or savings (e.g., car or truck, major appliance)
- Another reason (please specify)

Chart 4

What other options did you use in addition to [loan type] to meet your need?

[Respondents could choose multiple options. Order of presentation randomized for each respondent.]

• Also used another loan product
• Worked more hours/Earned more income
• Deferred or skip paying bills
• Went without certain basic needs
• Reduced general spending
• Another option (please specify)
• None of the above

Table 3

Why did you NOT use any of the following other types of loans?

[Asked for multiple non-SDC loan options, including: "Overdraft on a checking account, used intentionally as a loan"; "Credit card with the intent of NOT paying it off at the end of the month"; "Loan from friends or family."]

• Too expensive
• Too inconvenient
• Too slow
• I don't qualify
• Loan not suited to my particular need
• I don't trust this lender
• I maxed out or can no longer use this product
• Not available
• Never heard of it
• I did use this loan in addition to [insert assigned loan type]
• Other (please specify)

Additional Information on Regression Analysis of Factors Contributing to Rollover or Loan Extension

The following regression analyses were conducted to test for associations between key variables and repeat loan usage, controlling for other factors. All findings are net of other sociodemographic and financial characteristics available in the survey data. All relationships should be interpreted as non-causal associations, particularly since survey data was collected at a single point in time. For example, reported financial behaviors may predict payday rollover and vice versa.

Full regression tables are available upon request.

Loan-Size-to-Income Ratio and Payday Loan Rollover

Regression analyses suggest that the size of the loan relative to the household income is an important predictor of how many times a borrower “rolls over” the payday loan; the greater the loan-to-income ratio, the greater the number of rollovers. This finding is significant at the $p<.05$ level.

Reason for Funds Shortage and Payday Loan Rollover

Payday loan users who report that they needed to borrow because their expenses routinely exceed their income are significantly more likely to “roll over” their loan (and roll over more times) than other payday borrowers. This relationship is statistically significant at the $p<.05$ level. Loan-to-income ratio remains a significant predictor of rollover in this situation as well.

Reason for Funds Shortage and Pawn Loan Extension

Pawn loan users who report that they needed to borrow because their expenses routinely exceed their income are significantly more likely to extend the term of their loan than other pawn borrowers. Specifically, those who report their expenses routinely exceed income have 273% higher odds of extending the term of their pawn loan relative to other borrowers. This relationship is statistically significant at the $p<.05$ level.

Reason for Funds Shortage and Auto Title Loan Refinance

Auto title loan users who report that they needed to borrow because their expenses routinely exceed their income are significantly more likely to refinance their loan than other auto title borrowers. Specifically, those who report their expenses routinely exceed income have 864% higher odds of refinancing their loan relative to other borrowers. This relationship is statistically significant at the $p<.01$ level.

Reason for Funds Shortage and Deposit Advance Usage in Subsequent Month

Deposit advance users who report that they needed to borrow because their expenses routinely exceed their income appear to be more likely to take out another deposit advance in the following month than other deposit advance borrowers. It is important to note, however, that this relationship is only marginally significant at the $p<.10$ level.

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