

A Complex Portrait: An Examination of Small Dollar Credit Consumers

Rob Levy - Manager, Insights and Analytics

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In the consumer's own words...

“I have a hard time adjusting to the fact that everyday expenses - food, gas, utilities, meds, everything has gone up; and yet my salary stays the same; an hourly rate that has not changed in two years.”

"Due to [the] loan repayment terms, I was forced to continually take out another loan just to meet my basic needs. It was almost like modern day sharecropping in the form of a loan. I wish I had never taken the first loan."

“My loan experience was a good one. The people were very nice to deal with and the process was quick and easy.”

“These people gave me a chance when no one else would help me out, and I did not disappoint them. I paid every penny back on time as scheduled.”

“Do not ever get a payday loan if you can help it. They are full of traps and crap.”

An Examination of Small-Dollar Credit Consumers

Background

- Funded by the Ford Foundation
- Two-Part Study
 - Quantitative Survey >> Big picture understanding, data analysis (Aug 2012)
 - Qualitative Study >> Consumer voice, product-specific focus (Q1 2013)
- Key research areas of focus
 - Demographics and financial state
 - Consumer need
 - Purchase decision process
 - Experience

Methodology for the Quantitative Study

- Online survey sampled from nationally-representative GfK KnowledgePanel
- Conducted January 2012
- Adults (18+) with less than \$75,000 in household income
- 1,100+ consumers of SDC receive full survey
 - Used payday loan, pawn loan, deposit advance, non-bank installment loan, or auto title loan in past 12 months
- 500 borrowers of non-SDC products answer 3 questions for comparison
 - Used credit card, personal loan, friend/family, etc. WITHOUT using SDC product in past 12 months

Overview of SDC Products Examined

Payday Loans: Loans of generally \$300–\$500 with full repayment due two weeks after the date of the loan via a post-dated check or electronic account withdrawal. Payday loans come with a flat borrowing fee, typically between \$15 and \$20 per \$100 borrowed.

Pawn Loans: Loans of typically a few hundred dollars secured by a physical object, with a maturity of around 30 days and a borrowing fee of approximately 20% of the loan's value.

Deposit Advance: Loans or advances offered as add-ons to checking accounts with funds transferred to the account and repaid via an automatic deduction from the next direct deposit. Customers are typically charged a flat borrowing fee of \$7.50–\$10 per \$100.

VERY SHORT-TERM CREDIT

Non-bank Installment Loans: Loans ranging from several hundred to several thousand dollars offered by nonbank providers and repaid in a series of installments. Borrowers are charged periodic interest over the life of the loan, with APRs ranging from 20% to 30% for larger, longer loans to over 200% for smaller, shorter loans.

SHORT-TERM CREDIT

Auto Title Loans: Loans offered by nonbank providers and secured by the title to a used car. Loan sizes are typically near \$1,000 but can range from a few hundred dollars to over \$2,500, with borrowing fees in the range of 10% to 25% of the loan value per month.

Who are SDC consumers?

Estimate: 15 million

	SDC Consumers	Non-SDC Consumers	Overall Population ⁽¹⁾
Highest Level of Education Achieved			
Less than HS/HS Diploma	59%	45%	54%
Some College	31%	32%	28%
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%
Hispanic	20%	18%	17%
Other, Non-Hispanic	6%	7%	6%

Note: Results shown here represent consumers from households with no more than \$75,000 in annual income

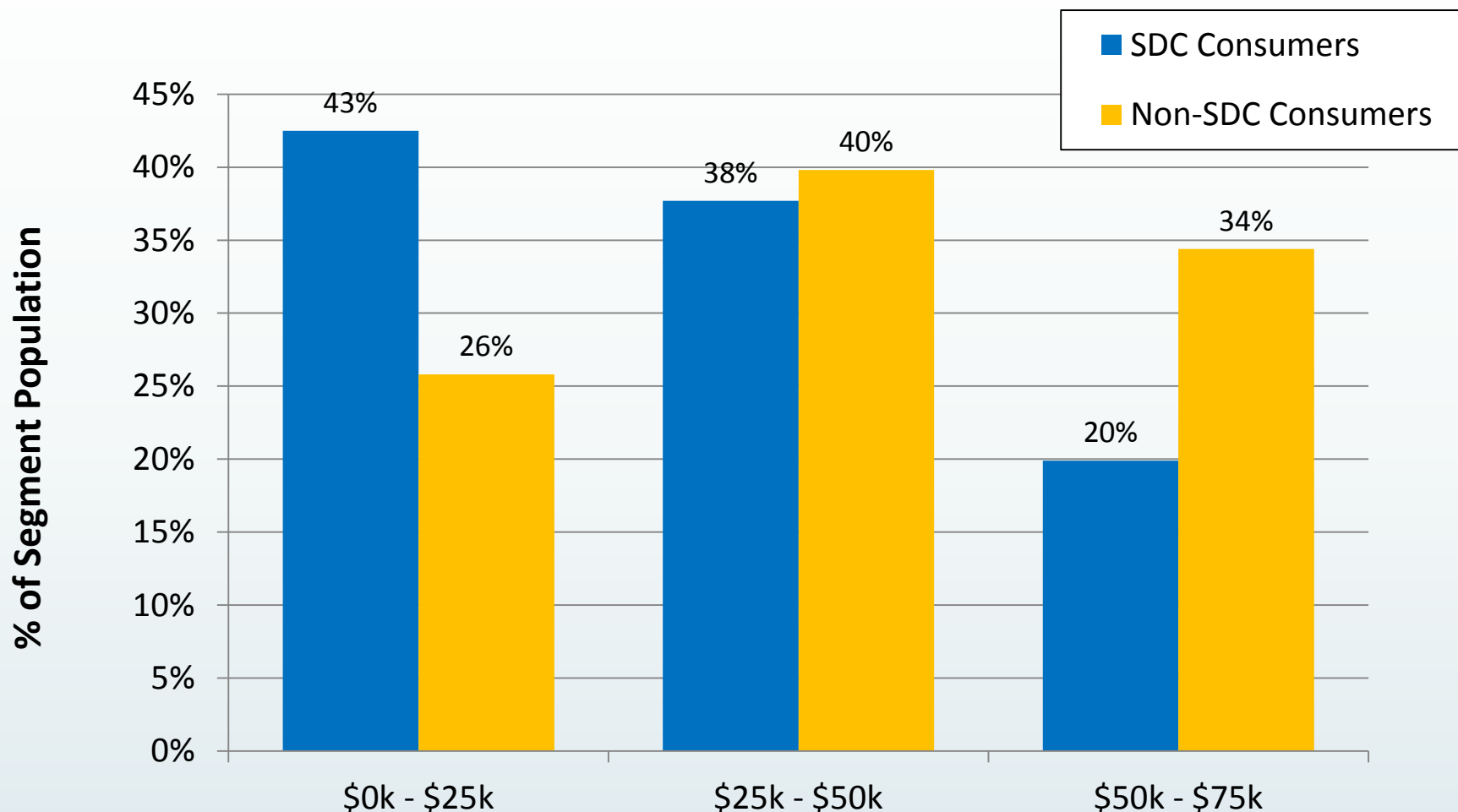
(1) Statistics from March 2011 Current Population Survey conducted by the Bureau of Census for the Bureau of Labor Statistics

Who are SDC consumers?

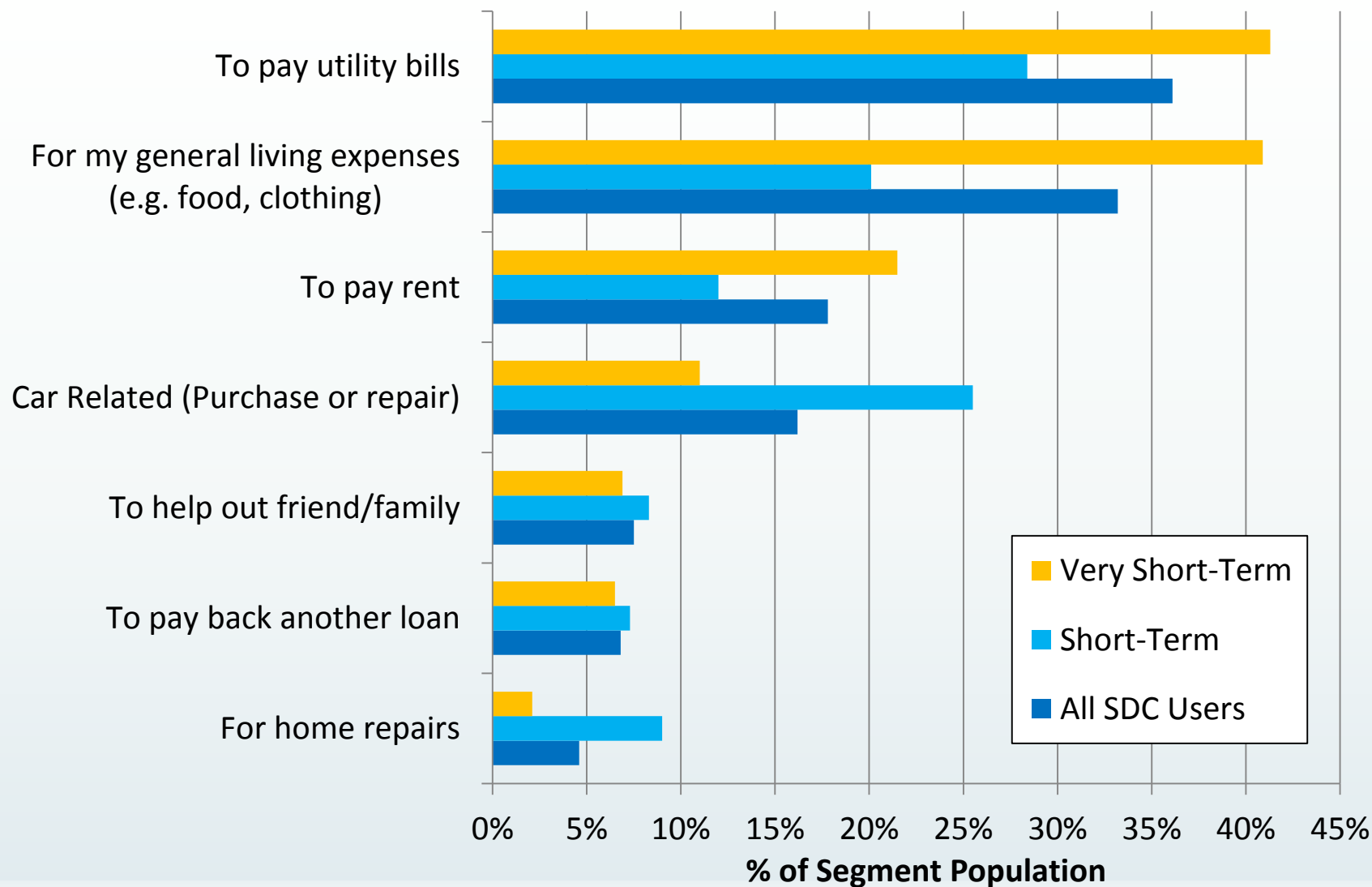
	SDC Consumers	Non-SDC Consumers
Household income	\$32,000	\$40,000
# of different types of loan products used per year	2.1	1.4
% of consumers who have a credit card	27%	61%

Who are SDC consumers?

Distribution of Income for SDC and Non-SDC Consumers



What is the credit used for?



Why was there a funds shortage?



I had a bill or payment due before my paycheck arrived



I had an unexpected expense (e.g., medical emergency, car broke down)



My general living expenses are consistently more than my income

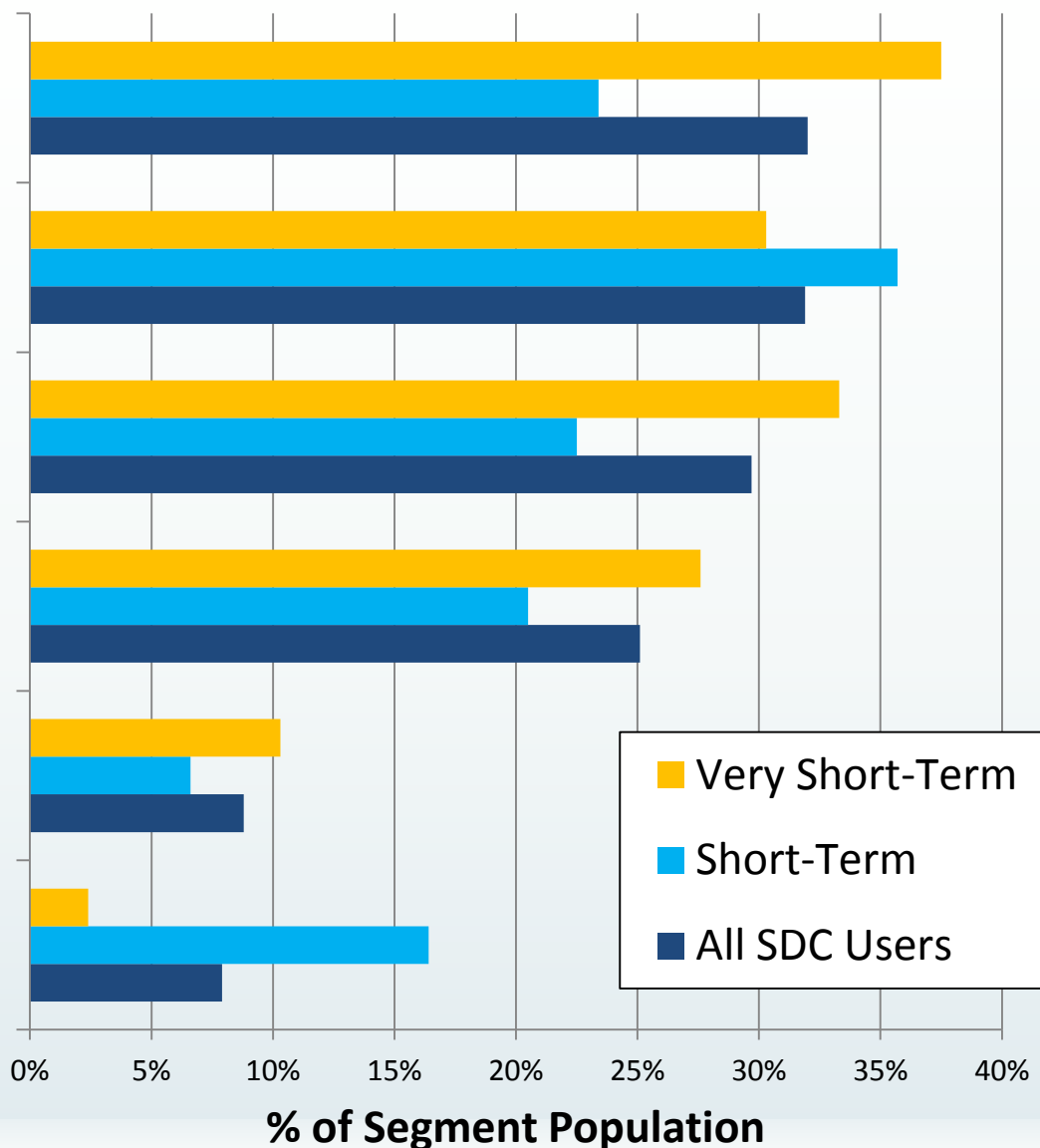


I had an unexpected drop in my income (e.g., lost job, hours cut, benefits cut)

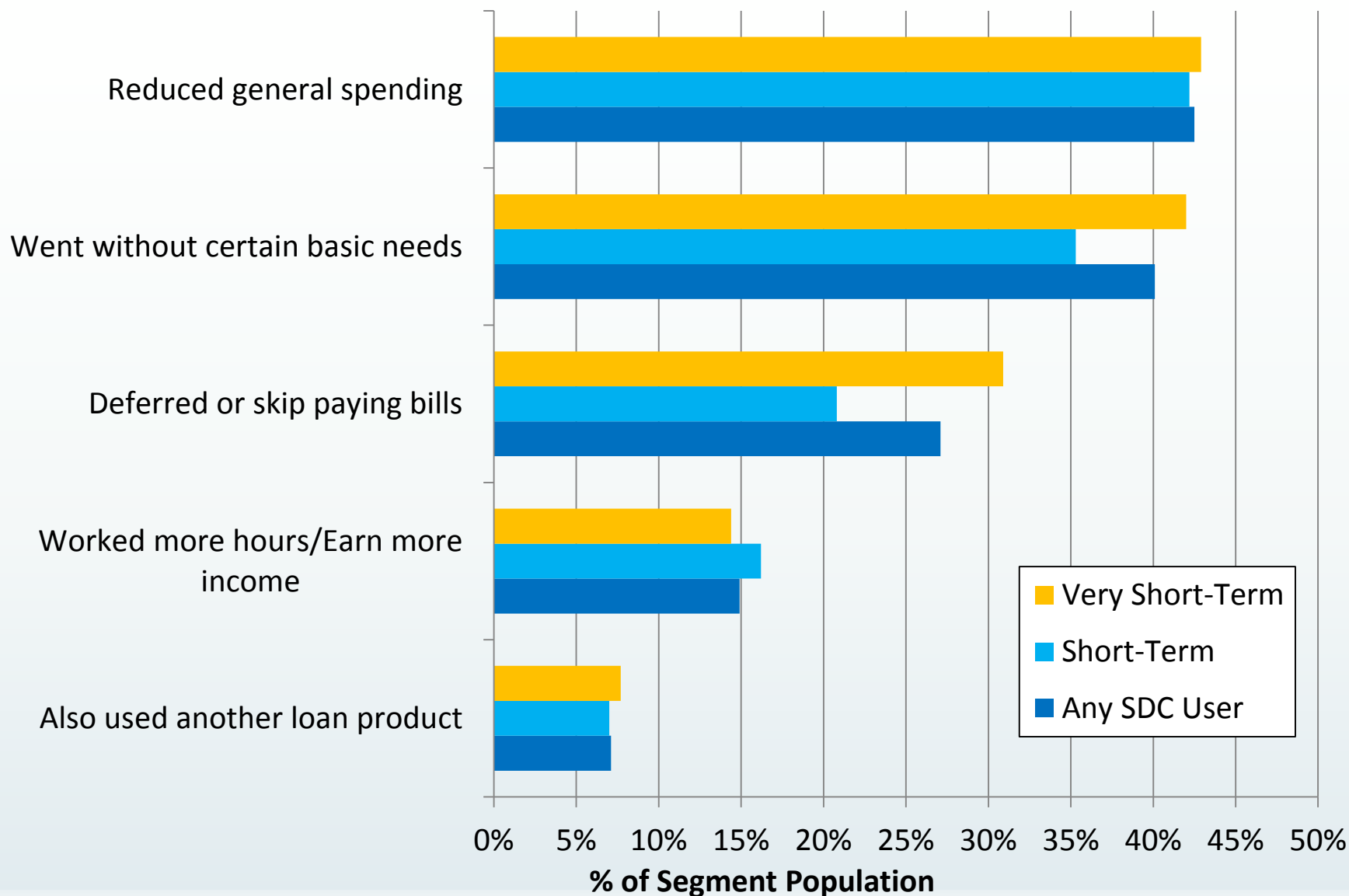


I spent most of my money that month paying off a previous loan

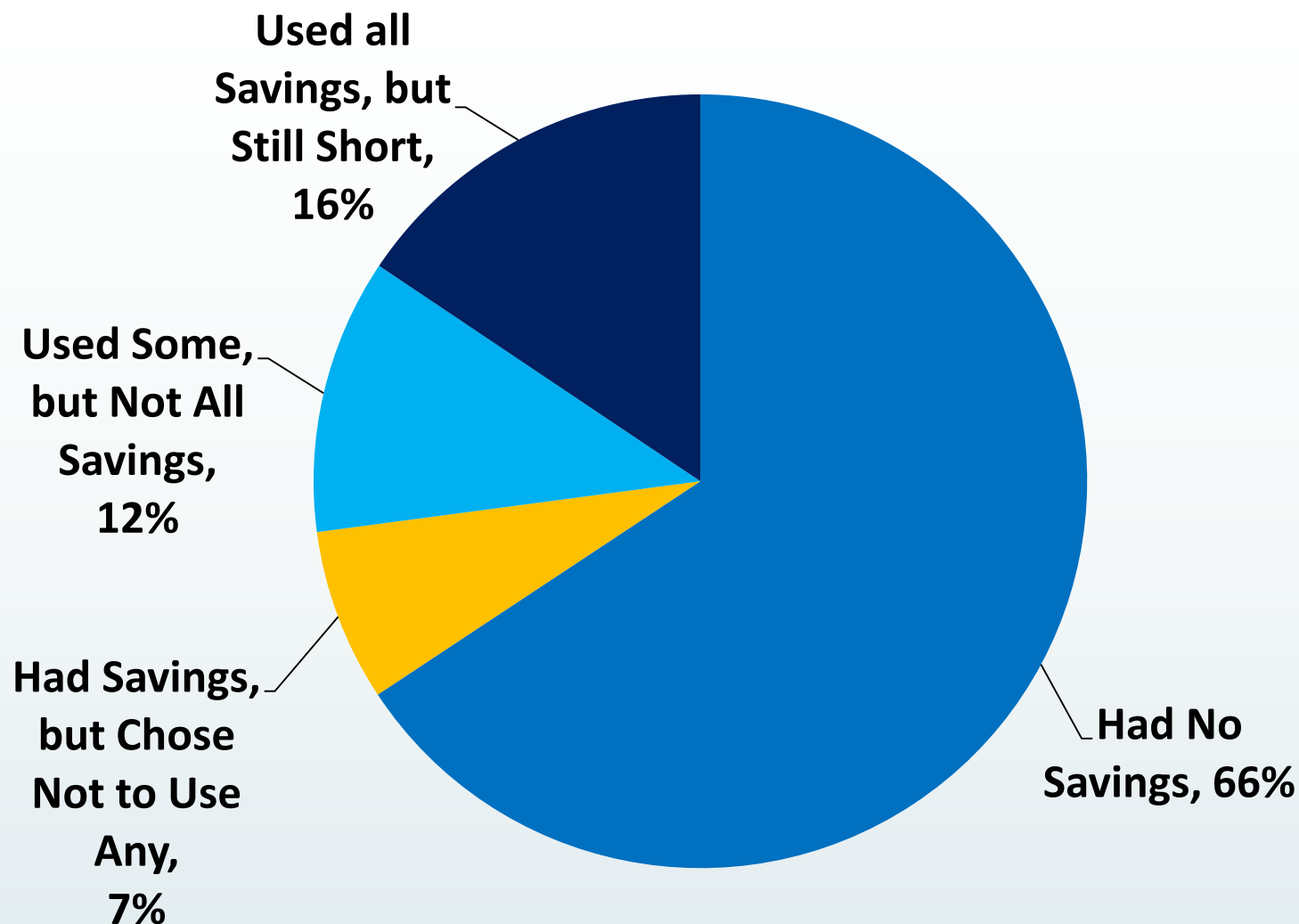
I planned to make a major purchase that exceeded my monthly income or savings (e.g., car or truck, major appliance)



Additional steps taken to cover credit need



Usage of savings to cover credit need



What loan attributes matter most?

Loan Attributes	<u>Average Rating (Scale of 1-5)</u>		
	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

69% of SDC consumers do not comparison shop

Why not use other credit options?

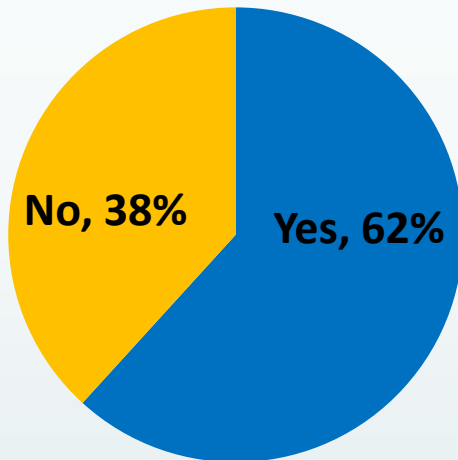
Credit Card	Overdraft	Loans from Friends and Family
I don't qualify (32%)	Too expensive (25%)	I did - in addition to SDC (21%)
I maxed out or can no longer use this product (19%)	Too inconvenient (17%)	Too inconvenient (20%)
Too expensive (16%)	I don't qualify (15%)	Not offered near me (17%)

How do Very Short-Term Credit Consumers Fare?

Looking at a single loan experience...

Payday

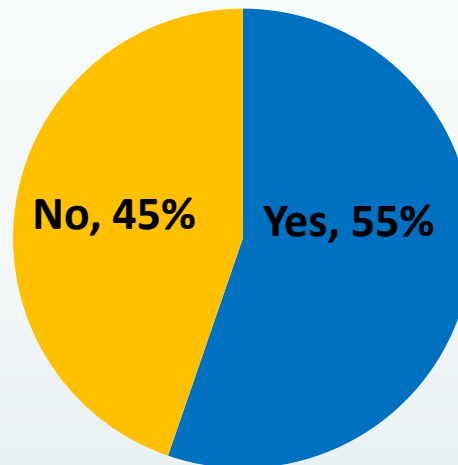
Did you pay off your first loan on time?



Average # of rollovers: **5.1**

Pawn

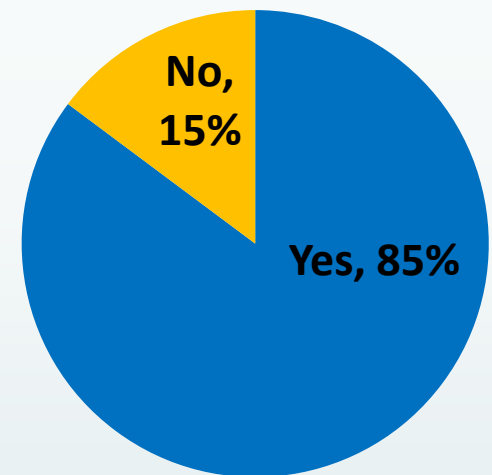
Did you pay off your first loan on time?



Average # of extensions: **2.4**

Deposit Advance

Did you pay the first loan w/o overdrawing your checking account?



Participants reporting taking out another advance in the next month: **35%**

How do Very Short-Term Credit Consumers Fare?

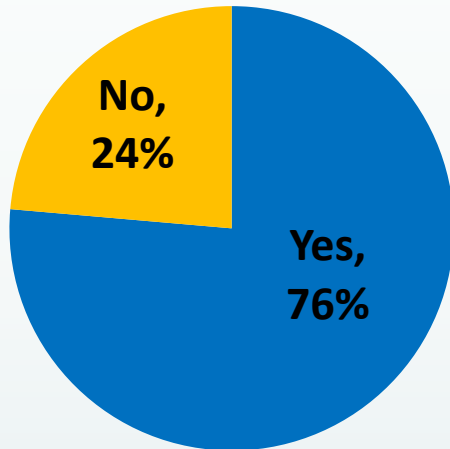
Looking across the entire year...

	Payday	Pawn
Average # of loans and rollovers/extensions per year	11	7
Average # of days spent in debt per year	150	200

How do Short-Term Credit Consumers Fare?

Installment Loans

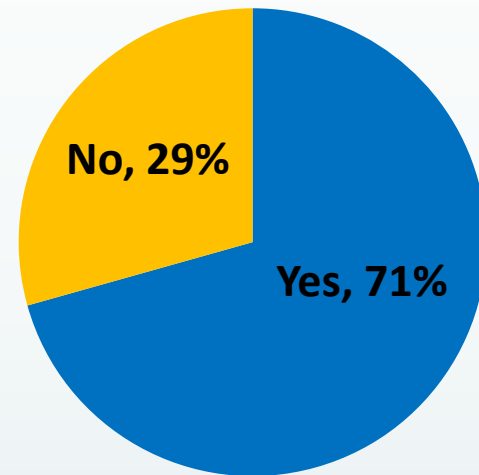
Did you pay off the loan by the end of the original term?



Average number of refinances: **2.9**

Auto Title Loans

Did you pay off the loan by the end of the original term?



Average number of refinances: **3.0**

Regression Analysis: What predicts repeat use?

Higher ratio of
loan size to
income (DTI)



Higher number
of payday
rollovers

Funds shortage
resulting from
“expenses
consistently higher
than income”



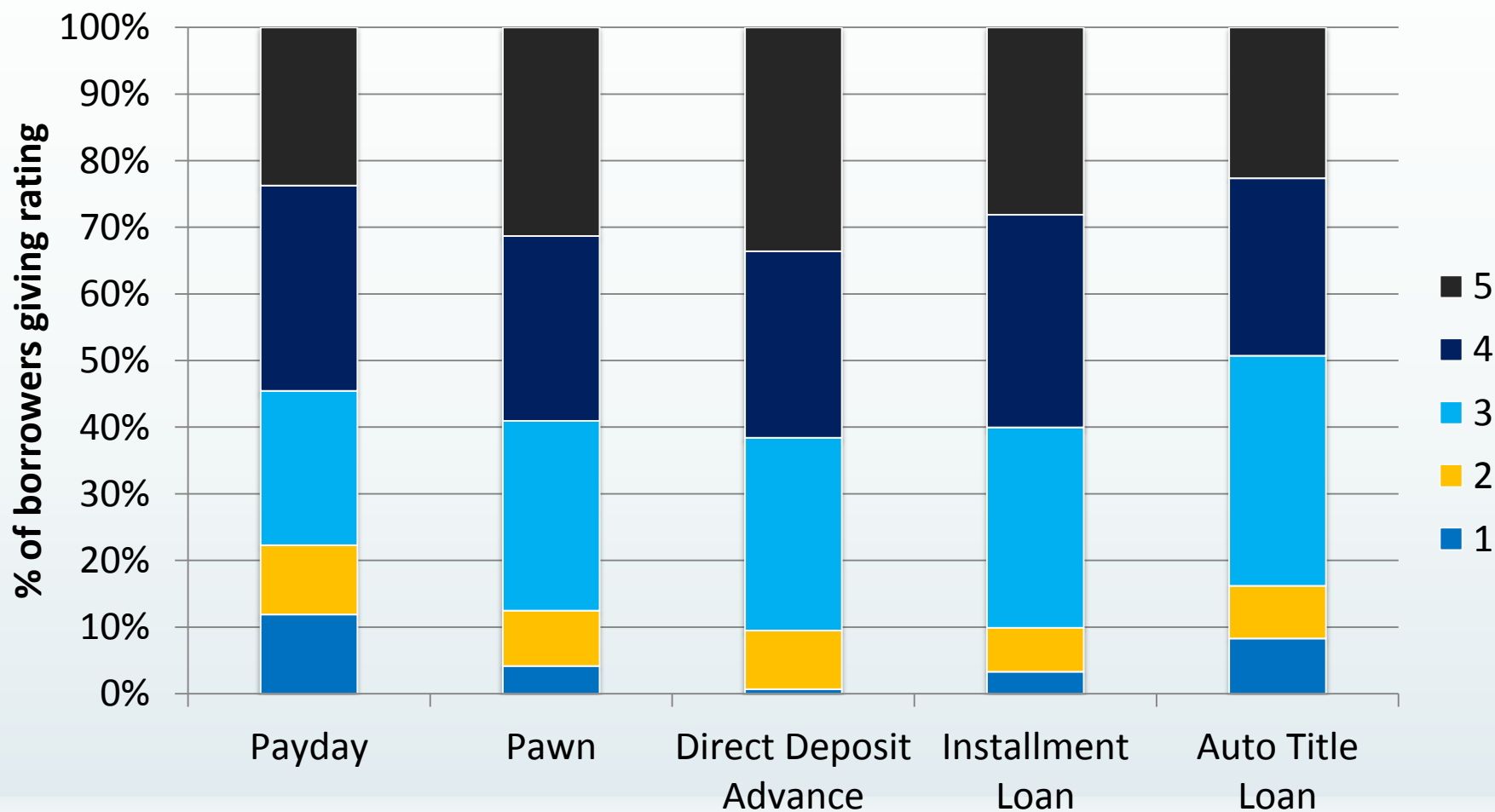
Higher likelihood
of:

- Payday rollover
- Pawn loan extension
- Auto title refinance
- Deposit advance use the following month

Consumer Experience

Overall, How Satisfied Were You With This Loan?

Scale of 1 (Not Satisfied) to 5 (Very Satisfied)



Consumer Experience

Fairness

Overall, how fair did you consider the terms of your loan?

Average rating on a scale from 1 (Not Fair) to 5 (Very Fair)

Expectations

% reporting **cost of loan was more** than expected

% reporting it took **more time** than expected to repay the loan

Would you use the product again?

Yes, without hesitation

Maybe, if I have no better options

No

Short-Term			Medium-Term	
<i>Payday Loan</i>	<i>Pawn Loan</i>	<i>Deposit Advance</i>	<i>Installment</i>	<i>Auto Title</i>
3.26	3.63	3.73	3.64	3.31
40%	19%	15%	26%	43%
32%	29%	20%	17%	32%
33%	44%	53%	45%	22%
44%	44%	41%	39%	55%
22%	10%	5%	14%	22%

Conclusions from our research

- Many consumers would benefit from a multiplicity of safe, affordable, high-quality credit products and tools designed to meet different needs and uses
- 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 that examines a consumer's ability to repay and overall financial situation will be critical to preventing repeat usage
- Strong consumer protections and innovation in high-quality credit will be necessary to address the struggles and needs of SDC consumers

Questions?



www.cfsinnovation.com

rlevy@cfsinnovation.com