

# *A Complex Portrait:*

## An Examination of Small Dollar Credit Consumers

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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 <sup>(1)</sup>
<b>Highest Level of Education Achieved</b>			
Less than HS/HS Diploma	59%	45%	54%
Some College	31%	32%	28%
Bachelor's Degree or Higher	10%	23%	18%
<b>Region</b>			
Northeast	8%	18%	17%
Midwest	21%	24%	22%
South	50%	35%	39%
West	21%	24%	22%
<b>Household Size (Mean)</b>			
	3.2	2.8	NA
<b>Race/Ethnicity</b>			
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

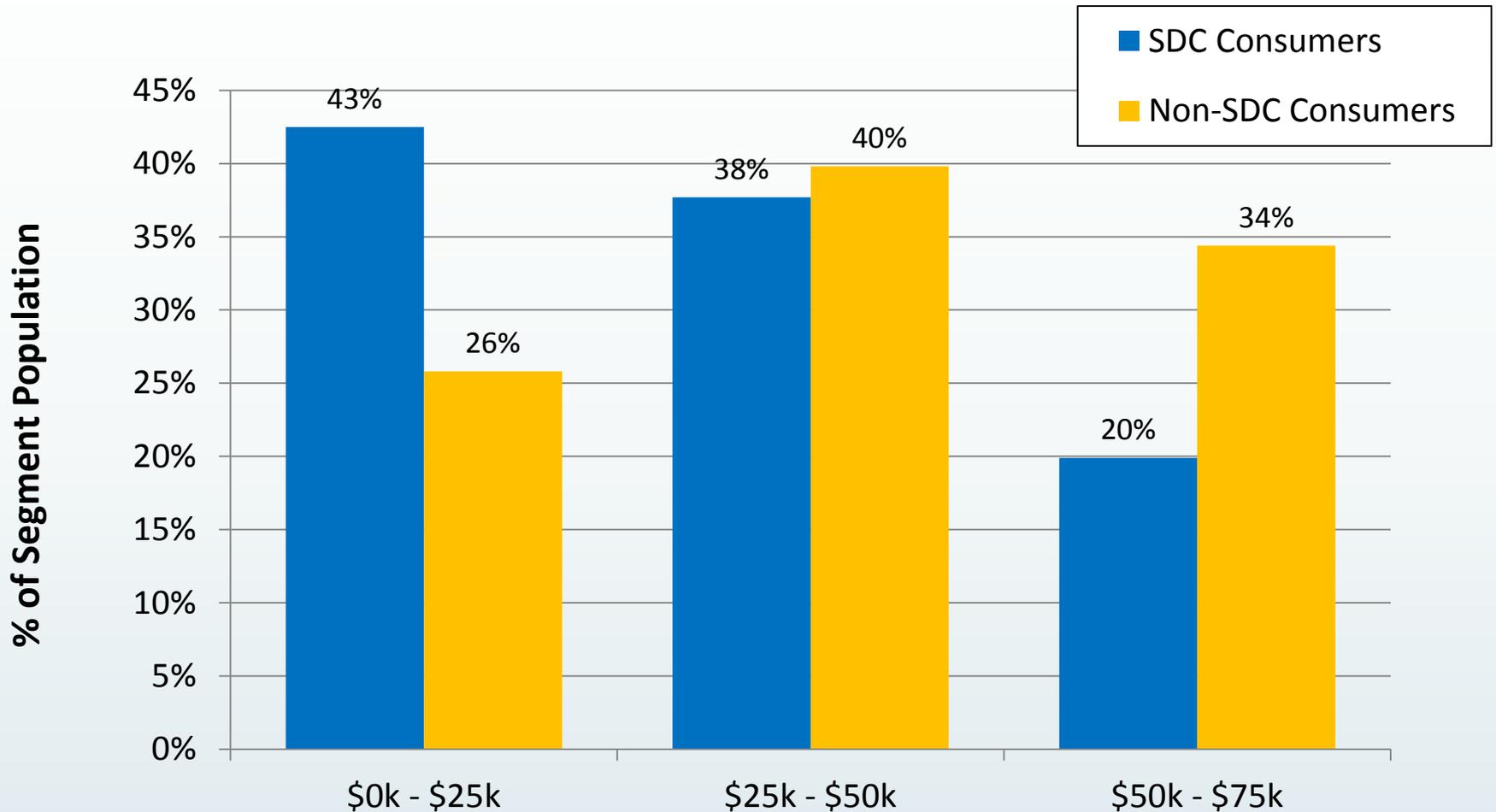
(1) Statistics from March 2011 Current Population Survey conducted by the Bureau of Census for the Bureau of Labor Statistics

# Who are SDC consumers?

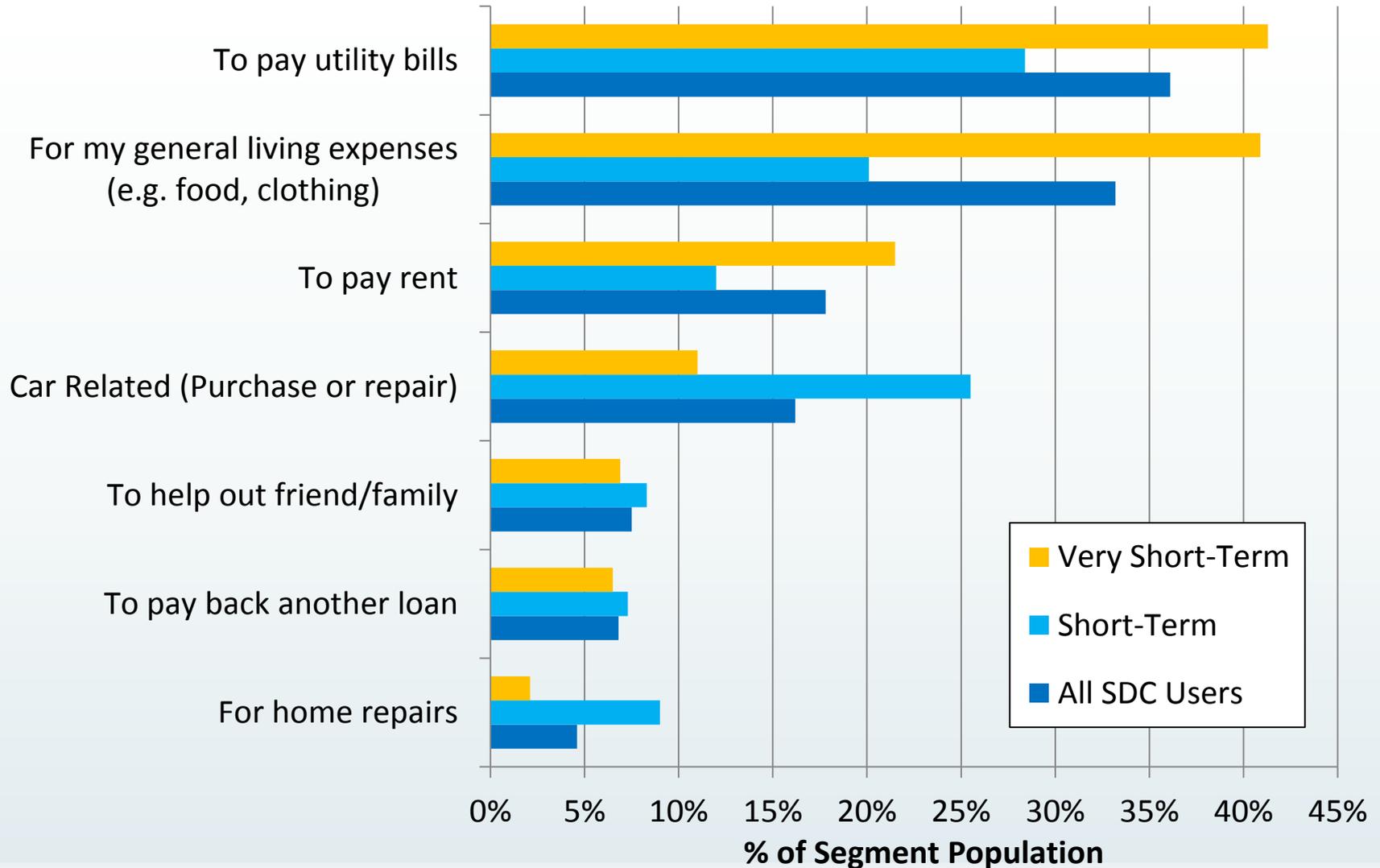
	<b>SDC Consumers</b>	<b>Non-SDC Consumers</b>
<b>Household income</b>	<b>\$32,000</b>	<b>\$40,000</b>
<b># of different types of loan products used per year</b>	<b>2.1</b>	<b>1.4</b>
<b>% of consumers who have a credit card</b>	<b>27%</b>	<b>61%</b>

# 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

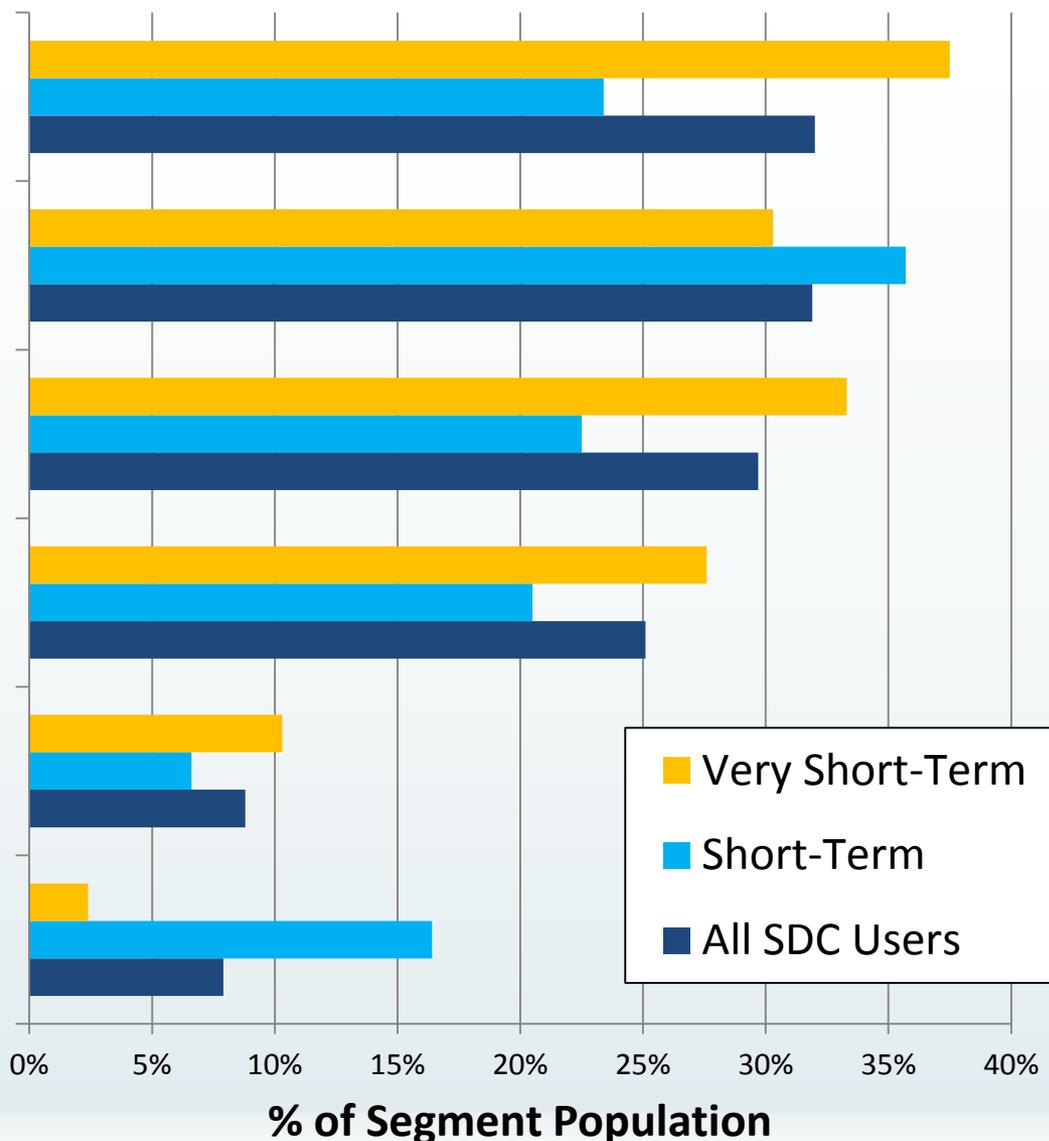


I had an unexpected drop in my income (e.g., lost job, hours cut, benefits cut)

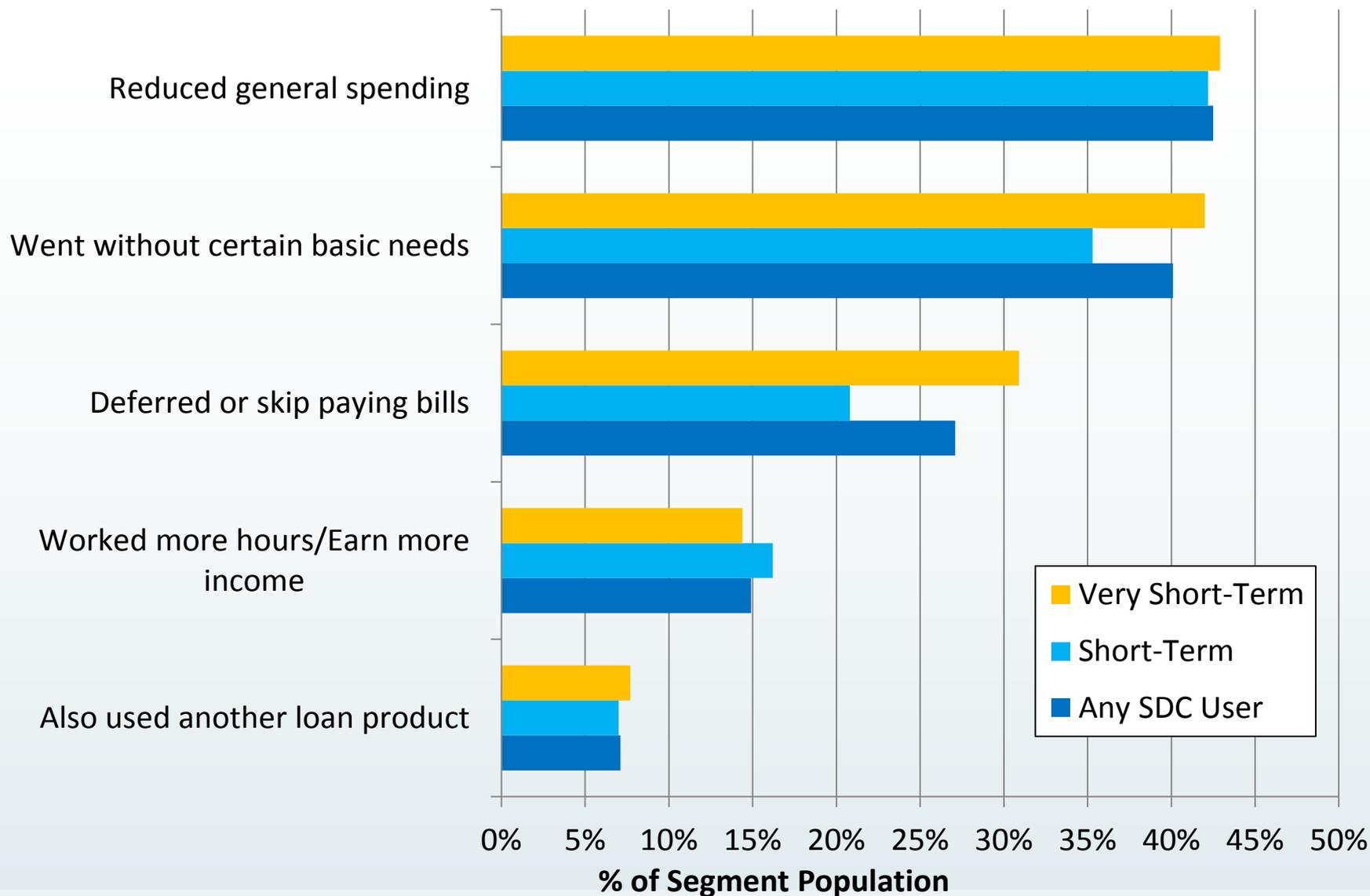


I spent most of my money that month paying off a previous loan

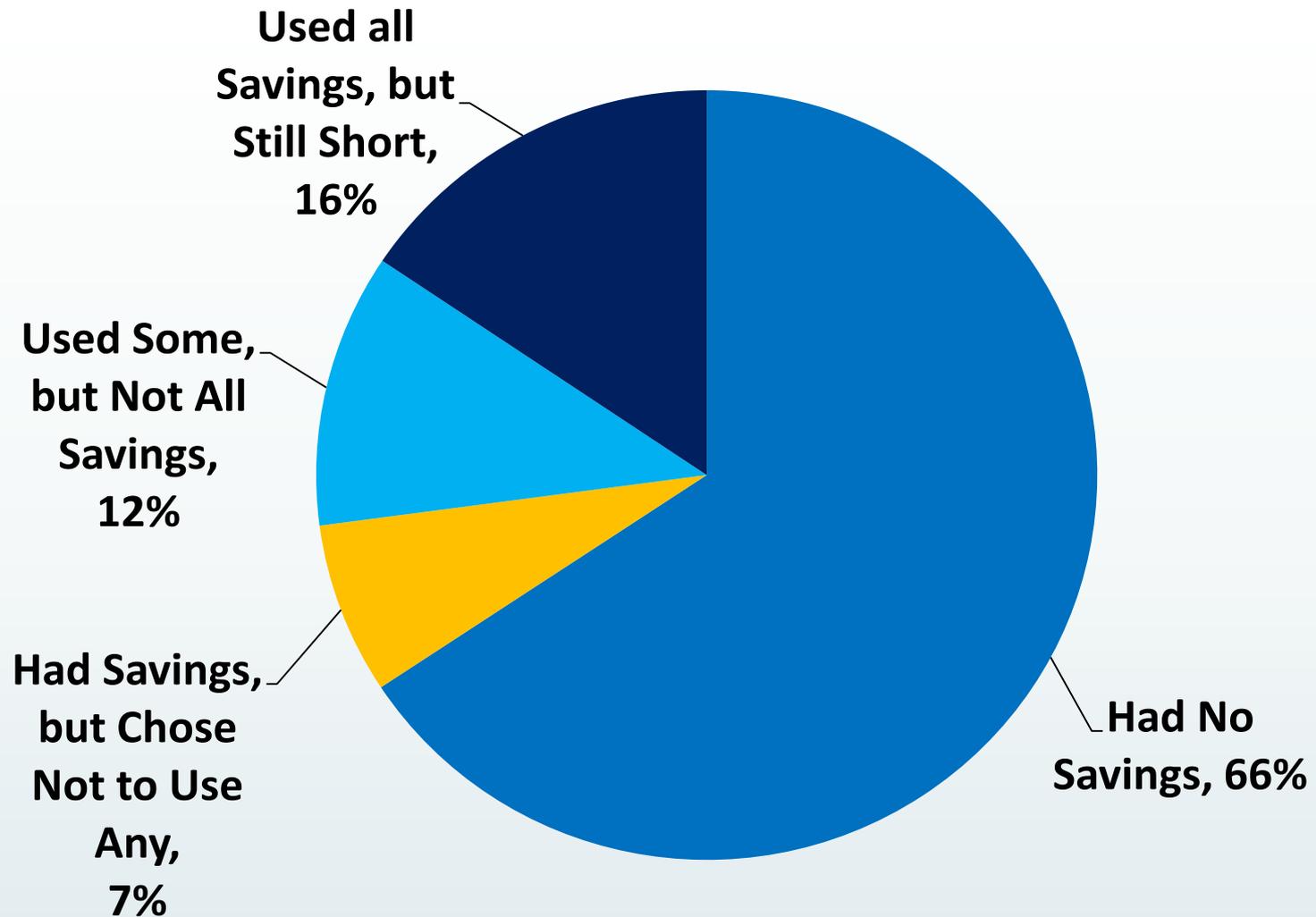
I planned to make a major purchase that exceeded my monthly income or savings (e.g., car or truck, major appliance)



# Additional steps taken to cover credit need



# Usage of savings to cover credit need



# What loan attributes matter most?

Loan Attributes	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

*69% of SDC consumers do not comparison shop*

# Why not use other credit options?

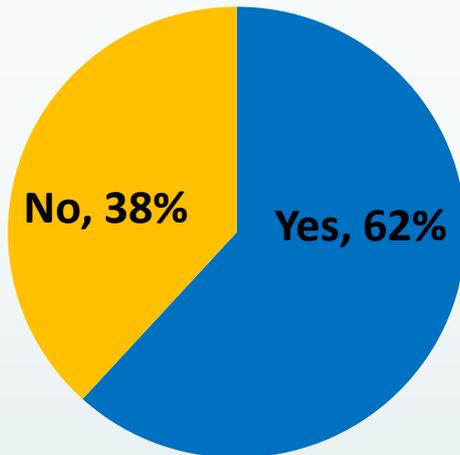
Credit Card	Overdraft	Loans from Friends and Family
I don't qualify (32%)	Too expensive (25%)	I did - in addition to SDC (21%)
I maxed out or can no longer use this product (19%)	Too inconvenient (17%)	Too inconvenient (20%)
Too expensive (16%)	I don't qualify (15%)	Not offered near me (17%)

# How do Very Short-Term Credit Consumers Fare?

*Looking at a single loan experience...*

## Payday

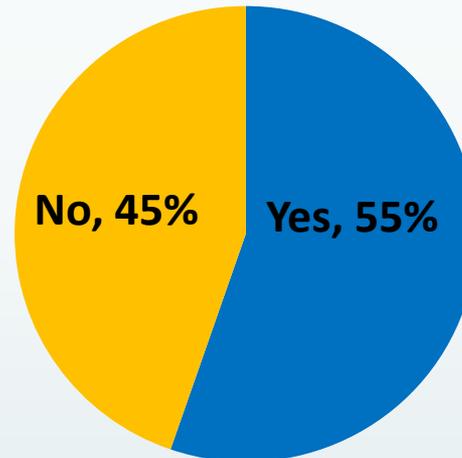
*Did you pay off your first loan on time?*



Average # of rollovers: **5.1**

## Pawn

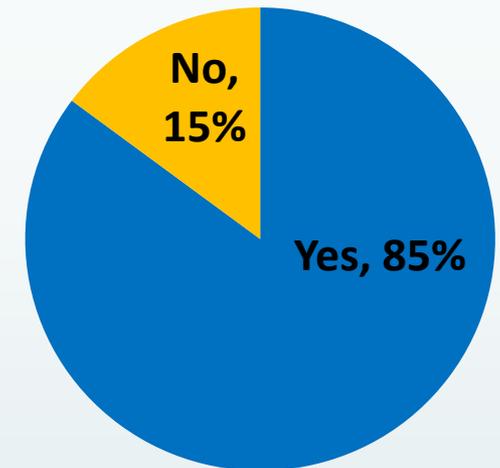
*Did you pay off your first loan on time?*



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?

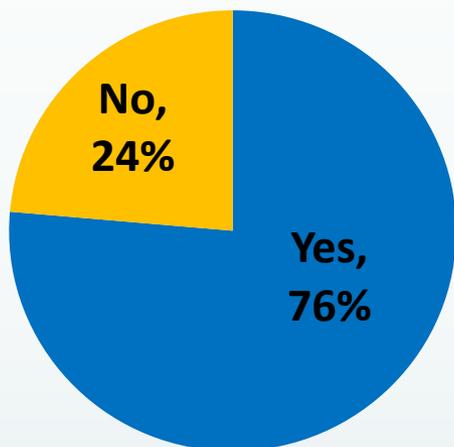
*Looking across the entire year...*

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

# How do Short-Term Credit Consumers Fare?

## Installment Loans

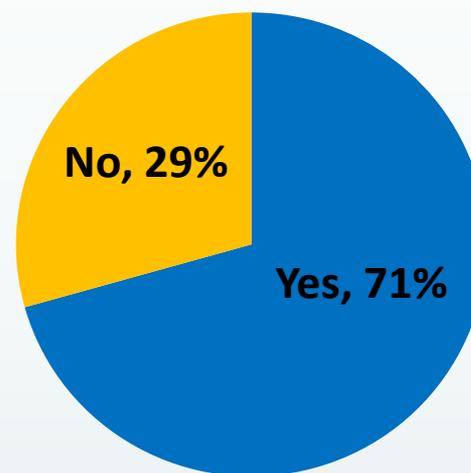
*Did you pay off the loan by the end of the original term?*



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”



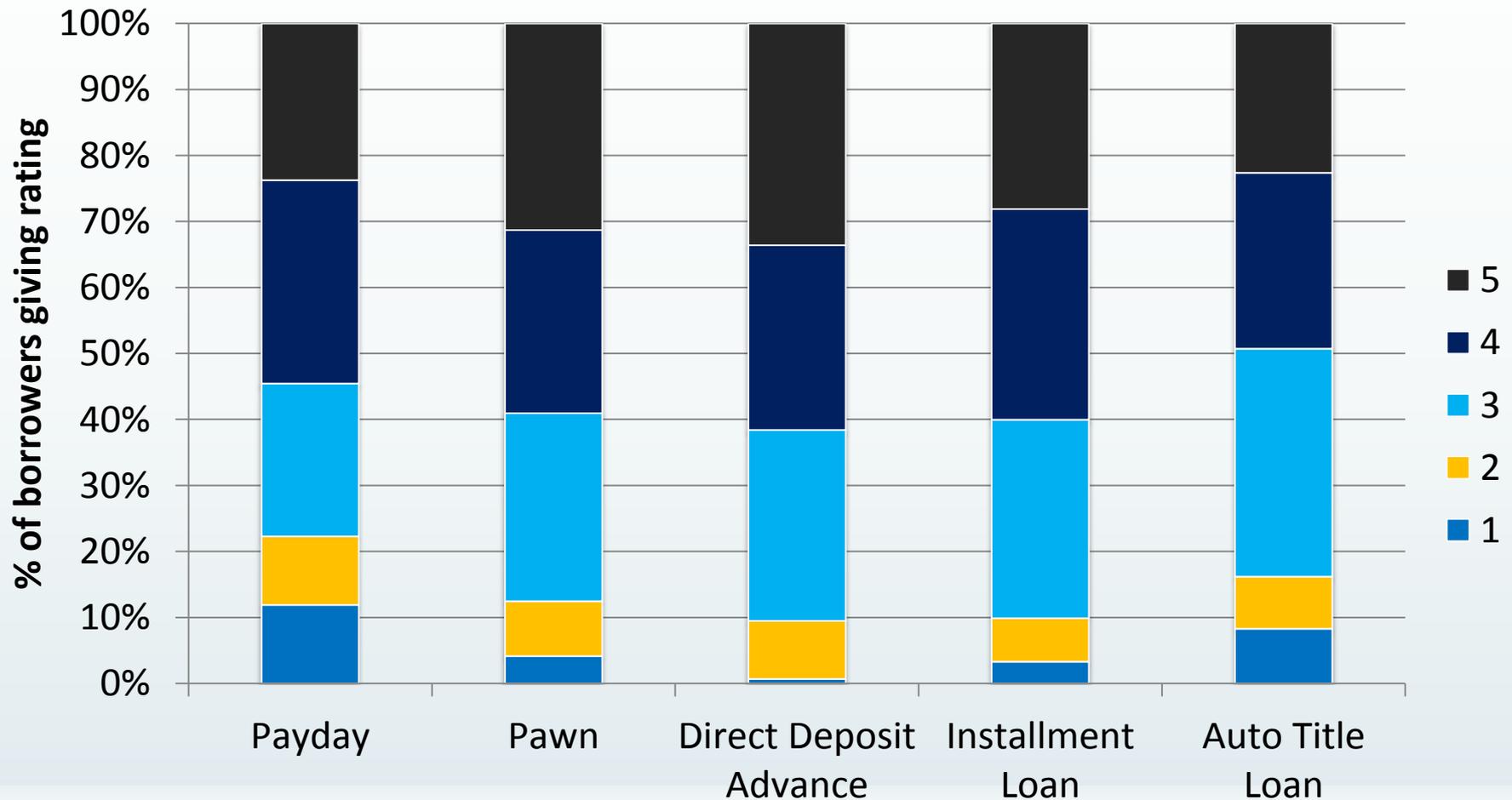
Higher likelihood  
of:

- 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>
Fairness	3.26	3.63	3.73	3.64	3.31
% reporting <b>cost of loan was more</b> than expected	40%	19%	15%	26%	43%
% reporting it took <b>more time</b> than expected to repay the loan	32%	29%	20%	17%	32%
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%

# 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?

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