

Professor Nathalie Martin

University of New Mexico
School of Law

**Payday and Title Loans: Who Uses
Them and Why**


Research funded by the National
Conference of Bankruptcy Judges

Phone: 505-463-9048

martin@law.unm.edu



Typical Payday Loan

- Borrow \$400 between now and payday, by writing post-dated check for \$500.
 - On payday, they deposit check if you don't come in with at least the \$100 fee.
 - If have \$500, you get out. If you don't you, keep paying \$100 every other week. Still owe \$400.
- 

Typical Problem

- Constant rollovers, no payment of principal
- No cap on fees
- Multiple loans at one time
- Unclear terms



Recent papers:

- Legislative process and customer understanding and uses of loans
- Payday loans and Bankruptcy
Title Loan Demographics and Repossession Rates
- Payday and Title Loans: Darlings of the Middle Class?



2007 New Mexico Legislation

— \$15 per \$100 + \$.50 fee  until payday — at least 417%
per annum

— no rollovers (but no cooling off period)

— database (can't have more than 25% of a person's gross income wrapped up in these loans)

— loans covered  14-35 days long
 post-dated check or bank debit

Industry Finds Its Way (around it)

- 36 day loans
- no postdated check
- both of these transactions still unregulated



New Product

Installment Loan (popular Spring Fall 2009)

Example: Borrow \$500

- Pay back \$1085 total, over 20 weeks
- But...we will regularly offer you all the principal you've paid so far (wipe out prior payments).
- Welcome Back, interest only loan
- Borrow now, pay back for rest of life!

Another New product

- The payday loan without the post-dated check
- Gaining popularity Late Fall 2009 Post-AG suit
- Typical terms. \$25 per \$100, no pre-payment of principal.



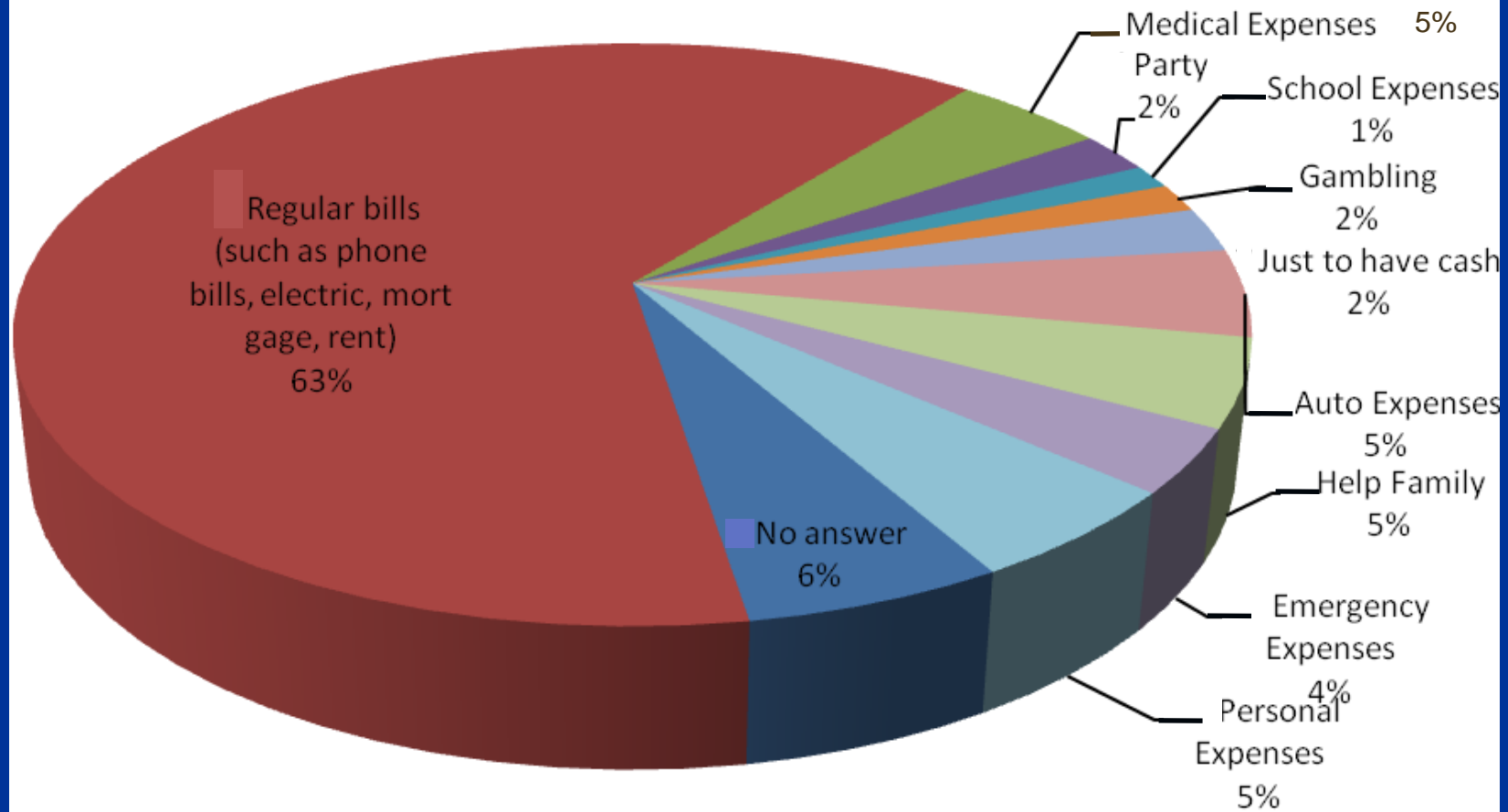
NCBJ Grant: Find Out What's Really Going on in People's Minds

- 100 curbside interviews
- 50 office interviews
- To find out:
 - - what people understand about the loans,
 - why they use them,
 - what alternatives they have.



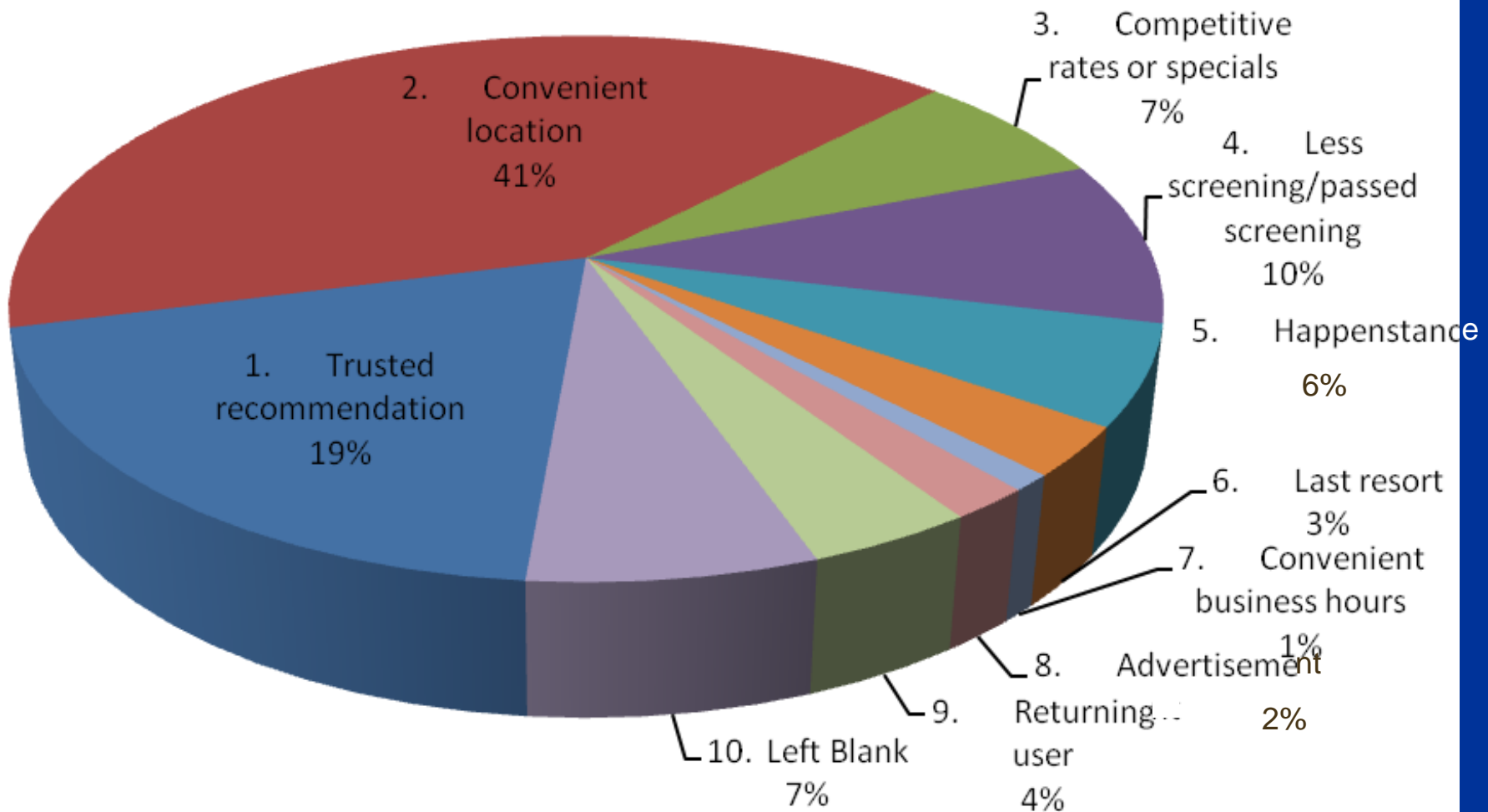
Use of Loan

Use of Loan



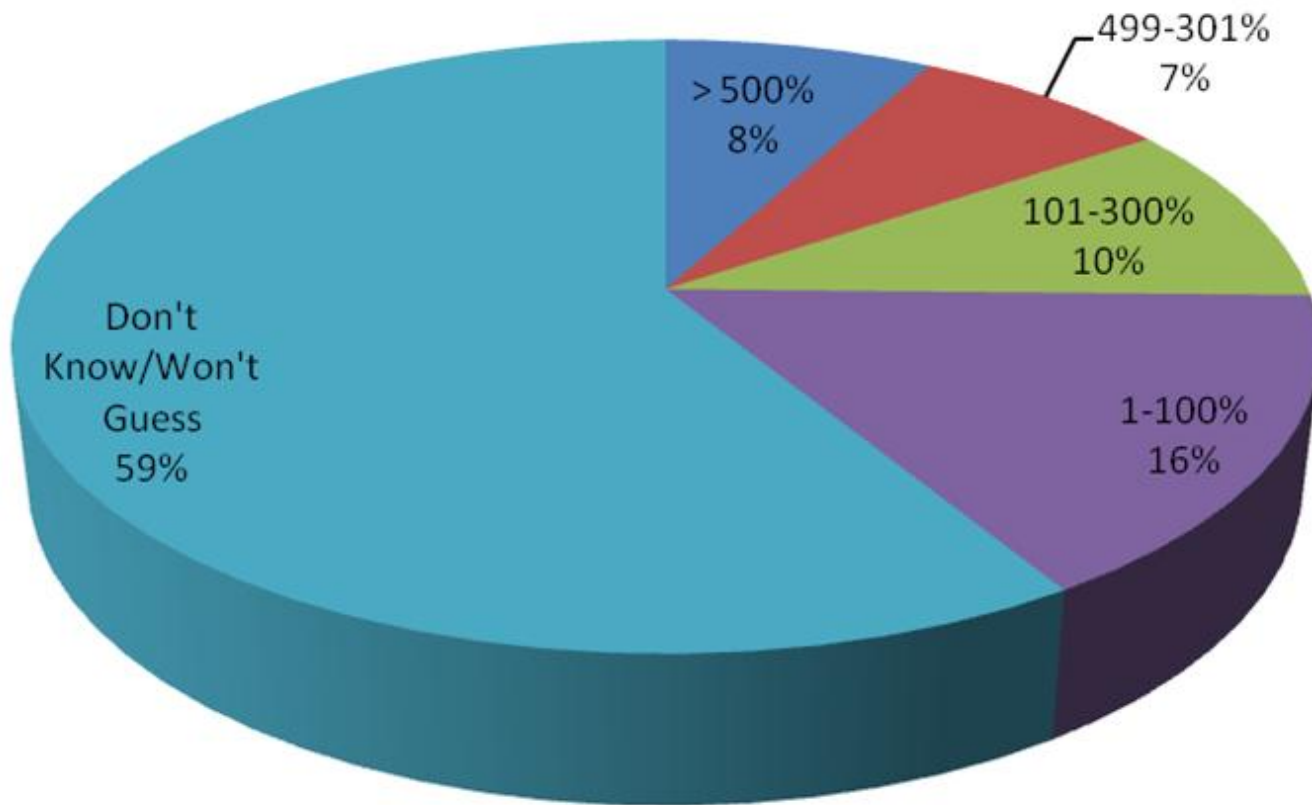
Reason for Choosing Lender

Reason for Choosing Lender

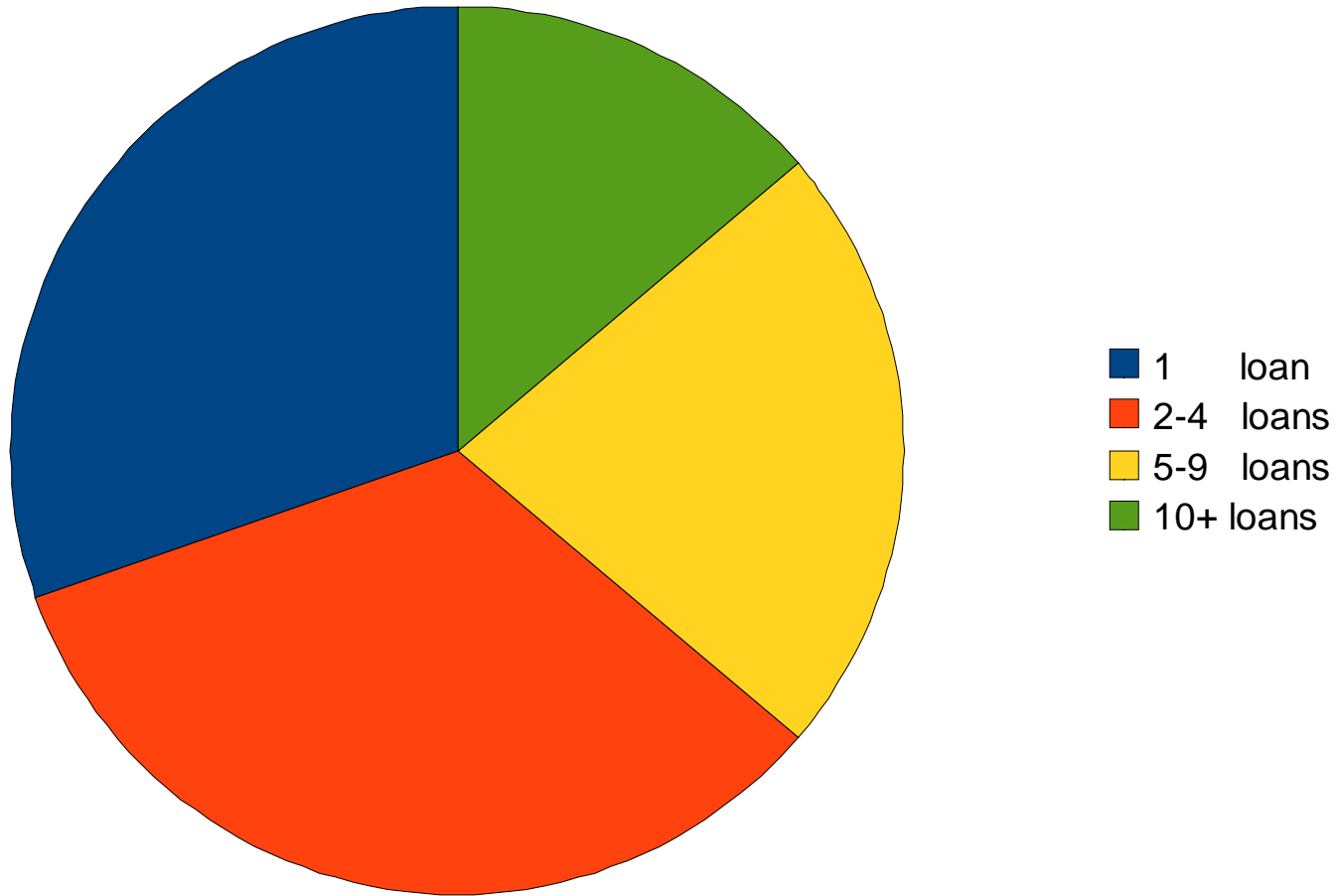


APR Guess

APR Guess



Frequency of Payday Loan Use Among Bankruptcy Filers 2007-2009



What Data do we Have Here?

1. Most people do not shop around
2. Most people use these loans for recurring, not surprise, expenses
3. Many people who use these have low-cost or no-cost alternatives.
4. People do not understand the cost of these loans
 - APR
 - dollar cost
 - compared to a credit card



Title Loan Pitfalls

1. title loans are asset- based loans and often too high for borrowers to repay
2. Loans are typically 25-40% of value of car and rest of value is lost if cannot make payments
3. Double digit repossession rates, so frequent loss of most valuable asset
4. Typical interest rate is 300%
5. No one is taking them on legally



Title Loan Demographics

1. Unbanked
2. Poorer than Payday loan Customers who Typically Have Bank Accounts
3. Incomes far lower than the median
4. Do not need to be employed at all



Are Payday and Title Loans
the New Darlings of the
Middle Class?



What Interests Me About Payday and Title Loans and Class

- Do these industries serve primarily the middle class?
- Are they serving more middle class people since the financial crisis?
- Will turning this into a middle class issue or concern make it more likely that these loans will be regulated any time soon?




Ellehausen Industry Study

- Majority of payday loan customers earned between \$25,000 and \$50,000 in 2000



Sample Industry web site:

- The perception of cash advance payday loans is that they are mainly used by low-income persons.
 - Recent news shows that fast cash loans are becoming more popular with the middle class.
 - Payday lenders report increased loan requests from middle class and working families.
 - A new study also debunks the mainstream perception that paydays target low-income consumers.
- 

Indicia of Middle Class

- Middle income (also ability to meet expenses)
- Own a home
- A car for every adult
- College for the kids
- Savings
- A secure retirement

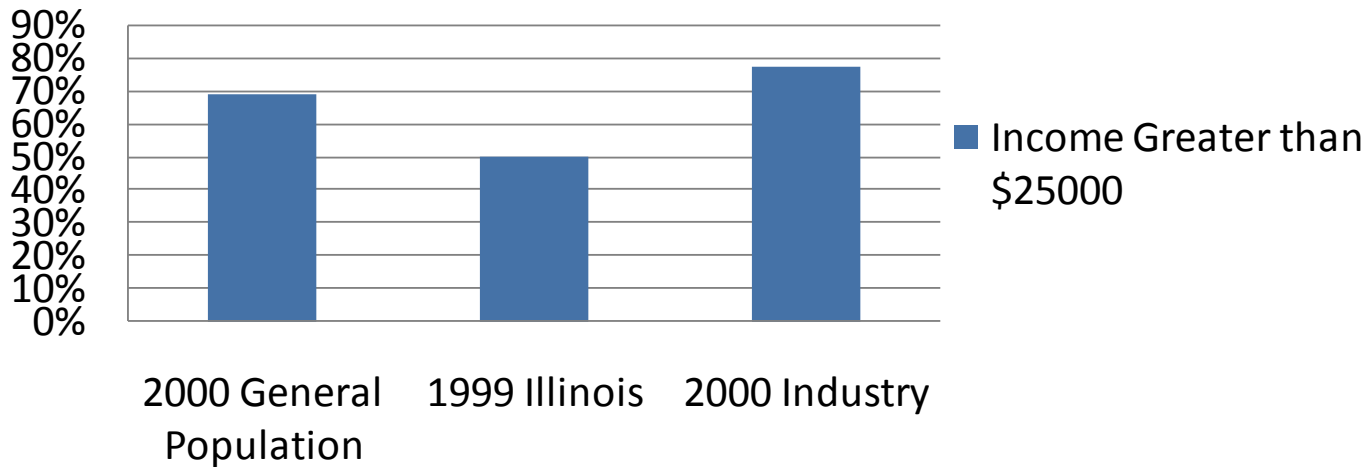


U.S. Census Bureau Figures for 2007

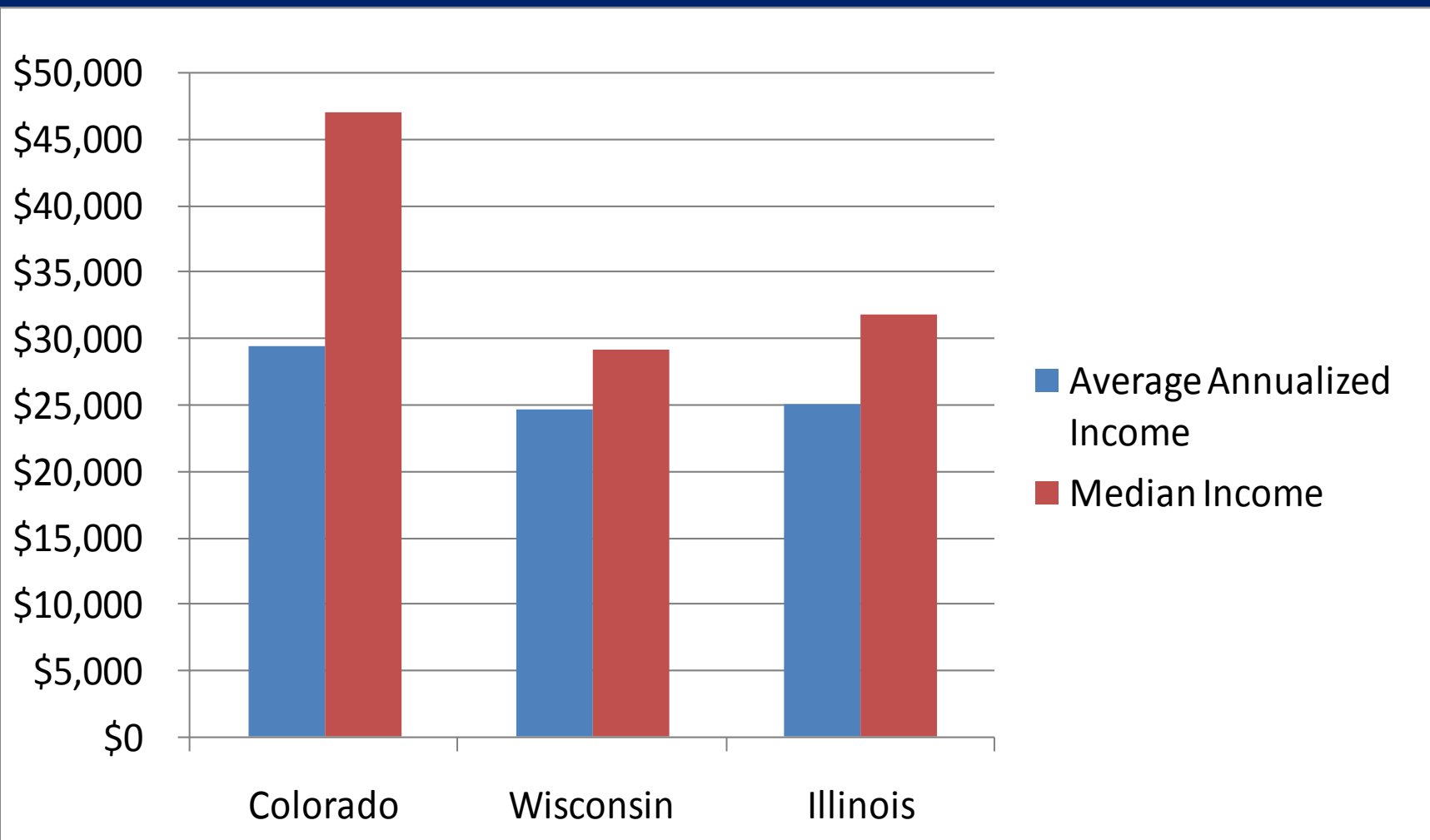
- Median income \$50,233
- Under narrowest view of middle class based upon income ranges, members of the middle class have an income of between \$39,100 and \$62,000



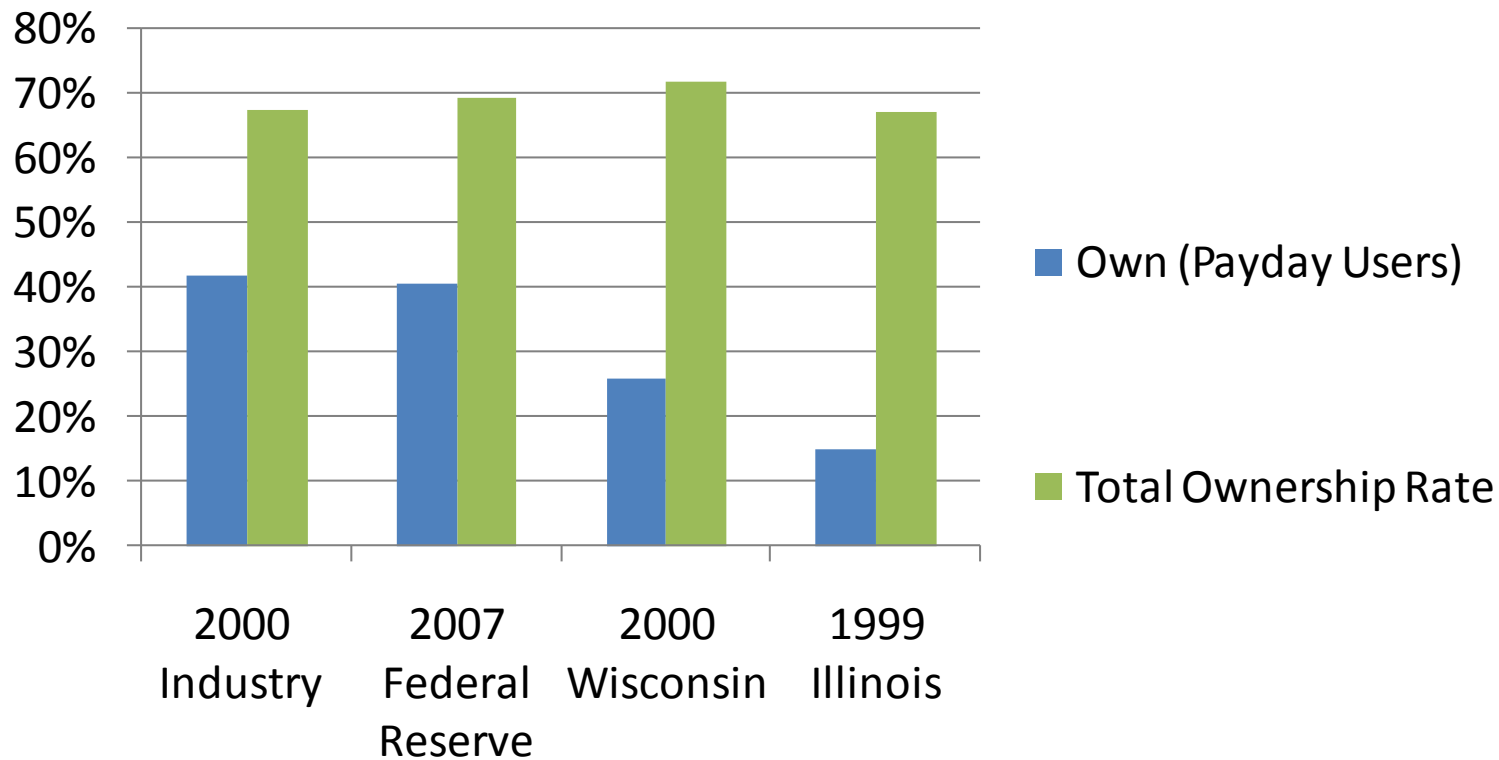
% of General Population vs. Payday Borrowers w/Income of \$25,000 or Higher



Income of Payday Users Gathered by State Regulators Compared to Average Income in State



Home Ownership Rates Among Payday Users Compared to General Population



Study of Bankruptcy Debtors: June 2007, 2008, 2009, 2010, and 2011

- Separated out bankruptcy debtors with payday/installment loans from the whole
- Compared income and home ownership rates and values of payday debtors and overall debtor pool



Assumptions Going into Study

- Bankruptcy debtors are known to be primarily middle class so perfect lens through which to compare the income and home ownership demographics of payday versus non-payday borrowers and to test the middle class myth
- When you compared the payday users to the whole, the payday users would likely have lower incomes and lower home ownership rates, as well as lower home values if they did own a home

Study Critiques

- Not enough data analyzed (one month per year or 245 to 518 per month total of under 2,000)
- Bankruptcy debtors are not really from the middle classes generally
- Even if they are, they will be very poor predictor of demographic differences between payday loan users and the general population because they are all in financial distress

Effect of Financial Crisis

- Is home ownership still a good proxy for middle class-ness?
- If so, should we be comparing the rate of homeownership of payday borrowers to the rate for all filers?
- Or should we look at the rate at which homeowners overall use payday loans?



Number of Chapter 7 Petitions Analyzed

• Year	total filers	total with payday loans	
• 2007	245	53	23%
• 2008	333	77	23%
• 2009	458	68	14%
• 2010	518	54	10%
• 2011	421	89	21%



Findings: Annualized Income (schedule I)

Yr	income overall	income payday
2007	\$28,848	\$26,724
2008	\$27,204	\$24,156
2009	\$37,380	\$36,756
2010	\$32,394	\$30,730
2011	\$31,243	\$28,275



National home ownership rates for the various years:

2007	2008	2009	2010
68.1%	67.8%	67.4%	66.9%



Home Ownership Rates and Home Values

home ownership overall

home ownership payday

2007 52%

9%

2008 55%

13%

2009 51%

5%

2010 62%

40%

2011 54%

38%



Home Ownership Rates and Home Values

home ownership overall

home ownership payday

2007 52%

9%

2008 55%

13%

2009 51%

5%

2010 62%

59%

2011 54%

38%



Home Values

	average home value overall	average home values payday
2007	\$177,376	\$91,524
2008	\$233,129	\$85,174
2009	\$170,935	\$95,096
2010	\$171,226	\$107,982
2011	\$160,844	\$102,535

