

February 2016

Borrower and Voter Views Of Payday Loans



THE TARRANCE GROUP

Methodology

Global Strategy Group and The Tarrance Group conducted two surveys on behalf of the Community Financial Services Association of America (CFSA):

- **Borrower Survey:** A nationwide survey of 1,000 payday loan borrowers, including oversamples of 321 African American payday loan borrowers and 300 Hispanic payday loan borrowers. The survey was completed between January 12 and 19, 2016. The margin of error for the total sample at the 95% confidence level is +/- 3.1%. The margin of error on oversamples and sub-samples is greater.
- **Voter Survey:** A nationwide survey of 1,000 likely 2016 voters between January 9 and 13, 2016. The margin of error at the 95% confidence level is +/- 3.1%. The margin of error on sub-samples is greater.

Objectives

The central objective of this study was to explore and compare borrower and voter views of payday loans. This included the following supporting objectives:

- **Understand General Views Of Payday Loans:** How do these different audiences view the value and utility of payday loans?
- **Examine The Borrower Experience:** Why do borrowers take out payday loans? Are other options available to them? How are they treated by lenders? What type of understanding do they have of the loan terms and charges they could incur if they fail to repay their loans on-time?
- **Gauge Views Of Additional Payday Loan Regulation:** Should additional requirements be imposed on consumers who seek to take out payday loans? How supportive are these audiences of different proposed regulations? How concerned are they about the potential impacts of these regulations?

Summary of Key Findings from the Voter and Payday Borrower Surveys

The results of the surveys indicate major differences between borrowers and voters in how they view payday loans – including the value and practicality of such loans when consumers are faced with short-term unexpected expenses.

The findings of the borrower survey validate previous findings that borrowers appreciate the availability of payday loans, as borrowers often have a critical need and no other options. They understand the potential benefits and drawbacks of taking out a payday loan and fear increased regulations will hurt, rather than help, since such regulations may reduce access to a critical financial lifeline.

Conversely, most voters are not close to this issue, see the loans as more risky, would not be adversely impacted personally if these products became unavailable and therefore are more likely to support more regulations. However, they also agree that the loans are an important resource and understand the threat to credit access that increased regulations would represent.

Key Findings from the Voter and Payday Borrower Surveys

Both voters and payday loan borrowers see the utility of payday loans, although to a differing degree.

- Over nine in ten borrowers agree that payday loans can be a sensible decision when consumers are faced with unexpected expenses, but only 58% of voters share this view.

Borrowers' outlook likely stems from personal experience and a lack of options, while voters are far less likely to see payday loans as the best or their only option.

- When asked what they would do when faced with a short-term financial crisis, 40% of borrowers would choose a payday loan, compared to 7% of voters.
- This difference is not surprising considering 28% of voters fall short of meeting expenses sometimes or regularly, compared to 50% of payday loan borrowers.
- Nearly three quarters of borrowers (74%) say they had no other option available when they got their most recent payday loan.

Key Findings from the Voter and Payday Borrower Surveys

Borrowers say payday loans have been very useful, are likely to recommend them to others, and support their expanded availability.

- Nearly all borrowers (96%) say the payday loans they have taken out have been useful to them personally, with two-thirds (66%) saying they have been *very* useful.
- Moreover, borrowers are likely to recommend payday loans to friends and family (75%) and support allowing other regulated lenders to offer payday loans (78%).

Moreover, almost all borrowers surveyed said they completely understood their loan terms, including the charges they would incur if they did not repay on time.

- Virtually all borrowers (96%) say they completely understood how long it would take to pay off their payday loan and the finance charges they would pay before taking out the loan.
- The vast majority of borrowers say the lender clearly explained the terms of the loan (93%) and what would happen if the loan was not paid back in time (85%).
- Moreover, borrowers say they received better treatment from their payday lender than from a bank or credit card company (72%) and that payday lenders are flexible when working with borrowers who experience payment difficulties (65%).

Key Findings from the Voter and Payday Borrower Surveys

The lack of familiarity with payday loans and overestimation of risk probably contributes significantly to voters' higher level of support for increased restrictions.

- While 80% of borrowers say current requirements to take out a payday loan are enough, only 47% of voters agree.

When it comes to the purpose of regulating payday loans, borrowers and voters are not far apart in their views.

- Voters are slightly more likely than borrowers to say regulations are needed to protect borrowers from scammers while borrowers are somewhat more likely than voters to support fostering competition as the goal of regulation.
- Less than a third of borrowers (26%) and voters (31%) say the purpose of payday loan regulation should be to limit borrowing frequency.

When specific restrictions are described, voters are considerably more likely to support them than are borrowers.

- These include stricter requirements on lenders, restrictions on the number of loans a borrower can take out, and a cooling off period.

Key Findings from the Voter and Payday Borrower Surveys

Merely listing proposed restrictions is enough to make borrowers very concerned about their implementation.

- Nearly three quarters of borrowers (74%) say they would be concerned about these potential government regulations.

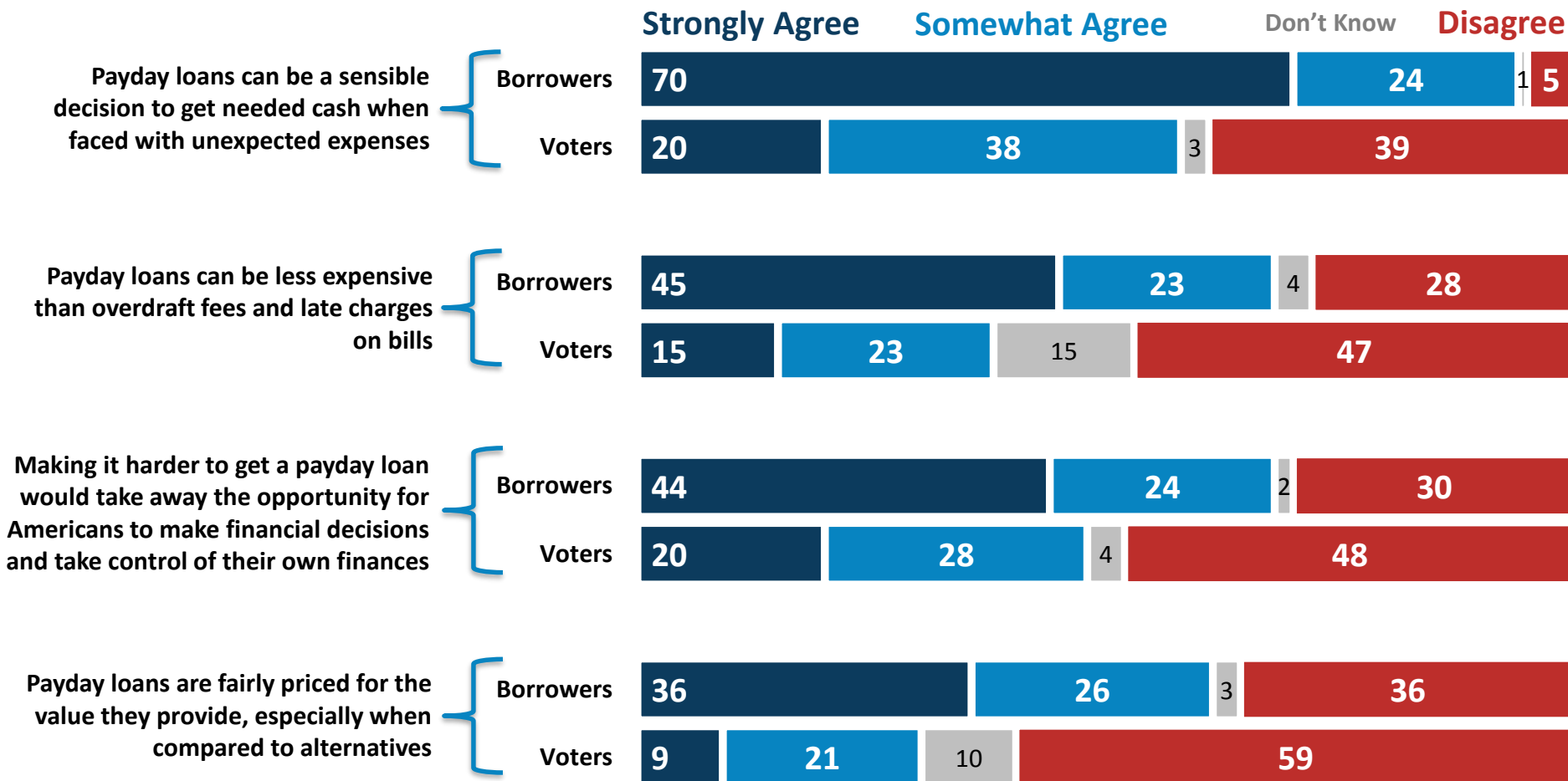
Highlighting the effects of the regulations raises concerns among voters.

- The most concerning effects to voters are that 60-80% of the payday loan industry could be wiped out and that it would reduce access to credit for nearly one in four Americans.

General Views Of Payday Loans

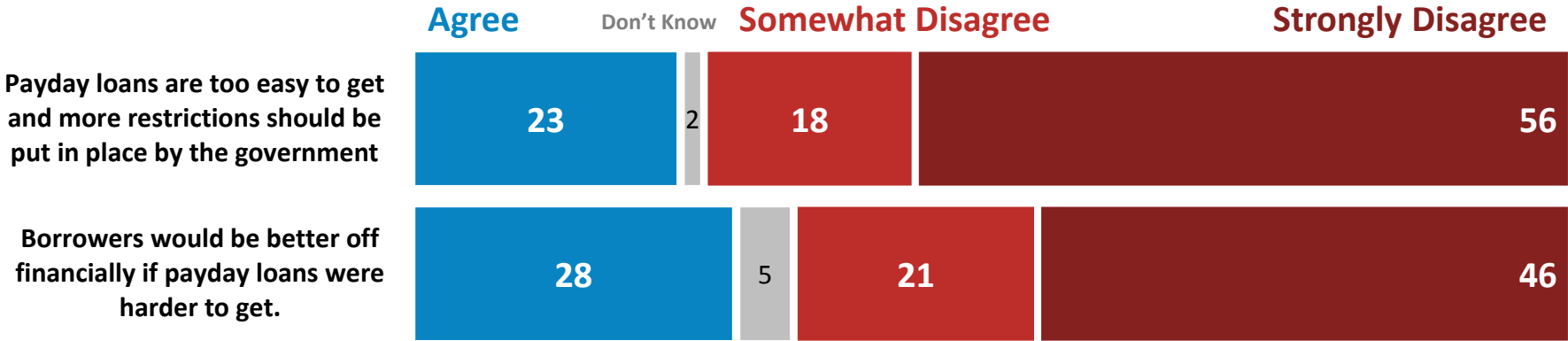
Borrowers and voters agree that payday loans can be sensible when faced with unexpected expenses; borrowers also say payday loans empower individuals financially and provide value over alternatives

For each of the following, please tell me if you agree or disagree.



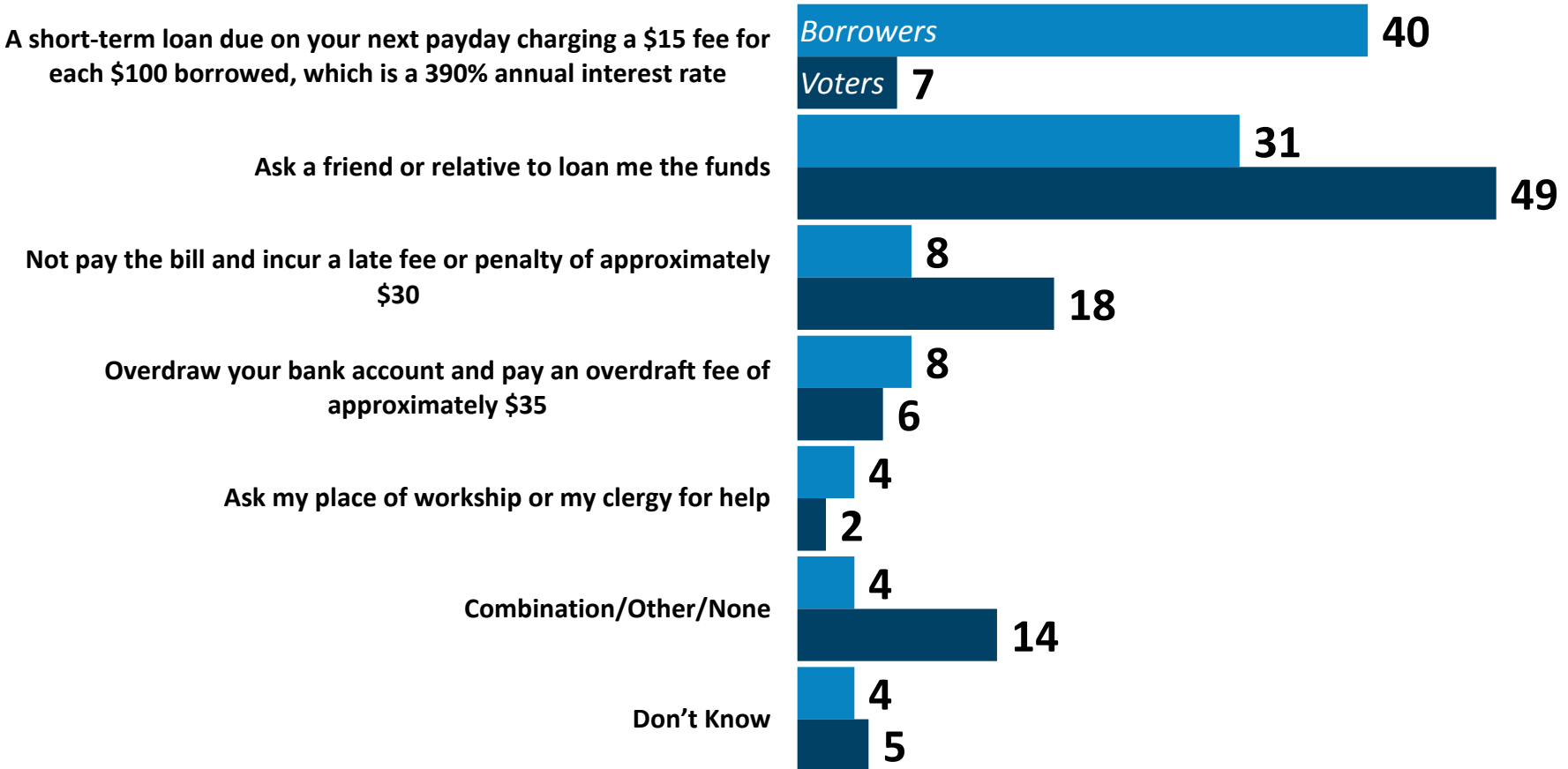
Borrowers do not believe more restrictions should be placed on payday loans or that borrowers would be better off if payday loans were harder to get

For each of the following, please tell me if you agree or disagree. (SHOWING BORROWERS)



When faced with a short-term financial crisis, voters are far more likely to access their social network than borrowers, a plurality of whom say they prefer a payday loan to other alternatives

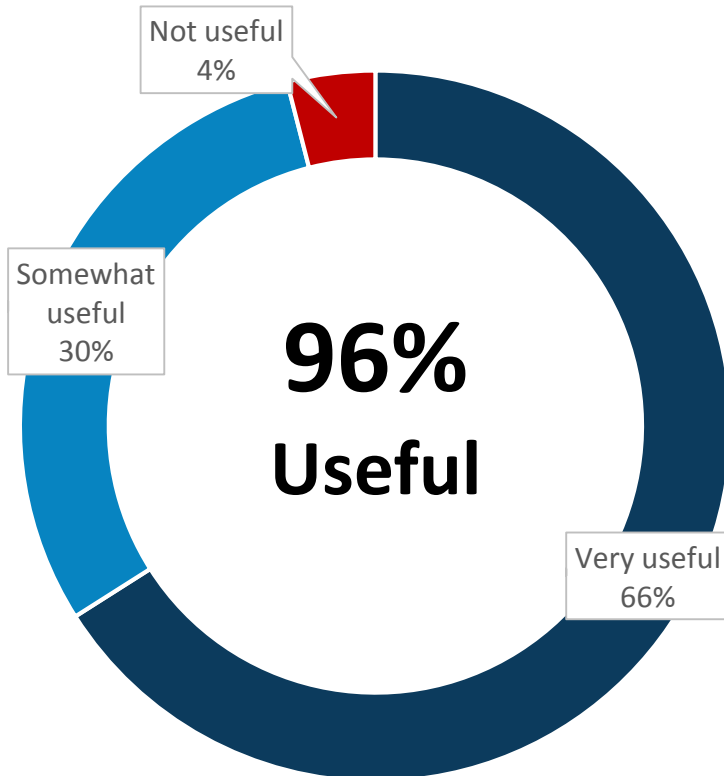
If you were faced with a short-term financial crisis and unable to pay a bill, which of the following options would you choose?



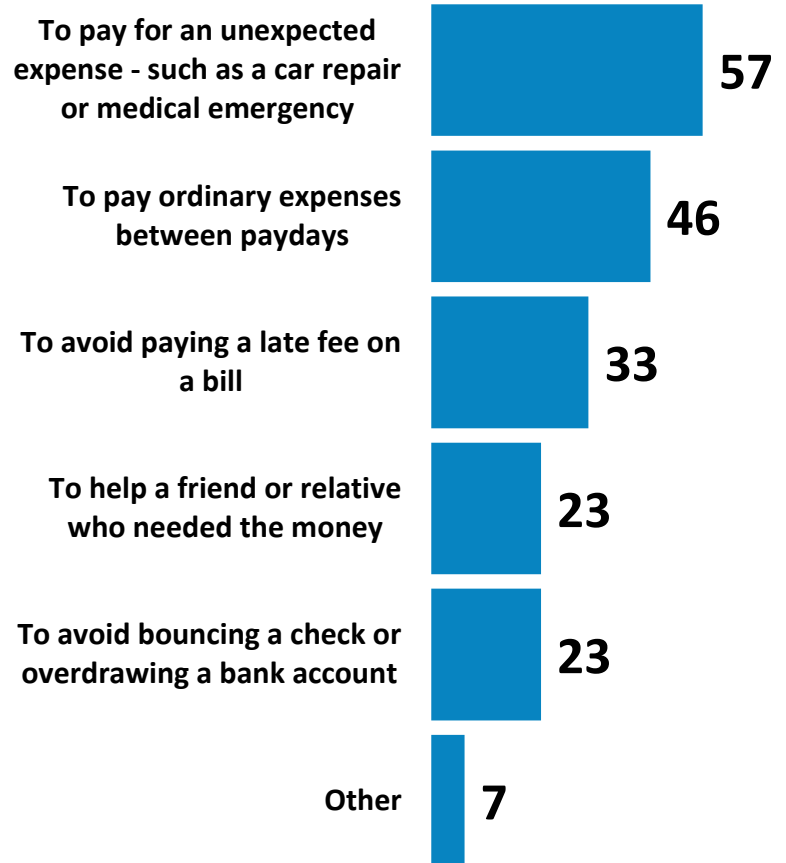
Borrower Experience With Payday Loans

Nearly all borrowers say payday loans have been useful to them, and the top use is covering unexpected expenses

How useful would you say payday loans taken from storefront payday lenders have been to you personally?

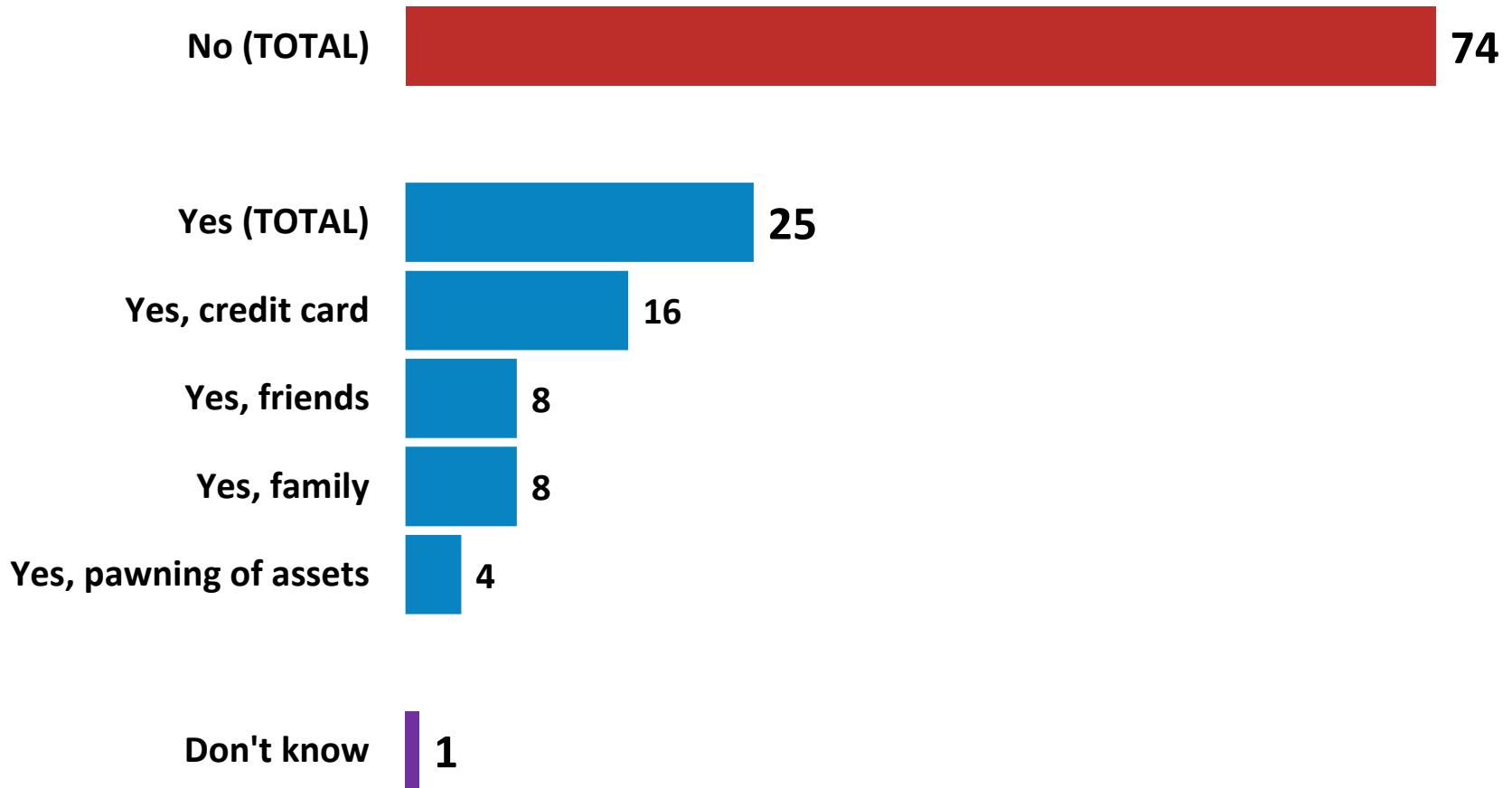


For what reasons have you taken out a payday loan in the past?



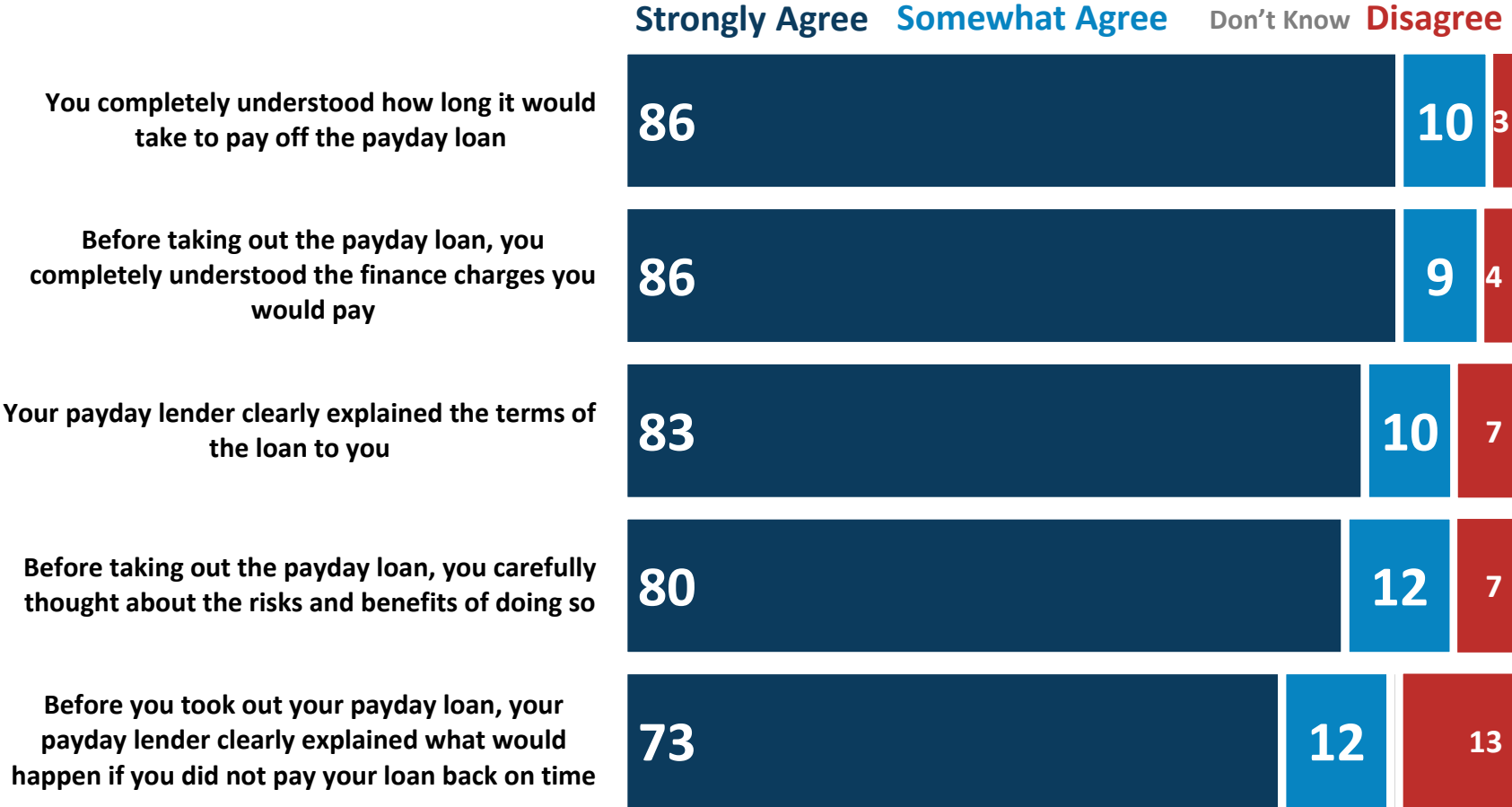
Three-quarters of borrowers did *not* have access to another source of credit outside of payday loans when they took out their most recent loan

Thinking about your most recent payday loan, did you have other sources of credit available to you or not?



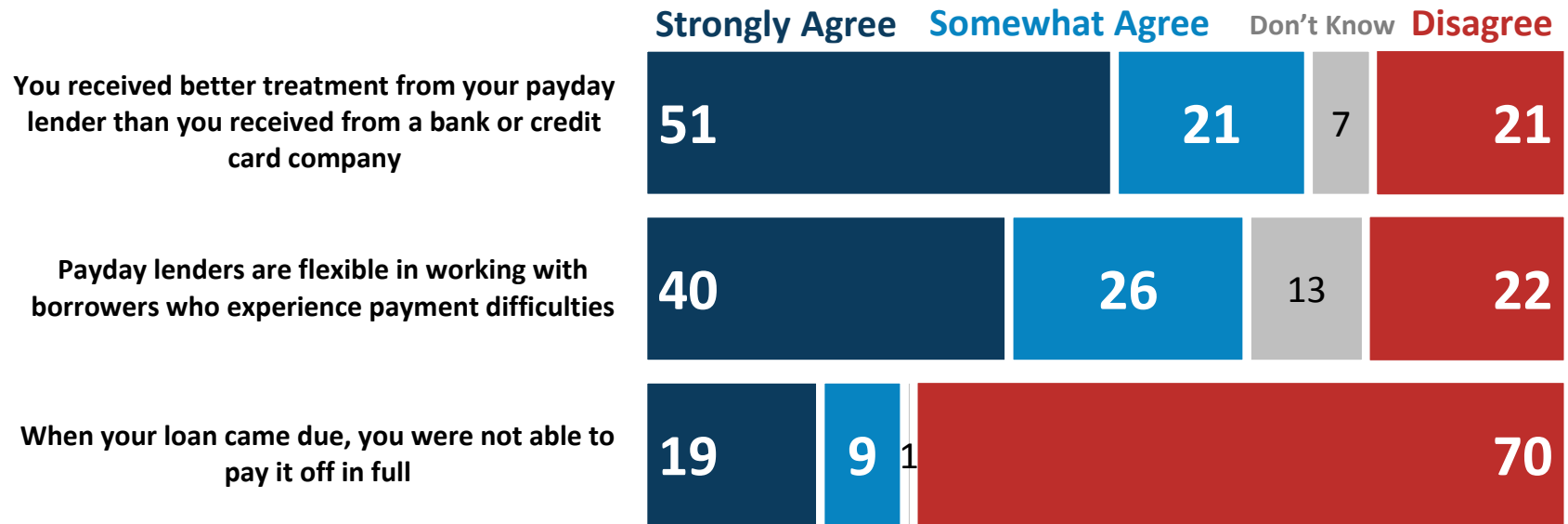
The vast majority of payday loan borrowers say they were well informed of the loan terms by the lender and thought through the risks and benefits before they took out their loan

For each of the following statements about your most recent payday loan experience, please tell me whether you agree or disagree.



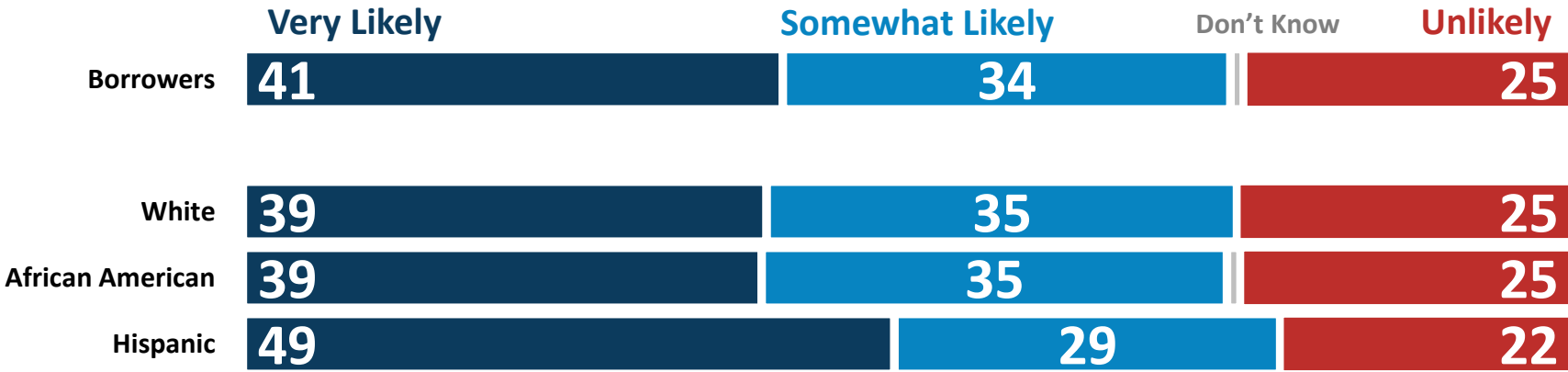
Borrowers say payday lenders treated them better than traditional financial institutions and were flexible when borrowers had a difficult time repaying; 7-in-10 were able to pay off their loans when due

For each of the following statements about your most recent payday loan experience, please tell me whether you agree or disagree.



Most borrowers would recommend payday loans and strongly support allowing other lenders to offer payday loans, especially Hispanic borrowers

How likely would you be to recommend payday loans to family or friends?



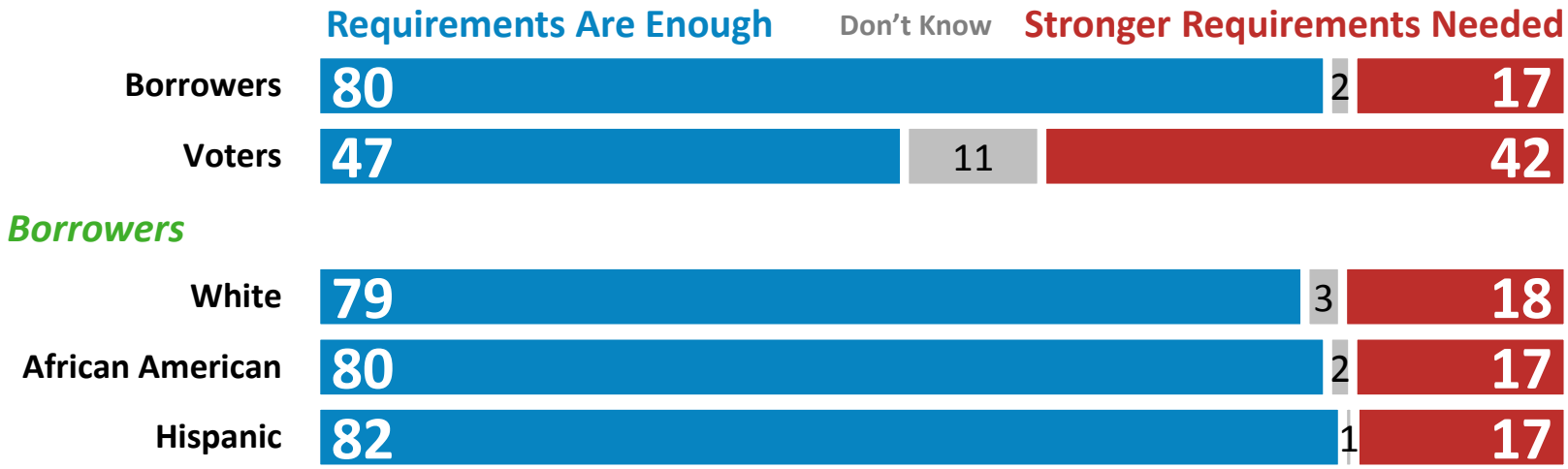
Do you support or oppose policies that would allow other lenders, such as banks, credit unions and other regulated lenders to offer payday loans in order to increase the options available to borrowers?



Regulation of Payday Lending

Both borrowers and voters are more likely to say current payday loan requirements are enough than say there is a need for stronger requirements

Currently, individuals must prove they have a regular income as well as an active checking account in order to be approved for a payday loan. Do you believe these requirements are enough to qualify borrowers for \$500 payday loan, or do you think stronger requirements are needed?

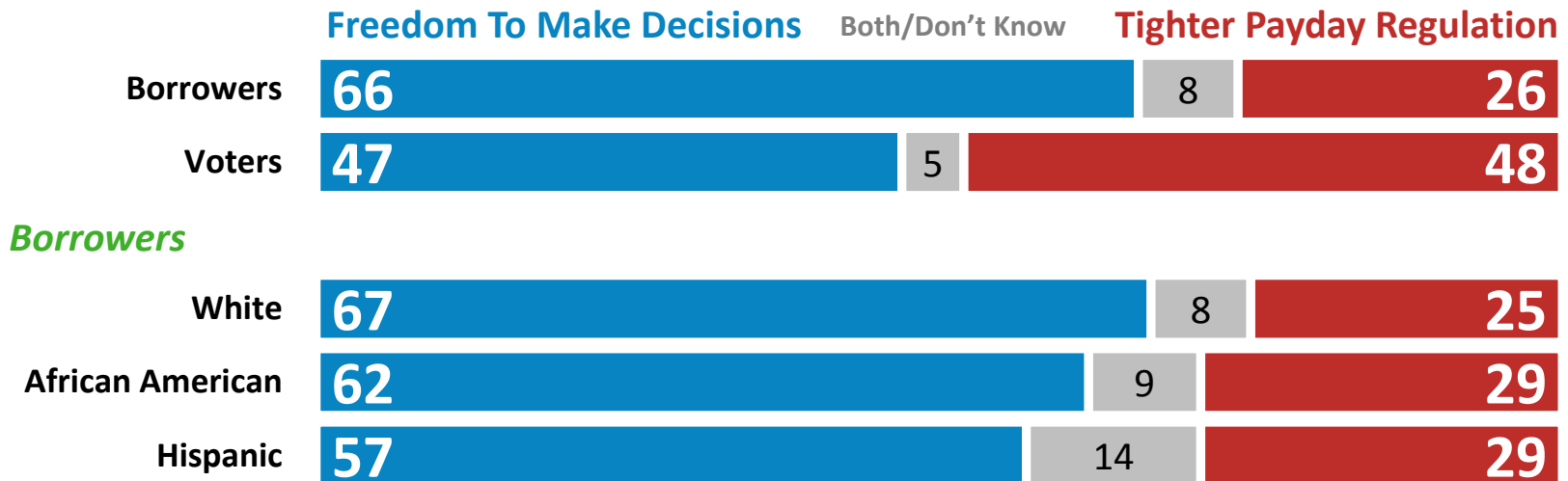


Voters are evenly split as to whether payday lending should be more tightly regulated or not, while borrowers want freedom of choice preserved

Please tell me which one comes closer to your own viewpoint.

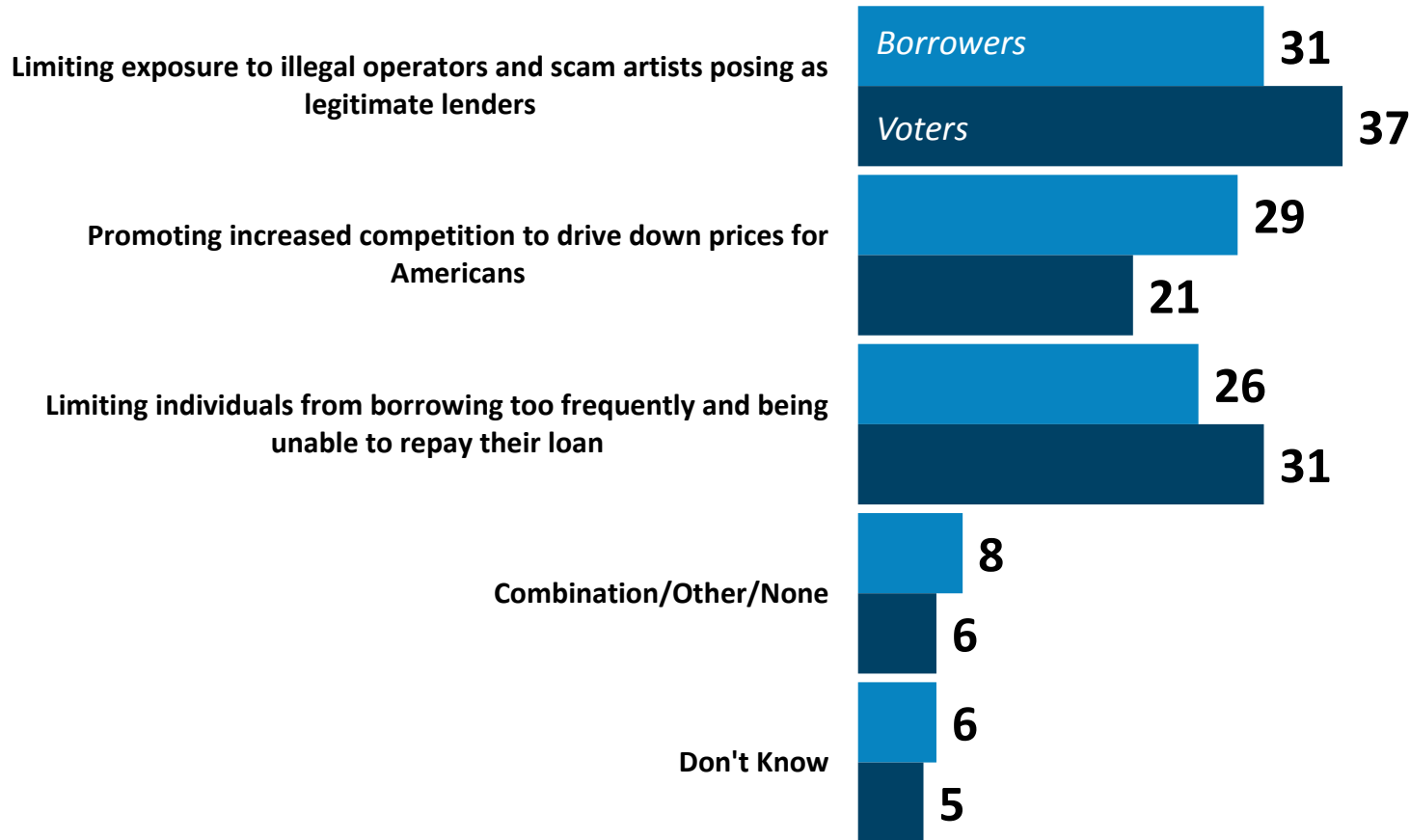
Some people say you should have the **freedom to make informed financial decisions** by being able to choose among multiple options in a competitive marketplace.

Other people say **payday lending should be more tightly regulated** to keep borrowers from taking on too much debt and getting into financial trouble they can't easily get out of.



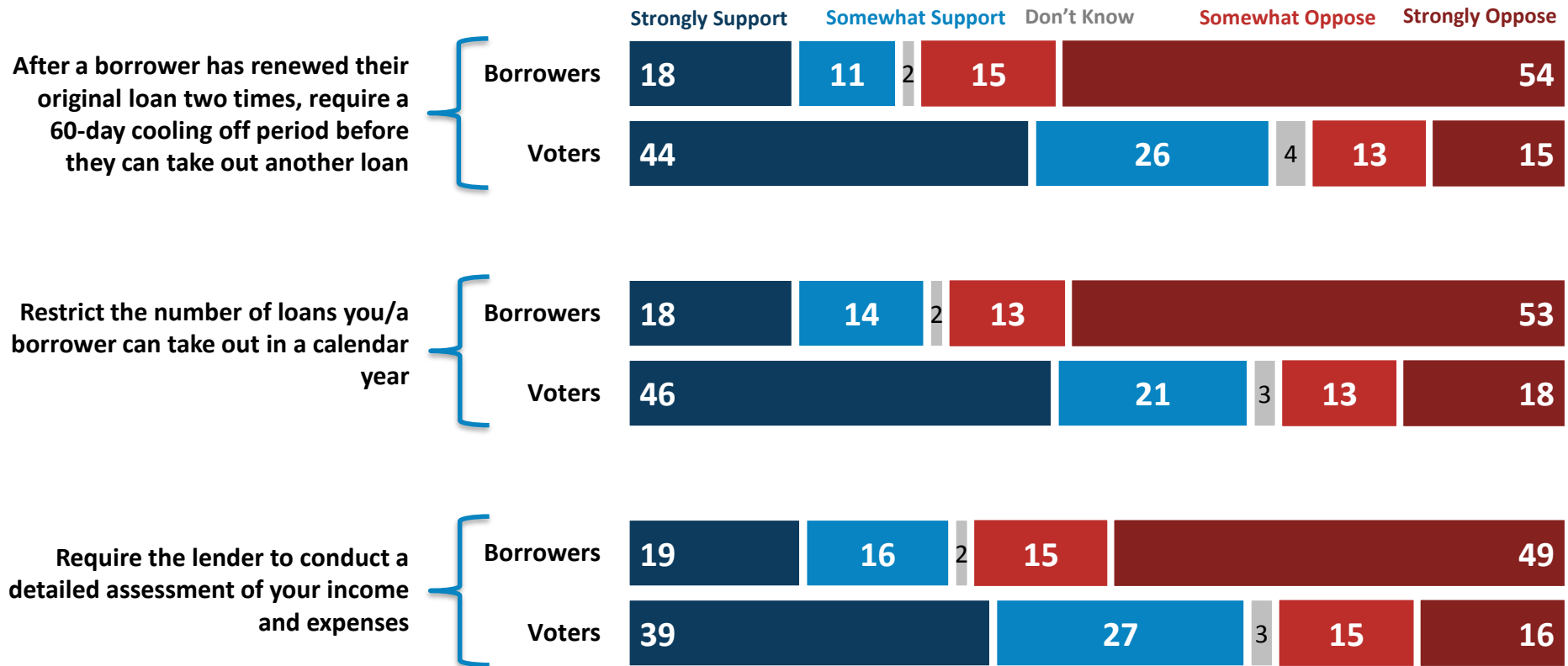
Less than a third of both audiences say the goal of payday regulation should be to limit borrowing – most say limiting exposure to illegal operators or promoting competition should be the focus

Which of the following comes closest to your view on what the purpose of regulating payday loans should be?



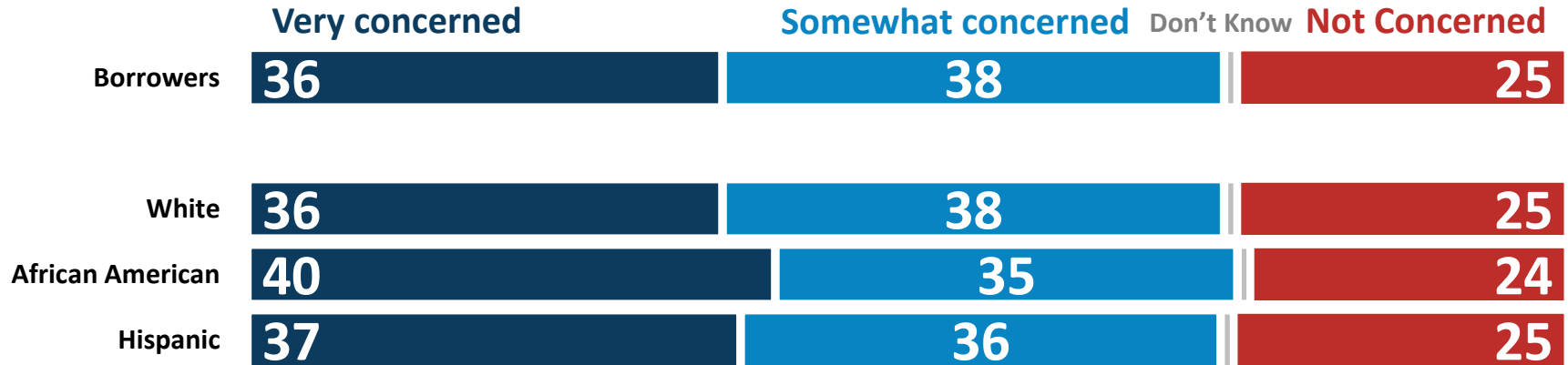
Around 2/3 of voters support proposed regulations while around the same proportion of borrowers oppose them

For each of the following, please tell me if you support or oppose this proposed regulation.



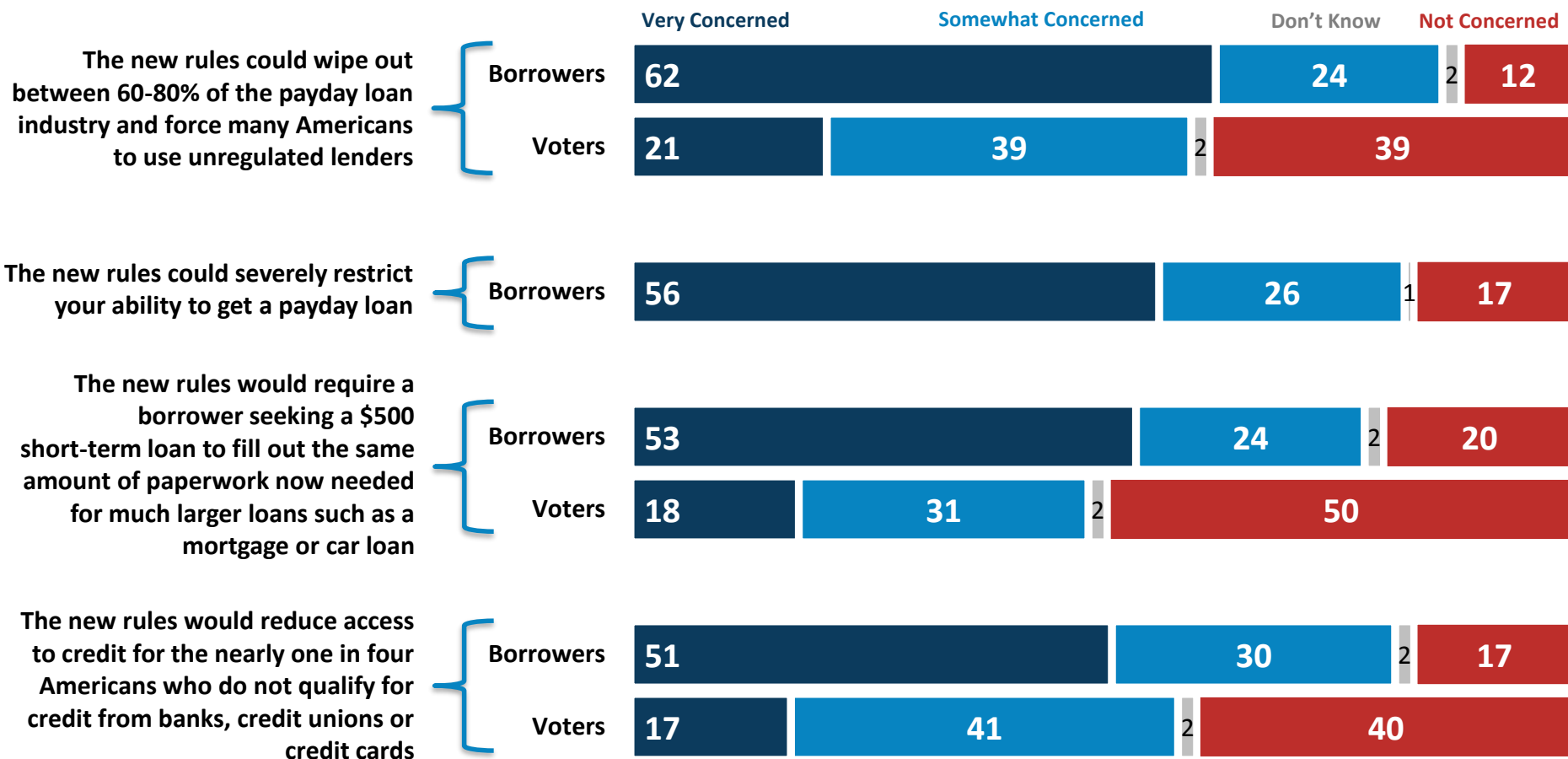
The vast majority of borrowers are concerned about these proposed regulations on payday loans overall...

How concerned are you about these government regulations on payday loans?



...and borrower concern is even higher when they hear about potential implications of the regulations; voters also show concern

For each of the following, please tell me how concerned you are about this consequence.



Conclusion

The research illustrates voters and borrowers view payday loans and their regulation very differently, likely due to their own personal experiences with, and knowledge of, payday loans.

Borrowers are highly supportive of payday loans – they see the value of payday loans, say the loans have helped them when they have no other options, believe increased regulation is not needed, and support growing their availability.

While voters do not share as positive a view of payday loans as borrowers, they are split on whether increased regulation of these loans is needed and a plurality say the current requirements to get a loan are sufficient. Moreover, once voters learn about proposed regulations, they express considerable concern about reducing access to credit for the nearly one-in-four Americans who do not qualify for credit from banks or credit cards, and worry that regulation could force less credit-worthy Americans to use unregulated loans.

In other words, as voters' level of knowledge about payday loans' utility comes closer to that of current borrowers, their attitudes about regulations also begins to converge.

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