Committee Name:
Senate Committee – Privacy, Electronic Commerce and Financial Institutions (SC–PECFI)

Appointments

01hr_SC–PECFI_Appoint_pt00

Clearinghouse Rules

01hr_SC–PECFI_CRule_01–

Committee Hearings

01hr_SC–PECFI_CH_pt00

Committee Reports

01hr_SC–PECFI_CR_pt00

Executive Sessions

01hr_SC–PECFI_ES_pt00

Hearing Records

01hr_ab0000

01hr_sb0084a_pt02b

Misc.

01hr_SC–PECFI__Misc__pt01

Record of Committee Proceedings

01hr_SC–PECFI_RCP_pt00

CHAPTER 5

SURVEY RESULTS

The discussion of survey results is organized into five main sections. The sections cover (1) the characteristics of payday advance customers, (2) payday advance customers' attitudes toward credit and payday advance credit, (3) customer experiences with payday advance credit, (4) availability of alternatives to payday advance credit, and (5) an analysis of the customer's most recent payday advance decision.

Characteristics of Payday Advance Customers

The characteristics of payday advance customers are best interpreted when measured against a benchmark. This section compares selected characteristics of payday advance customers and compares the distributions of these characteristics with those for the general population of adults. The characteristics selected are those that previous research indicates influence consumers' credit decisions. This section also compares distributions of characteristics of payday advance customers with bank card holders who use the revolving credit feature of the account.[28] Bank card revolvers are of interest because bank cards can be viewed as the established, mainstream credit product that allows borrowing of relatively small amounts quickly and conveniently.

Family Income

Payday advance customers predominately have moderate incomes. Over half of payday advance customers have family incomes between \$25,000 and \$49,999. This fraction is considerably larger than the two-fifths of all adults that have incomes between \$25,000 and \$49,999 (table 5-1). Payday advance customers are less likely than the general population to have either low or higher incomes. The requirement that payday advance customers have a checking account likely reduces the number of low-income consumers who are potential payday advance customers. Higher income consumers are less likely than moderate-income families to find use of payday advance credit advantageous because of higher income families' substantially greater holdings of liquid assets and access to credit.[29]

The distribution of income of bank card revolvers differs markedly from that of payday advance customers. Forty-five percent of bank card revolvers have incomes of \$50,000 or more, compared to 25.4% of payday advance customers. Only about a third of bank card revolvers are

[28] Bank card holders were asked: "Thinking about your general purpose credit card(s) that give you the option of paying part of the balance each month [i.e., bank cards] , would you say that you almost always, sometimes, or hardly ever pay off the total balance in full each month? Revolvers are respondents who reported sometimes or hardly ever paying off the total balance in full each month.

[29] The benchmark surveys are the University of Michigan Survey Research Center January 2000 Survey of Consumer Attitudes (see Durkin [2000]) and the Federal Reserve Board's 1998 Survey of Consumer Finances (see Kennickell, Starr-McCluer, and Surette [2000]). Statistics reported in this monograph may differ from ones reported elsewhere because sample weights were modified to reflect the population of adults rather than households.

in the moderate-income group, an income group in which most payday advance customers are found. The percentage of bank card revolvers in the low-income group, 20.4%, is not much lower than the percentage of payday advance customers in the low-income group. This difference in the income distributions suggests that bank cards and payday advances may not be substitutes for many consumers.[30]

5-1 Family income[a]

(Percent)	Payday advance customers	Bank card revolvers[b]	All adults[b]
Less than $25,000	23.0	20.4	31.5
$25,000-49,999	51.5	34.5	29.0
$50,000 or more	25.4	45.1	39.6
Total	**100.0**	**100.0**	**100.0**

[a] The percentages in the tables of this report may not total 100 percent due to rounding.
[b] Source: January 2000 Survey of Consumer Attitudes.

Age, Marital Status, and Family Life-Cycle Stage

Payday advance customers are disproportionately young. Two-thirds of payday advance customers are under 45 years of age, and 36.4% are under 35 years of age (table 5-2). In contrast, only about half of all adults are under 45, and 28.7% are under 35. Relatively few payday advance customers are old. One in ten payday advance customers is age 55 or older, compared to over three in ten of all adults being 55 or older.

Like payday advance customers, bank card revolvers are younger than the adult population. However, bank card revolvers are older than payday advance customers. Nearly two in ten bank card revolvers are 55 or older, while one in ten payday advance customers is 55 or older. The finding that payday advance customers and bank card revolvers are relatively young is consistent with hypotheses about consumer credit use. Consumers in early life-cycle stages tend to have high demand for credit. That payday advance customers are younger than bank card revolvers suggests that payday advances may not be substitutes for many customers.

[30] Payday advance customers have higher incomes than pawnbroker customers (see Johnson and Johnson [1998]). This difference in customer profiles suggests that payday advance companies and pawnbrokers may serve different market segments. It is noteworthy that like the small loan companies in the nineteenth century, payday advance companies cater largely to a moderate-income clientele, not the predominately low-income clientele of the pawnbrokers.

5-2 Age
(Percent)

	Payday advance customers	Bank card revolvers[a]	All adults[a]
Less than 35 years	36.4	32.8	28.7
35-44 years	31.9	23.6	22.5
45-54 years	21.7	24.0	17.3
55-64 years	6.5	10.6	12.0
Over 65 years	3.5	9.0	19.5
Total	**100.0**	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

The majority of payday advance customers are married or living with a partner, as are the majority of bank card revolvers and all adults (table 5-3). The noteworthy differences in the distribution of payday advance customers and those of bank card revolvers and the adult population are in the percentages of divorced or separated group and the widowed group. Payday advance customers are relatively more likely to be divorced or separated and less likely to be widowed. The lower percentage of widowed customers is explained largely by age. The higher percentage of divorced and separated customers reflects financial difficulties of single parent families, which becomes apparent when life-cycle stage is considered.

5-3 Marital status

	Payday advance customers	Bank card revolvers[a]	All adults[a]
Never married	16.8	15.3	16.3
Married or living with partner	57.9	62.9	60.9
Divorced or separated	23.0	15.2	13.8
Widowed	2.4	6.7	9.1
Total	**100.0**	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

Life-cycle stage includes consideration of age, marital status, and the presence of children under 18 in the household (table 5-4). Payday advance customers are predominately found in two groups. The first group consists of consumers under age 45 who are married and have children (35.2% of payday advance customers). The second group consists of consumers of any age who are unmarried and have children (23.3% of payday advance customers). These two groups account for nearly three of five of all payday advance customers. In comparison, these same groups account for smaller proportions of bank card revolvers (about two in five) and adults (less than two in five).

The first group–consisting of consumers under age 45 who are married and have children–represents an early life-cycle stage, in which returns on investment in household durables are likely to be large. Many consumers in this group will not yet have reached their peak earning years, nor will they have accumulated large amounts of liquid assets. Thus, this group is likely to contain many "rationed" borrowers, whose demand for credit is insensitive to annual percentage rates. The relatively high percentage of payday advance customers in this group, therefore, is consistent with these hypotheses.

The second group–consumers of any age who are unmarried and have children–generally represents an early life-cycle stage, despite the lack of an age restriction. Again, returns on investment on household durables are likely to be large, and consumers in this group will not yet have reached their peak earning years or accumulated large amounts of liquid assets. Consumers in this group may have even more limited resources than consumers under 45 who are married and have children. Families with unmarried heads and children may have difficulty increasing income by working more and often have high expenses because of the need for child care. Because such families are likely to be "rationed" in the Juster and Shay [1964] analytical framework, the relatively high percentage of payday advance borrowers belonging to this group is an expected result.

5-4 Life-cycle stage

(Percent)	Payday advance customers	Bank card revolvers[a]	All adults[a]
Under age 45			
Unmarried, without children	11.1	12.7	11.8
Married, without children	7.2	7.8	8.0
Married, with children	35.2	25.5	22.0
Age 45 or older			
Unmarried, without children	8.9	9.9	14.9
Married, without children	9.4	21.2	24.9
Married, with children	5.0	8.2	6.0
Any age			
Unmarried, with children	23.3	14.7	12.4
Total	**100.0**	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

Income and Family Life-Cycle Stage

Table 5-5 tabulates consumer characteristics by both income and life-cycle stage. The results show that payday advance customers are disproportionately from moderate-income families in early life-cycle stages. Such consumers would generally fall in Juster and Shay's rationed category. Moderate-income families in early life cycle stages account for 39.7% of payday advance borrowers but only 16.6% of the adult population. It is also notable that consumers from moderate-income families in early life-cycle stages are not especially frequent bank card revolvers. Despite their high demand for credit, consumers from such families account for just 20.4% of bank card revolvers, a percentage that is not much larger than the percentage of such consumers in the adult population.

Low and higher income consumers from families in early life-cycle stages are common among payday advance customers, but not disproportionately so. The percentage of payday advance customers who are from low-income families in early life-cycle stages (17.4%) is not much different from that of the adult population (16.9%). And the percentage of customers from higher income families in early life-cycle stages (18.7%) is only a little lower than the percentage of such consumers from the adult population (22.1%).

Among consumers with low and higher incomes, those in later life-cycle stages are smaller percentages of payday advance customers than of the adult population. The percentage for low-income customers is likely lower because of both lower demand and lower income. Low-income consumers in later life-cycle stages also are proportionately less frequent among bank card revolvers than the general population. In contrast, the percentage of higher income consumers in later life-cycle stages is likely lower because of lower demand. High-income consumers in later life-cycle stages also are proportionately more frequent among bank card revolvers than the general population.

5-5 Income and life-cycle stage

(Percent)	Payday advance customers	Bank card revolvers[a]	All adults[a]
Income less than $25,000			
Under age 45; or any age, unmarried, with children	17.4	14.6	16.9
Age 45 or older, excluding unmarried, with children	5.7	5.8	14.6
Income$25,000-49,999			
Under age 45; or any age, unmarried, with children	39.7	20.4	16.6
Age 45 or older, excluding unmarried, with children	12.4	14.1	12.1
Income $50,000 or more			
Under age 45; or any age, unmarried, with children	18.7	25.4	22.1
Age 45 or older, excluding unmarried, with children	6.1	19.6	17.6
Total	**100.0**	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

Education

The education of payday advance customers is of interest because higher education levels have been associated with extended purchase decision processes and greater search. Education provides an indication of analytic skills, which may focus evaluative criteria more precisely and make information collection and processing more efficient. Education is also important because a low level of education, particularly less than a high school diploma, is often associated with a lack of knowledge of credit costs or other credit terms (Durkin and Elliehausen [1978]).

Consumers who lack knowledge about credit and are predisposed to avoid search may be vulnerable to credit decisions that are not economically rational.

Payday advance customers are concentrated in the middle levels of educational achievement. Thirty-eight percent of payday advance customers have high school diplomas, and 36.1% have some college (table 5-6). The percentage of payday advance customers with high school diplomas is slightly higher than the 34.3% of the adult population with high school diplomas. But the percentage of payday advance customers with some college (36.1%) is nearly one and a half times greater than the 21.1% of adults with some college. These groups are not as predisposed to search, nor are they as aware of credit costs as college graduates. However, available evidence indicates that some do shop for credit, and most can be considered aware of credit costs (Durkin and Elliehausen [1978]).

Payday advance companies do not have very many customers with low levels of education. Just 6.2% of payday advance customers do not have a high school diploma. This percentage is lower than the percentage of adults with no high school diploma (9.7%) and only slightly higher than the percentage of bank card revolvers with no high school diploma (3.7%).

5-6 Education (Percent)	Payday advance customers	Bank card revolvers[a]	All adults[a]
No high school diploma	6.2	3.7	9.7
High school diploma	38.3	29.7	34.3
Some college	36.1	28.2	21.1
College degree	19.4	38.5	34.9
Total	**100.0**	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

Attitudes Toward Credit and Payday Advances

Attitudes reflect consumers' assessments of alternatives to satisfy needs as expressed in their evaluative criteria. These assessments are based on experiences stored in memory. As such, attitudes play a focal role in the purchase decision process. Nearly all payday advance customers (91.6%) also use other types of consumer credit. Sixty-two percent use bank or retail credit cards, 79.2% use closed-end consumer credit. Thus, payday advance customers' attitudes toward credit reflect considerable experience with different types of credit and creditors.

Attitudes Toward Credit

Payday advance customers generally view credit favorably. When asked whether they agree with the statement, "Most people benefit from the use of credit," 82.3% of payday advance customers either strongly agreed or somewhat agreed (table 5-7). Eleven percent disagreed somewhat, and only 6.8% disagreed strongly that credit helps most consumers.

Most payday advance customers do not believe that credit causes overspending. Seventy-nine percent of payday advance customers strongly agreed or somewhat agreed with the statement, "Overspending is the fault of consumers, not lenders." Twelve percent of payday advance customers disagreed somewhat with this statement, and 8.2% of payday advance customers disagreed strongly. These results suggest that a large majority of payday advance customers do not feel they are victims of creditors' frequent solicitations and easy credit standards. They believe that consumers bear responsibility for their own spending.

5-7 Attitudes toward credit
(Percent)

	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree	Don't know	**Total**
Most people benefit from the use of credit.	40.1	42.2	10.5	6.8	.5	**100.0**
Overspending is the fault of consumers, not lenders.	56.2	23.0	11.7	8.2	.9	**100.0**
There is too much credit available today.	31.9	22.3	17.6	26.2	2.1	**100.0**
The government should limit the interest rates that lenders can charge even if it means that fewer consumers will be able to get credit.	38.2	33.7	13.8	11.5	2.8	**100.0**

A little more than half of payday advance customers strongly agreed or somewhat agreed with the statement, "There is too much credit available today." Thus, some of the payday advance customers who believed that most consumers benefit from the use of credit and were responsible for their own spending also believed that creditors should grant credit less freely. They may believe that other consumers who do not use credit wisely would be helped if creditors did not grant credit as freely. Perhaps this attitude was influenced by the views of many journalists, politicians, and consumerists, who have criticized creditors' numerous solicitations for credit cards and their extension of credit to subprime consumers.

A similar ambivalence regarding credit was observed by Durkin [2000] in a study of attitudes toward credit cards. Durkin found that a large majority of bank card holders believed bank cards provided a useful service and were satisfied with their own experiences with credit card companies. However, many of the same credit card holders expressed little confidence in other consumers' use of bank cards or in the credit card companies' behavior: "When they imagine the 'other guy' in contact with card issuers, whose behavior is already suspect, they imagine possible negative consequences, for example, excessive credit use (p. 630)." Apparently such views are common.

Considerable evidence supports the proposition that low interest rate ceilings restrict the availability of credit to consumers who pose a high risk or desire only small amounts of credit (see Staten and Johnson [1995]). Nearly three-fourths of payday advance customers agreed with the statement that the government should limit interest rates even if the limitations caused fewer consumers to be able to get credit. This attitude also suggests ambivalence toward creditors by a large percentage of payday advance borrowers. They are satisfied with their own experiences, but they are generally suspicious of creditors' pricing behavior.

Attitudes Toward Payday Advances

Customers have very favorable attitudes toward payday advance companies. Ninety-two percent of customers strongly agreed or somewhat agreed with the statement, "Payday advance companies provide a useful service to consumers" (table 5-8). This percentage is about ten percentage points greater than the percentage of customers who viewed credit as beneficial to most consumers. Three percent of customers somewhat disagreed that payday advance companies provide a useful service, and only 4.7% strongly disagreed. The overwhelmingly favorable response to this statement strongly suggests that payday advance companies serve a real economic need for their customers.

5-8 Attitudes toward payday advances
(Percent)

	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree	Don't know	**Total**
Payday advance companies provide a useful service to consumers.	53.9	38.2	2.8	4.7	.5	**100.0**
The government should limit the number of pay-day advances I can get in a year.	17.1	12.4	18.7	50.4	1.4	**100.0**
The government should limit the number of times a payday advance can be renewed without a break.	19.7	16.6	18.7	42.9	2.1	**100.0**
The government should limit the fees charged by payday advance companies.	55.5	19.7	11.5	11.9	1.4	**100.0**

Payday advance customers were asked about their attitudes toward regulating different aspects of the payday advance transaction. As discussed in an earlier chapter, some critics of the industry argue that many consumers become addicted to payday advances, eventually using such credit as long-term financing. One proposed remedy to this supposed problem would be to limit the number of payday advances a consumer can take out in a year. When asked about such a limitation, over two-thirds of payday advance customers strongly disagreed or somewhat disagreed. Twelve percent of payday advance customers somewhat agreed that the number of payday advances in a year should be limited, and 17.1% strongly agreed.

Another proposed remedy to prevent long-term use of payday advance credit would limit the number of times a payday advance can be renewed without a break. Responses to this proposal were similar to the previous one. Sixty-two percent of payday advance borrowers strongly disagreed or somewhat disagreed that the number of consecutive renewals should be limited. Seventeen percent of payday advance borrowers somewhat agreed that the number of consecutive advances should be limited, and 19.7% strongly agreed.

Pricing is another aspect of payday advances that is regulated. Customers were asked whether the government should limit the fees charged by payday advance companies. Three of four payday advance customers strongly agreed or somewhat agreed with the statement that the government should regulate the fees charged by payday advance companies. Considering the very favorable attitude toward payday advances and opposition to limiting the number of payday advances, it is likely that few of these payday advance customers would agree with limits that would prevent them from obtaining payday advances. Instead, this attitude favoring price regulation would seem to reflect a general feeling that prices are high and a lack of understanding of competition in a market economy. Such feelings are not unique to payday advances. Durkin [2000], for example, found that bank card holders expressed vague feelings that bank card interest rates were high.

Perceptions of the Cost of Payday Advances

Payday advance companies often promote their product as being less expensive than fees for returned checks or late payments. Fees vary considerably across financial institutions, however.[31] Thus, one customer's experience may differ greatly from that of another. To obtain information on perceptions of costs, customers were asked whether in their opinion the cost of payday advances is higher than, about the same, or lower than the cost of selected fees. The fees considered are fees for returned checks, late fees on rent or mortgage payments, and late fees for credit card or other debt payments.

Forty-four percent of payday advance customers said the cost of payday advances is greater than fees for returned checks (table 5-9). About half said the cost of payday advances is the same as or less than fees for returned checks. Only 6.6% of payday advance customers said that they did not know. One cannot check survey responses against actual fees, but it is likely that most of these payday advance customers are knowledgeable. Sixty-eight percent had written checks that were returned for insufficient funds in the last year and likely would have remembered the return check fee. Thus, many customers may have used payday advances to avoid returned checks because of the lower cost. Many more customers may have used payday advance to avoid returned checks despite equal or higher cost. That these customers wished to avoid the stigma of returned checks despite the cost is understandable.

[31] For data on bank fees, see Hannan [2001].

5-9 Cost of payday advances
(Percent)

Cost of payday advance relative to cost of ...	Higher	Same	Lower	Don't know	**Total**
Returned check fees	43.6	27.6	22.3	6.6	**100.0**
Late fees on rent or mortgage	40.8	22.0	21.6	15.7	**100.0**
Late fees on credit card or other consumer debt	33.5	29.0	24.4	13.1	**100.0**

Large percentages of customers believe payday advances are also more costly than late fees. Forty-one percent of customers said the cost of payday advances is more than late fees on rent or mortgage payments, and 33.5% said the cost of payday advances is more than late fees on credit card or other consumer debt. Percentages of customers who said that they did not know were considerably higher than for returned check fees. Nevertheless, by far most customers did have perceptions of the cost of payday advances relative to late fees. Whether these customers did not know because they did not incur late fees or because of some other reason cannot be determined. Customers were not asked whether they actually incurred late fees recently.

In sum, large percentages of payday advance customers had perceptions that the cost of payday advances was greater than fees for returned checks and late payments. By a ratio of almost 2 to 1, customers believe payday advances are more costly than these fees than believe they are less costly. Thus, perceptions that the cost of payday advance credit is relatively low would not generally predispose many payday advance customers to use such credit. Some may have used payday advance credit to avoid returned checks or late fees in spite of the higher cost.

Customer Experience with Payday Advance Credit

Most customers who recently obtained payday advances have not used payday advance credit for very long. About half (49.6%) of recent customers obtained their first payday advance in 2000, and another 30.4% obtained their first payday advance in 1999 (table 5-10). This finding may in large part be attributed to the rapid growth in the payday advance industry. However, other factors may also contribute to the explanation for the small percentage of long-term customers. Many customers may use payday advances because of unexpected expenses or temporary shortfalls in income. Over time, these consumers' financial condition may improve, reducing the need to resort to payday advance credit. Other consumers may become dissatisfied or find less expensive alternatives to payday advance credit. The extent to which these other factors affect the distribution cannot be ascertained from these data or from other sources.[32]

[32] Evidence on general consumer credit use suggests the hypothesis that some consumers' use of payday advance credit is temporary and short term is not implausible. Using panel data, Avery, Elliehausen, and Kennickell [1987] found only a small fraction of high debt payment-to-income families in 1983 had high debt payment burdens three years later. Recovery from temporary declines in income explained a large part in the shift in debt payments relative to income.

5-10 Year in which customers first obtained payday advances
(Percent)

2000	49.6
1999	30.5
1998	14.6
1997 or earlier	5.3
Total	**100.0**

Frequency and Duration of Payday Advance Use

The range in customer use of payday advances in the past twelve months is wide. At the lower end of use, a little more than a third of payday advance customers used a total of 1-2 advances or 3-4 advances, which includes both new advances and renewals (table 5-11). Renewals may be either a rollover, in which the customer renews the advance by paying only the finance charge, or a same-day advance, in which the customer takes out another advance on the same day that he repays an outstanding advance in full. At the high end, 22.5% of customers had a total of 14 or more payday advances in the last twelve months.

By far, most payday advance customers did not renew advances very often. A quarter of customers did not renew any payday advance in the previous twelve months, and 35.0% had 1-2 or 3-4 renewals. Some payday advance customers did renew frequently, however. Nine percent of customers had 9 to 13 renewals in the last twelve months, and 10.4% had 14 or more renewals.

These usage statistics indicate a dichotomy in payday advance usage. A relatively large percentage of customers used advances quite infrequently. Assuming a two week average period for each payday advance, a little more than a third had advances outstanding a total of less than two months, and about half had advances outstanding less than 3 months. But an equally large percentage of customers had many advances during the year. The higher frequencies imply substantial periods of time over which payday advance credit is outstanding. Assuming a two-week average period for each payday advance, the highest frequency users (the 22.5% using more 14 or more advances) had payday advances outstanding over half of the year.

5-11 Total number advances, new advances, and renewals in the last 12 months
(Percent)

	Total advances	New advances	Renewals
None	n.a.	n.a.	25.1
1-2	15.6	35.5	21.1
3-4	19.2	31.4	13.9
5-6	16.9	15.3	10.4
7-8	10.3	7.0	9.6
9-13	15.6	6.7	9.4
14 or more	22.5	4.2	10.4
Total	**100.0**	**100.0**	**100.0**

n.a. Not applicable.

A dichotomy in payday advance usage is also apparent in the length of the longest consecutive sequence of payday advances outstanding. By far, most borrowers did not have long consecutive sequences of payday advances. The longest consecutive sequence of payday advances for 27.6% of customers was two weeks or less (table 5-12), and the longest sequence for another 29.0% of payday advance customers was 3 to 4 weeks. However, for some customers the longest sequences were greater than two months. Nine percent of payday advance customers had longest consecutive sequences of 9 to 13 weeks, and 10.0% had longest sequences of 14 or more weeks.

In sum, most customers use advances infrequently or moderately. Nearly four in five customers had advances outstanding in total less than half of the year. Generally, payday advances were used at different times over the year. Over half of customers' longest consecutive sequence of advances was less than a month. These findings suggest that many customers use payday advances regularly for short periods of time. Such use is consistent with the attitudes expressed by customers disagreeing with limits on the number of times a consumer can obtain payday advances during the year.

5-12 Length of longest sequence of consecutive advances in the last 12 months
(Percent)

Two weeks or less	27.6
3-4 weeks	29.0
5-6 weeks	10.4
7-8 weeks	14.5
9-13 weeks	8.6
14 or more weeks	10.0
Total	**100.0**

Use of Different Payday Advance Companies

Forty-seven percent of payday advance customers obtained advances from more than one company (table 5-13). Of the customers using more than one company, 63.7% used two payday advance companies, 23.6% used three payday companies, and 12.6% used four or more companies. An important motive for using more than one payday advance company appears to be to extend the period of time over which the debt is outstanding. A little more than a third of payday advance customers who used more than one company obtained an advance at one company to pay-off an advance at another company at least once during the previous twelve months.

The remaining two-thirds used more than one company for other reasons. For example, some customers may use multiple payday advance companies sequentially like using different credit cards to increase the amount of debt or availability of credit (see Bizer and DeMarzo [1992]). Another example is that customers may use different companies because the location of each company may be convenient at different times.

5-13 Use of different payday advance companies in the last 12 months
(Percent)

	Payday advance customers	Customers using more than one company
Used more than one company	47.0	100.0
Number of companies used		
Two	30.0	63.7
Three	11.1	23.6
Four or more	5.9	12.6
Total	**47.0**	**100.0**
Paid off one company with proceeds of payday advance from another company	16.5	35.2

Late Payments on Payday Advances

Because payday advances are often taken out to cover unexpected expenses, one would expect that borrowers would sometimes have problems repaying their advances on time.[33] Twenty-four percent of customers reported being late in repaying an advance in the last twelve months (table 5-14). A little more than half of late payers were past due just one time. The reported late payments for payday advances are *any* payments that are past due. They are not just late payments of 30, 60 or 90 days or more past due, which are reported in conventional delinquency statistics.[34] Considering the financial difficulties that may cause many consumers to use payday advance credit, it is notable that 75.9% of payday advance borrowers repaid exactly on time.

---

[33] Payday advance companies generally do not charge fees for late payments. Fees for late payments on payday advance credit are not usually authorized by payday advance statutes.

[34] Nevertheless, conventional delinquencies for credit other than payday advance credit can be substantial. For the second quarter of 2000, 10.40% of borrowers were currently 30 or more days past due on one or more credit accounts. For the same quarter, 50.35% of borrowers were 30 or more days past due on one or more credit accounts sometime in the previous four years. Source: Trans Union, LLC, *TrenData* database, second quarter 2000.

5-14 Late payments in the last 12 months
(Percent, unless otherwise noted)

Customers making payments late	24.1
Number of times paid late	
(Percent of late payers)	
One time only	53.0
Two or more times	47.0
Total	**100.0**
Resolution of late payments	
(Percent of late payers)	
Treated fairly	83.8
Treated unfairly	14.1
Total	**100.0**
Reasons treated unfairly	
(Number of responses)	
Harassed	7
Threatened with criminal prosecution	5
Embarrassed in front of others	2
Not allowed to make partial payments	2
Inconvenienced because check was cashed	1
Other	2
Total	**19**

By far the greater part of payday advance customers who had late payments (83.8%) said the payday advance company treated them fairly in resolving the late payments. The number of late payers who said that they were treated unfairly is too small to permit a statistical analysis of the reasons.[35]

Availability of Alternatives to Payday Advance Credit

Nearly all payday advance customers use credit other than payday advance credit. As mentioned earlier, 91.6% of payday advance customers also use some other type of consumer credit (table 5-15). The frequency of consumer credit use among payday advance customers is more than one-tenth greater than that among the adult population as a whole. Eighty-two percent of all adults use consumer credit. The higher incidence of consumers in early family life-cycle stages among payday advance borrowers than the adult population may explain in large part this difference in frequency of consumer credit use.

[35] Late payers who said that they were treated unfairly were asked how they were treated unfairly and read a list of reasons, which are listed in table 5-14 along with the frequency with which each reason was mentioned.

Payday advance customers differ from the adult population in the frequency of use of specific types of credit used. Payday advance customers are less likely than the adult population to use open-ended consumer credit. Fifty-seven percent of payday advance customers have bank cards compared to 72.5% of adults. And 21.5% of payday advance customers have retail cards compared to 56.8% of all adults. In contrast, payday advance customers are more likely than the adult population to use closed-end consumer credit. Slightly more than half of payday advance customers have automobile loans compared to 33.5% of the adult population and 36.6% of payday advance customers have other closed-end consumer debt compared to 21.4% of all adults.

5-15 Use of selected types of credit
(Percent)

	Payday advance customers	All adults[b]
Any consumer credit[a]	91.6	82.4
Open-end consumer credit		
Bank cards	56.5	72.5
Retail cards	21.5	56.8
Closed-end consumer credit		
Auto loans	52.9	33.5
Other	36.6	21.4
Mortgage credit		
Mortgage	32.0	46.0
Home-equity line of credit	6.8	7.9

[a] Includes non-revolving use of bank or retail card.
[b] Sources: Bank cards, January 2000 Survey of Consumer Attitudes; other credit types, 1998 Survey of Consumer Finances.

Nearly a third of payday advance customers have mortgage debt. This percentage is less than the 46.0% of all adults having mortgage debt, but payday advance customers are also less likely than the adult population to own their homes (41.7% of payday advance customers and 66.3% of all adults). Surprisingly, considering their lower incidence of home ownership, payday advance customers have about the same incidence of home equity credit lines as the adult population.

Availability and Use of Bank Card Credit

Bank card holding and use is of particular interest because bank cards can be viewed as the established, mainstream credit product that allows borrowing of relatively small amounts quickly and conveniently. These attributes make bank cards a potential substitute for payday advance credit. As discussed earlier, users of bank card credit tend to be older and have higher incomes than payday advance customers, however. This finding suggests that bank cards may serve a different, perhaps less risky, market segment than payday advances.

Nevertheless, a little more than half of payday advance customers also have bank cards. These payday advance customers have somewhat fewer bank credit cards than bank card holders generally. Thirteen percent of payday advance customers have four or more bank card accounts, but 20.1% of all bank card holders have four or more bank card accounts (table 5-16). Since bank card accounts may be added sequentially to increase the amount of available credit (Bizer and DeMarzo [1992]), payday advance customers can be viewed as having more limited availability than bank card holders overall.

Payday advance customers revolve bank card balances more frequently than bank card holders generally. About a quarter of payday advance customers almost always pay bank card balances in full when they receive their monthly statements, and 54.6% hardly ever pay bank card balances in full. In contrast, 48.8% of bank card holders overall almost always pay their balances in full, and 30.4% hardly ever pay in full. Payday advance customers also borrow heavily against their credit limits. Sixty-one percent of payday advance customers said that they refrained from using a bank card in the past year because their credit limit would have been exceeded.[36] Thus, many of the payday advance customers who have bank cards may not be able to draw against their credit limits when they have unexpected expenses.

[36] This information is not available for all bank card holders. However a smaller percentage of bank card holders are likely to be constrained. Overall, 23.9% of bank card balances were utilized in the second quarter of 2000, and 52.4% of consumers with revolving accounts had a revolving account with greater than 50% utilization of the credit limit. Source: Trans Union, LLC, *TrenData* database, second quarter 2000.

5-16 Bank card ownership and use
(Percent of bank card holders, unless otherwise noted)

	Payday advance customers	All adults[a]
Has bank cards (Percent of all consumers)	56.5	72.5
Number of bank card accounts		
One	39.6	37.7
Two	33.5	29.3
Three	13.9	13.0
Four or more	13.0	20.1
Payment practices on bank cards		
Almost always pays full balance	25.1	48.8
Sometimes pays full balance	20.3	20.7
Hardly ever pays full balance	54.6	30.4
Refrained from using bank card in past year because credit limit would have been exceeded	60.8	n.a.
Annual percentage rate on bank card used most frequently		
Less than 7.50%	6.5	5.4
7.50-11.49%	7.8	12.9
11.50-14.49%	10.8	16.8
14.50-19.49%	36.2	41.0
19.5% or more	17.2	14.0
Don't know	21.6	10.0
Total	**100.0**	**100.0**

[a] Source: January 2000 Survey of Consumer Attitudes.

Payday advance customers who have bank cards were asked the annual percentage rate on the bank card used most frequently.[37] Twenty-two percent of these customers said that they

[37] Because reported rates cannot be checked against actual rates, researchers have created the concept of "awareness zones" to assess consumer knowledge of annual percentage rates (see Durkin [2000]). If a consumer reports an annual percentage rate that is within a range of current market rates, the consumer is classified as aware. If the consumer reports a rate outside the range or answers "don't know," he is classified as unaware. Durkin [2000] used two awareness definitions. His narrow definition classifies consumers reporting rates under 7.9% or answering "don't know," as unaware. Since some accounts may currently have "teaser" rates below 7.9%, Durkin also considered a broad definition that classifies only consumers answering "don't know" as unaware. Because responses in the payday advance customer survey were rounded to the nearest whole number, the cutoff point for low rates for this study is 7.5%.

did not know the annual percentage rate on the bank card used most frequently. Customers reporting low rates may also be unaware, although some low rates may be "teaser rates" and therefore accurate. Seven percent of customers reported rates below 7.5%. Thus, between 21.6% and 28.1% of payday advance customers having bank cards can be considered as unaware, and between 71.9% and 78.4% can be considered aware of the annual percentage rate on the card used most frequently. The proportion of payday advance customers being aware of bank card rates is less than the proportion of all bank card holders being aware of rates (84.6-90.0%). Nevertheless, payday advance customers are generally aware of bank card rates. This finding is largely consistent with the middle levels of educational achievement of payday advance customers.

Debt Payment Burdens of Payday Advance Customers

A little more than half of payday advance customers have monthly consumer debt payments that are less than 10% of their monthly before tax income (table 5-17). Another 19.9% have consumer debt payments between 10% and 19% of their monthly income. Therefore, the greater proportion of payday advance customers do not have especially high monthly payment obligations on their consumer debts. Nevertheless some customers did have high debt-payment burdens. Nearly two in five (18.5%) payday advance customers had consumer debt payment-to-income ratios of 30% or greater. This percentage is considerably higher than the percentage of all adults with high consumer debt payment-to-income ratios (5.3%). These findings indicate that payday advance customers tended to have higher debt-payment burdens than the general population. Considering the high frequency of other credit use by payday advance customers, payday advance credit is more likely to be a consequence than the major cause of their higher debt-payment burdens.

5-17 Monthly consumer debt payment-to-income ratios
(Percent)

	Payday advance customers	All adults[a]
Less than 10%	52.7	74.5
10-19%	19.9	15.8
20-29%	8.9	4.5
30% or higher	18.5	5.3
Total	**100.0**	**100.0**

[a] Source: 1998 Survey of Consumer Finances.

Credit Availability

To explore credit availability further, payday advance customers were asked whether they had applied for credit in the last five years and been turned down or offered less credit than the amount for which they had applied. Nearly three-fourths of payday advance customers responded that they had been turned down or limited (table 5-17). This percentage is over three times greater than the 21.8% of all adults who had been turned down and limited. Payday advance customers were also asked if they had considered applying for credit but changed their mind because they thought they would be turned down. Two-thirds of payday advance customers responded affirmatively to this question. This percentage is nearly five times greater than the percentage of all adults who considered applying for credit but changed their mind because they thought they would be turned down. Clearly, payday advance customers perceive that they have difficulty obtaining credit, and their turndown experience is consistent with their perceptions.

5-18 Credit availability
(Percent)

	Payday advance customers	All adults[a]
In the last 5 years, ...		
Consumer was turned down or not given as much credit as he applied for	73.0	21.8
Consumer considered applying for credit but changed his mind because he thought he would be turned down	67.7	14.3
Consumer borrowed cash by pawning something at a pawnshop	23.4	n.a.
Consumer filed for bankruptcy	15.4	3.7

[a] Source: 1998 Survey of Consumer Finances.

Many payday advance customers have other characteristics associated with credit problems and limited credit availability. Nearly a quarter of payday advance customers borrowed from a pawnshop in the past five years. Fifteen percent filed for bankruptcy in the past five years, compared to 3.7% of all adults. Moreover, a quarter of payday advance customers were 60 or more days late on a mortgage or consumer debt payment in the last year, compared to 5.8% of adults overall (numbers not in table). And, as mentioned, payday advance customers' use of bank cards suggests high utilization of credit limits, a characteristic associated with greater credit risk.

The limitations in availability of credit from traditional creditors may also help explain customers' lack of awareness of annual percentage rates for payday advance credit, which is discussed in the next section. If other credit is not available, comparisons of annual percentage rates between payday advances and other types of credit would not affect the payday advance decision. Thus, the customer may not pay much attention to the annual percentage rate for a payday advance. And since the information would not be relevant, the customer would not tend to retain information on the annual percentage rate in memory.

Customers' Most Recent Payday Advance Transaction

The payday advance customer survey asked customers about their most recent payday advance transaction to gather information about the purpose of the advances, customers' awareness of fees and interest rates, and the frequency of search for alternatives to payday advance credit.

The Most Recent Payday Advance

The likelihood that recent customers will have an advance outstanding at any point in time varies according to seasonal factors. The December-January period during which the payday advance customer survey was conducted is a time of high demand for payday advances because of holiday expenses. About half (52.7%) of the recent customers had a payday advance outstanding at the time of the survey. The seasonal factor also may affect the purpose of the advance (a greater percentage of discretionary expenses than emergency expenses) and the distribution of new advances and renewals (a greater percentage of new advances than renewals). At the time of the survey, 32.2% of customers' most recent transactions were new advances, and 67.8% were renewals. The remainder of this section is concerned with the decision to obtain new advances and the initial advance in payday advance sequences involving renewals. These advances will be called the "most recent new advance."

The New Payday Advance Decision

The greater part of most recent new payday advances was obtained because of emergencies, mostly caused by unexpected expenses. Nearly half (47.2%) of most recent new advances were used to pay an unexpected expense, and 18.5% of advances were used to get through a temporary reduction in income (table 5-19). About a third of advances were discretionary.[38] Twelve percent of most recent new advances were used for planned expenses. The remaining 22.5% of advances were for other purposes.

5-19 Purpose of most recent new advance
(Percent)

Emergencies	
Unplanned expenses	47.2
Temporary income reduction	18.5
Discretionary uses	
Planned expenses	11.9
Other	22.5
Total	**100.0**

[38] Planned and other expenses can be considered discretionary in that the need for the payment is generally known in advance and can be budgeted. Even if the advance is used for a necessity such as rent, the consumer chose to spend his income on other things rather than set aside sufficient funds to pay for the necessity.

State laws generally limit the maximum size of payday advances, with a little more than half of states limiting payday advances to $500 or less (Community Financial Services Association [2000]). Although many states permit larger payday advances, practically all (97.8%) of most recent new advances were $500 or less (table 5-20). The most common size range for payday advances is $201-300. Forty-five percent of payday advances were in this range.

5-20 Size of most recent new advance
(Percent)

$100 or less	7.0
$101-200	27.3
$201-300	45.4
$301-400	8.9
$401-500	9.2
More than $500	2.2
Total	**100.0**

Information on cost is crucial for making rational decisions on payday advance use. Two measures of cost are disclosed in consumer credit transactions, the finance charge and the annual percentage rate. Payday advance customers were generally able to recall the finance charge. Ninety-six percent of payday advance borrowers reported a finance charge for their most recent payday advance (table 5-21). Only 4.3 percent of customers were unable to recall the finance charge.

To judge the accuracy of reported finance charges, reported amounts were converted to finance charge per $100 advanced. This calculation facilitates comparisons across advances of different sizes. Of the customers reporting finance charges (second column of table 5-21), only 4.3% reported finance charges of less than $10 per $100 advanced. An amount less than $10 per $100 advanced may be too low to be an accurate statement of actual finance charges, suggesting that the customer may be unaware of the finance charge on the transaction. Thus, the remaining 95.7% of customers who reported a finance charge could be considered aware of the finance charge on their most recent new payday advance. It is notable that over half of the customers reporting a finance charge cited fees in the $15-19 per $100 range. Most state rate ceilings for payday advances and market rates in states without rate ceilings fall in this range (Community Financial Services Association [2000]).

5-21 Finance charge per $100 advanced for most recent new advance
(Percent)

	All customers	Customers reporting finance charge
Less than $10	4.1	4.3
$10-11	6.5	6.8
$12-14	9.4	9.8
$15-19	49.8	52.0
$20-24	20.0	20.9
$25 or more	6.0	6.3
Don't know	4.3	n.a.
Total	**100.0**	**100.0**

The second measure of cost that customers receive is the annual percentage rate. Seventy-eight percent of payday advance customers recalled receiving information on the annual percentage rate for their most recent new advance (number not in table). However, few customers recalling receipt of annual percentage rate information knew the rate that was disclosed. Only 20.1% of these customers reported an annual percentage rate. Seventy-two percent did not know what rate was disclosed (number not in table).

Of the payday advance customers reporting rates, fewer than half reported rates that are consistent with the range of actual market annual percentage rates for payday advances. Twenty-one percent reported rates in the 200-399% range, and 18.3% reported rates in the 400-599% range (table 5-22). A surprisingly large percentage reported annual percentage rates below 30%. An examination of the finance charges reported for annual percentage rates under 30% suggests that a large percentage of customers reporting rates under 30% were providing an add-on rate (i.e., the finance charge as a percentage of the advance amount).[39]

5-22 Annual percentage rate for most recent new advance
(Percent)

	Customers reporting annual percentage rate
Less than 30%	40.8
30-199%	15.8
200-399%	20.8
400-599%	18.3
600% or higher	4.2
Don't know	n.a.
Total	**100.0**

[39] Reported annual percentage rates and computed add-on rates were within three percentage points of each other for 19 of the 49 customers reporting annual percentage rates under 30%. Many of the rates were exactly equal, but allowing a small discrepancy is warranted because survey respondents often round numbers rather than make an effort to recall exact numbers.

These results indicate nearly all payday advance customers are aware of the finance charges for their most recent new payday advance, but few customers can recall annual percentage rates. Customers' awareness of the finance charge suggests that this measure of cost is useful and relevant to them. They can readily compare the finance charge for a payday advance with the late fees or other costs they would incur if they do not obtain credit. They can also compare the finance charge for a payday advance with the finance charge for other types of credit, although such a comparison would be incorrect.[40]

In contrast, the lack of awareness of annual percentage rates suggests that annual percentage rate may not be very useful to payday advance customers. Late fees or other costs that would be saved are not normally expressed as annual percentage rates. Annual percentage rates are, of course, available for other types of credit. However, payday advance customers typically have the characteristics of Juster and Shay's [1964] "rationed" consumers. They cannot obtain as much credit as they desire from traditional creditors, and their limited holdings of liquid assets make borrowing from themselves expensive. Thus, consumers may not retain information about annual percentage rates for payday advances. As pointed out in chapter 4, consumers filter information, storing useful information in memory and discarding irrelevant information.

Payday advance customers were asked about the availability of funds in their checking and savings accounts at the time of the most recent new advance. Eighty-four percent reported not having enough funds in their accounts (number not in table). This response suggests that payday advance customers' liquid assets were indeed very limited. Remember that nearly two-thirds of customers obtained payday advances between $101 and $300 (table 5-20). Such small amounts suggest that even for the 16.3% of payday advance customers who had sufficient funds in their accounts, liquid assets were very limited.

Despite payday advance customers' perceptions that other sources of credit were unavailable and evidence that these customers indeed faced limitations, many customers did consider other sources for credit before obtaining their most recent new advance. Thirty-eight percent of customers considered sources other than payday advance companies for obtaining the cash (number not in table). As shown in table 5-23, most of these customers considered depository institutions, banks (48.5%) or credit unions (15.5%).[41] This consideration is perhaps natural because all payday advance customers must also have an existing relationship with a depository institution (i.e., they have a checking account, which is required to qualify for an advance). Thirty percent of customers considered finance companies. This consideration is also natural since personal loans at finance companies have historically been the marginal source of credit for rationed borrowers. Although half of customers have credit cards, few (6.2%) considered credit card companies. This source may not have been available for many customers because they had already borrowed heavily against their limits.

[40] The finance charge is an undiscounted sum of interest payments, making comparisons of finance charges over different periods of time invalid. For example, a 24-month loan with a 10% annual percentage rate has a smaller finance charge than a 36-month loan with a 10% annual percentage rate, even though the cost (10% per annum) is the same.

[41] Forty-nine percent of payday advance customers are members of a credit union. Thus, 31.9% of payday advance customers eligible for a credit union loan considered such credit instead of a payday advance.

Only a few customers considered fringe market lenders. Three percent of payday advance customers considered auto title loan companies before obtaining their most recent new advance, and 0.6% considered pawnbrokers. Lack of familiarity does not explain the very low incidence of these sources as alternatives to payday advances. Nearly a quarter of payday advance customers have used pawnbrokers in the past five years (table 5-18), and 12.3% used automobile title loan companies in the last year (number not in tables). Many more customers may have heard of pawnbrokers and title loan companies. Instead, it is likely that payday advance customers do not consider these other sources for small, short-term loans as close substitutes for payday advance credit.

5-23 Consideration of other credit sources before obtaining the most recent new advance
(Percent)

	Customers considering other sources
Considered source other than payday advance company	100.0
Other sources considered[a]	
Bank	48.5
Credit union	15.5
Finance company	29.8
Credit card company	6.2
Auto title loan company	2.5
Pawn shop	.6
Friend or relative	5.0
Other	8.7
Most important reason for choosing payday advance over another source	
Quick easy process, fast approval, less paper work	59.0
More convenient location	10.9
Advance is short term	2.6
Advance provides more privacy, not included in credit history	9.0
Advance less expensive	3.9
No other alternative	6.4
Other	7.1
Total	**100.0**

[a] Sum is greater than 100% because some customers mentioned more than one item.

Nearly three in five payday advance customers who considered other alternatives cited the quick and easy process for obtaining the money as the most important reason for choosing a payday advance over other sources. Another 10.9% cited the convenient location of the payday advance company as the most important reason. Since payday advance customers have considerable experience with consumer credit, their prior knowledge may have allowed them to limit the decision process. For many, consideration of search costs may have been sufficient reason to choose a payday advance over another source of credit.

Credit availability was the most important consideration for a small percentage of customers who considered other sources of credit. Nine percent of those considering other sources mentioned privacy or lack of credit reporting as the most important reason for choosing a payday advance. Six percent stated explicitly that in the end, no other sources of credit were available. Various other reasons were mentioned for choosing a payday advance over another source of credit. It is notable that few customers choose payday advances because of cost. Only 3.9% of customers cited cost as the most important reason for choosing a payday advance over another source.

By far most payday advance customers were satisfied with their most recent new advance. Forty-two percent of customers were very satisfied with their most recent new advance, and 33.0% were somewhat satisfied (table 5-24). Twelve percent of customers were dissatisfied, about half of whom were very dissatisfied.

5-24 Satisfaction with most recent new advance
(Percent)

Very satisfied	42.2
Somewhat satisfied	33.0
Neither satisfied nor dissatisfied	12.5
Somewhat dissatisfied	6.3
Very dissatisfied	5.9
Total	**100.0**
Reasons for dissatisfaction (Percent of customers very or somewhat disappointed)	
High interest rate	30.8
High finance charge	9.6
High cost, not ascertained whether finance charge or interest rate	21.2
Collection problems	7.7
Insufficient or unclear information	3.9
Not able to renew or extend	3.9
Too difficult to get out of debt	1.9
Other	21.2
Total	**100.0**

Dissatisfied customers were asked the reason for their dissatisfaction. High cost was overwhelmingly the reason for customers' dissatisfaction. A high interest rate was the most frequently mentioned reason, with 30.8% of dissatisfied customers mentioning this reason. A high finance charge or just high cost was also frequently cited (9.6% and 21.2%, respectively). In total, 61.6% of dissatisfied customers mentioned some aspect of cost as a reason for dissatisfaction. Other specific problems were infrequent. Collection problems were mentioned by 7.7% percent of dissatisfied customers. Insufficient or unclear information was mentioned by 3.9% of respondents. And only 1.9 percent of dissatisfied customers mentioned difficulty in being able to get out of debt as the reason for their dissatisfaction.

CHAPTER 6

SUMMARY AND CONCLUSIONS

The payday advance transaction is a consumer credit transaction. As such, a standard economic model of consumer credit use is applicable for analysis of payday advance use. The model compares the expenditure financed by credit with the present value of benefits resulting from the expenditure. The interest rate for the payday advance is the discount rate for computing the net present value. Use of a payday advance is advantageous if the net present value of the transaction is positive.

Using such a framework for analysis of consumers' credit decisions, previous research (Juster and Shay [1964]) classified consumers into one of two broad groups based on their willingness to forgo current consumption to build equity in consumer durable assets being financed by credit. Borrowers who are not constrained by equity requirements were classified as "unrationed." These borrowers have relatively high levels of liquid assets and discretionary income. Their demand for credit is sensitive to interest rates.

Borrowers who are constrained by equity requirements are classified as "rationed." They have limited discretionary income and liquid assets, making sacrifices in current consumption or precautionary savings costly. Borrowers not wishing to forgo current consumption can sometimes obtain additional credit by using unsecured personal credit, but this credit is riskier and therefore more costly than other forms or credit. These borrowers' demand for credit is not sensitive to interest rates. For many borrowers, additional unsecured personal credit is available only from specialized high-risk lenders at a substantially higher cost. Traditionally, finance companies provided this type of credit. Payday advance companies also provide such credit.

Survey of Payday Advance Customers

With this theoretical framework in mind, a survey was developed to answer the following questions about payday advance customers' demand for credit:

- What circumstances lead consumers to take out payday advances?
- Are payday advance customers aware of the cost and terms of the product?
- What alternatives do payday advance customers have for obtaining short-term credit?
- To what extent do payday advance customers shop among different sources for short-term credit? Why do they choose payday advances over other sources of credit?
- Do customers use payday advances for relatively short periods of time, or do they have payday advances outstanding over a large part of the year?
- To what extent are consumers satisfied with their experiences with payday advance credit?
- When problems do occur, what are the reasons for problems?

A nationally representative sample of customers of payday advance companies belonging to the industry trade association, The Community Financial Services Association of America, was selected. Customers were surveyed between December 28, 2000 and January 9, 2001.

Survey Findings

Characteristics of Payday Advance Customers

Survey results indicated that the characteristics of payday advance customers are consistent with predictions of the economic model of consumer credit choice. Payday advance consumers tend to be younger, married or unmarried with children under 18 years of age than the adult population. These characteristics reflect early stages of the family life-cycle and together with limited income characterize "rationed consumers," whose demand for credit Juster and Shay [1964] hypothesized would be insensitive to interest rates. Thus, a large percentage of payday advance customers are from those groups for which use of high cost credit may be economically rational. This finding does not mean that any use of payday advances by these groups is rational or that use by other groups is not rational. It means simply that demographic patterns of payday advance use are consistent with economic theory.

Another noteworthy finding is that a relatively small percentage of payday advance customers have low income or low levels of education. Payday borrowers largely do not have profiles similar to the typical fringe banking customer. This result should not be surprising. The requirement that customers have a checking account prevents many low-income consumers from qualifying for a payday advance.

Attitudes toward Credit and Payday Advances

Payday advance customers have favorable attitudes toward payday advance credit and consumer credit in general. By far most customers believe that most people benefit from the use of credit and that payday advance companies provide a useful service. The majority of customers believe the government should limit the fees charged by payday advance companies. However, customers probably would not agree with limits that would prevent them personally from obtaining payday advances. Customers overwhelmingly disagreed with limitations to the number of consecutive payday advances and limitations to the number of payday advances in a year.

Many payday advance customers believe that advances are relatively expensive. A large percentage of customers thought the cost of payday advances was higher than fees for returned checks or late payments on debts. Some customers apparently use payday advance credit to avoid fees of returned checks or late payments in spite of its perceived high cost.

Customer Experience with Payday Advance Credit

By far most customers did not obtain very many payday advances during the year, nor did they have any sequence of consecutive advances outstanding very long. About half of customers had advances outstanding less than a total of three months during the year, and nearly four in five had advances outstanding less than half of the year. Generally, payday advances were used at different times over the year. Over half of customers' longest consecutive sequence of advances was less than a month. These findings belie the view that payday advance credit puts many consumers in a cycle of debt from which they cannot escape. Nevertheless, some consumers may have problems. A small percentage of customers did have a very large number of payday advances, which implied that they had advances outstanding more than half of the year. However, responses to other questions suggest the difficulty of getting out of debt was not perceived as a very common problem.

Nearly half of all payday advance customers used more than one company in the last year. A little more than a third of customers using more than one company used the proceeds of an advance from one company to pay off an advance at another company. Almost two-thirds used more than one company for other reasons.

Almost a quarter of payday advance customers repaid an advance later than the due date in the last year. By far the greater proportion of those paying late said the payday advance company treated them fairly in resolving the late payments, a result that is consistent with the very high level of favorable attitudes toward payday advances.

Availability of Alternatives to Payday Advance Credit

Nearly all payday advance customers use credit other than payday advances. They are more likely to use credit than adults in the population, but they are less likely to have revolving credit. Although most payday advance customers have low to moderate levels of monthly consumer debt payments relative to their monthly incomes, their debt payments to income tend to be higher than those of the adult population. Payday advance customers' high use of credit may in large part reflect the early family life-cycle stages of many of these customers. About one in five payday advance customers has high consumer debt payments to income, a proportion that is much higher than the proportion of high debt payments to income for all adults. However, considering the high frequency of other credit use by payday advance customers, payday advance credit is more likely to be a consequence than the major cause of their higher debt-payment burdens.

By far the greater proportion of payday advance customers had experienced credit turndowns and also had refrained from applying for credit because a turndown was expected. Payday advance customers are less likely than all adults to have bank cards, but payday advance customers who do have bank cards are more likely to revolve balances than all bank card holders. Among payday advance customers who have bank cards, most have utilized their credit limits to the extent that they have been constrained from further borrowing at least once during the last year. And a quarter of payday advance customers have had delinquencies of 60 days or more during the last year. These characteristics suggest that most payday advance customers likely have few alternatives to using payday advance credit. These customers are indeed "rationed" and likely to be insensitive to annual percentage rates.

The Most Recent Payday Advance

Nearly all payday advance customers were aware of the finance charge for their most recent payday advance. Although most remembered receiving information on the annual percentage rate, few could recall accurately what annual percentage rate was disclosed. Apparently, the annual percentage rate was not sufficiently useful to warrant retaining the information in memory. The lack of awareness of the annual percentage rate for payday advances contrasts sharply with payday advance customers' awareness of annual percentage rates for the bank card used most frequently. The greater proportion of payday advance customers with bank cards are generally aware of bank card rates, even though many of these customers may be "rationed" and would not be expected to be very sensitive to annual percentage rates. Recall also that a large percentage of customers believe that payday advance credit is relatively costly. These findings suggest that despite the lack of awareness of annual percentage rates for payday advances, customers are aware of the cost of advances. Therefore, most customers are not misled as to the high cost of advances.

A large percentage of payday advance customers considered obtaining funds from sources other than payday advances companies. The sources considered were generally traditional creditors, depository institutions and finance companies, but not very often credit card companies. Although the quick and easy process for obtaining the money was the most frequently cited reason for choosing a payday advance, credit availability likely influenced the decision. Payday advance customers' experience with credit turndowns, late payments, and high bank card utilization suggests that many of these customers would have had difficulty obtaining credit from traditional creditors. This conclusion is supported by the frequent use of payday advance credit by some customers.

Finally, three-fourths of customers are satisfied with their most recent new advance. The 12.2% of customers who were somewhat or very dissatisfied said that high cost was the reason for their dissatisfaction. Payday advance credit is expensive, and this response is consistent with earlier conclusions that customers are aware of the cost. Notably, insufficient information and difficulty of getting out of debt are not among the frequently mentioned reasons for dissatisfaction.

Conclusions

The survey evidence indicates that most customers use payday advance credit as a short-term source of financing. They used payday advances a small or moderate number of times during the past year, typically for less than a month at a time. Nearly all customers are aware of the finance charge for payday advance credit, but not the annual percentage rate. Payday advance customers use other types of consumer credit and are likely aware of annual percentage rates for such credit. However, they may have difficulty obtaining additional credit from traditional creditors, especially on an unsecured basis. Thus, payday advances give these consumers a little control over their financial situations that they otherwise would not have. This may explain customers' positive attitudes toward payday advance credit and high levels of satisfaction.

References

Avery, Robert B., Gregory Elliehausen, and Arthur B. Kennickell. Changes in Consumer Installment Debt: Evidence from the 1983 and 1986 Surveys of Consumer Finances. *Federal Reserve Bulletin* 73 (October 1987): 761-778.

Barro, Robert J. The Loan Market, Collateral, and Rates of Interest. *Journal of Money, Credit, and Banking* 8 (November 1976): 439-456.

Benjamin, Daniel K. The Use of Collateral to Enforce Debt Contracts. *Economic Inquiry* 16 (July 1978): 333-358.

Benston, George J. The Costs to Consumer Finance Companies of Extending Consumer Credit. In *Technical Studies,* Vol. II, National Commission on Consumer Finance. Washington: US Government Printing Office, 1972.

Bird, Edward J. and Paul Hagstrom. The Demand for Credit Cards: Evidence from the Survey of Consumer Finances, paper presented at the annual meeting of the American Economic Association, New Orleans, Louisiana, January 2001.

Bizer, David and Peter M. DeMarzo, Sequential Banking, *Journal of Political Economy* 100 (April 1992): 41-61.

Brandt, William K., George S. Day, and Terry Deutscher. The Effect of Disclosure on Consumer Knowledge of Credit Terms. *Journal of Consumer Affairs* 9 (Summer 1975).

Brito, Dagobert L. and Peter R. Hartley. Consumer Rationality and Credit Cards, *Journal of Political Economy* 103 (April, 1995): 400-433.

Calder, Lendol. *Financing the American Dream: A Cultural History of Consumer Credit.* Princeton, New Jersey: Princeton University Press 1999.

Caskey, John P. *Fringe Banking.* New York: Russell Sage Foundation, 1994.

Chen, Tina, Keith Goodwin, Lisa Jaworski, and Elizabeth Tolle. Payday Lending in North Carolina. (Durham, North Carolina, Duke University, Terry Stanford Institute of Public Policy, May 2000).

Community Financial Services Association of America. *Response to the National Consumer Law Center's and the AARP Public Policy Institute's Model Statute for Payday Loans.* Washington: Community Financial Services Association, 2000.

Day, George S. and William K. Brandt. A Study of Consumer Credit Decisions: Implications for Present and Prospective Legislation. In *Technical Studies*, Vol. I, National Commission on Consumer Finance. Washington: US Government Printing Office, 1973.

Dunkelberg, William C. and James Stephenson. Durable Goods Ownership and the Rate of Return. In *Technical Studies* Vol. VI, National Commission on Consumer Finance. Washington: Government Printing Office, 1975.

Durkin, Thomas A. A High-Rate Market for Consumer Loans: The Small Small Loan Industry in Texas. In *Technical Studies* Vol. II, National Commission on Consumer Finance. Washington: Government Printing Office, 1975.

Durkin, Thomas A. Credit Cards: Use and Consumer Attitudes, 1970-2000. *Federal Reserve Bulletin* 86 (September 2000): 623-634.

Durkin, Thomas A. and Gregory Elliehausen. *1977 Consumer Credit Survey.* Washington: Board of Governors of the Federal Reserve System, 1978.

Durkin, Thomas A. and Gregory Elliehausen. The Cost Structure of the Consumer Finance Industry. *Journal of Financial Services Research* 13 (August 1998): 71-86.

Durkin, Thomas A. and Gregory Elliehausen. Disclosure as Consumer Protection In *Consumer Credit in the 21st Century.* Thomas A. Durkin and Micheal E. Staten, eds. Boston: Kluwer Academic Publishing, 2001.

Engel, James F., Roger D. Blackwell, and Paul W. Miniard. *Consumer Behavior.* Fort Worth, Texas: Dryden Press, 1997.

Fisher, Irving. *The Theory of Interest.* New York: The Macmillan Company, 1930.

Gross, David B. and Nicholas S. Souleles. Consumer Response to Changes in Credit Supply: Evidence from Credit Card Data. Working Paper 00-040B. (Philadelphia, University of Pennsylvania, The Wharton School, Financial Institutions Center, 2000).

Hannan, Timothy H. Retail Fees of Depository Institutions, 1994-99. *Federal Reserve Bulletin* 87 (January 2001): 1-11.

Hirschleifer, Jack. On the Theory of Optimal Investment Decision, *Journal of Political Economy* 66 (August 1958): 329-352.

Illinois Department of Financial Institutions. Short-Term Lending-Final Report. 1999.

Jaffee, Dwight M. and Thomas Russell. Imperfect Information, Uncertainty, and Credit Rationing. *Quarterly Journal of Economics* 90 (November 1976): 651-666.

Johnson, Robert W. and Dixie P. Johnson. *Pawnbroking in the U.S.: A Profile of Customers.* Monograph #34. Washington: Credit Research Center, 1998.

Juster, F. Thomas and Robert P. Shay. *Consumer Sensitivity to Finance Rates: An Empirical and Analytical Investigation.* Occasional Paper 88. New York: 8National Bureau of Economic Research, 1964.

Katona, George. Cognitive Processes in Learning: Reactions to Inflation and Changes in Taxes. In *Surveys of Consumers, 1971-72,* Lewis Mandell *et al.*. Ann Arbor, Michigan: Institute for Social Research, 1973.

Katona, George. *Psychological Economics.* New York: Elsevier Scientific Publishing Company, 1975.

Kennickell, Arthur B., Martha Starr-McCluer, and Brian J. Surette. Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances. *Federal Reserve Bulletin* 86 (January 2000): 1-29.

Michelman, Irving S. *Consumer Finance: A Case History in American Business.* New York: Fredrick Fell, 1966.

National Commission on Consumer Finance. *Consumer Credit in the United States.* Washington: Government Printing Office, 1972.

Poapst, J.V. and W. R. Waters. Rates of Return on Consumer Durables, *Journal of Finance*, 19 (December 1964): 673-677.

PricewaterhouseCoopers . The Payday Advance Industry: 1999 Company Survey Findings. April 2001.

Shay, Robert P. and Milton Schober. Consumer Awareness of Annual Percentage Rates Before and After Truth in Lending Became Effective. *Technical Studies*, Vol. I, National Commission on Consumer Finance. Washington: US Government Printing Office, 1973.

Staten, Michael E. and Robert W. Johnson. *The Case for Deregulation Interest Rates on Consumer Credit.* West Lafayette, Indiana: Credit Research Center, 1995.

Stevens Inc. The Developing Payday Advance Business. Little Rock, Arkansas, Stephens Inc., (September 28, 1999).

Tennessee Department of Financial Institutions. Report to the 101st General Assembly, 1998

COMMUNITY FINANCIAL SERVICES ASSOCIATION OF AMERICA "BEST PRACTICES"

Best Practices for the Payday Advance Industry

To be a member in good standing of CFSA, a payday advance provider must abide by the following best practices:

1. **Full disclosure.** A member will comply with the disclosure requirements of the State in which the payday advance office is located and with Federal disclosure requirements including the Federal Truth in Lending Act. A contract between a member and the customer must fully outline the terms of the payday advance transaction. Members agree to disclose the cost of the service fee both as a dollar amount and as an annual percentage rate ("APR").
2. **Compliance.** A member will comply with all applicable laws. A member will not charge a fee or rate for a payday advance that is not authorized by State or Federal law.
3. **Truthful advertising.** A member will not advertise the payday advance service in any false, misleading, or deceptive manner.
4. **Encourage consumer responsibility.** A member will implement procedures to inform consumers of the intended use of the payday advance service. These procedures will include notifying consumers that a payday advance is a short-term cash flow tool not designed as a solution for longer term financial problems and informing customers of the availability of credit counseling services.
5. **Rollovers.** A member will comply with State laws on rollovers (the extension of an outstanding advance by payment of only a fee). In States where rollovers are not specifically allowed a member will not under any circumstances allow a customer to do a rollover. In the few States where rollovers are permitted, a member will limit rollovers to four (4) or the State limit, whichever is less.
6. **Right to rescind.** A member will give its customers the right to rescind, at no cost, a payday advance transaction on or before the close of the following business day.
7. **Appropriate collection practices.** A member must collect past due accounts in a professional, fair and lawful manner. A member will not use unlawful threats, intimidation, or harassment to collect accounts. CFSA believes that the collection limitations contained in the Fair Debt Collection Practices Act (FDCPA) should guide a member's practice in this area.
8. **No criminal action.** A member will not threaten or pursue criminal action against a customer as a result of the customer's check being returned unpaid or the customer's account not being paid.
9. **Enforcement.** A member will participate in self-policing of the industry. A member will be expected to report violations of these Best Practices to CFSA, which will investigate the matter and take appropriate action. Each member company agrees to maintain and post its own toll-free consumer hotline number in each of its outlets.
10. **Support balanced legislation.** A member will work with State legislators and regulators to support responsible legislation of the payday advance industry that incorporates these Best Practices.
11. **Relationships with financial institutions.** A member may market and service payday advances made by a federally insured financial institution, provided the financial institution does the following: (1) sets its own credit criteria; (2) approves and funds each advance; (3) complies with State disclosure requirements, where not inconsistent with Federal law; (4) complies with State law as to the number of rollovers; (5) permits the member to purchase no more than a *de minimis* amount of the advances, or any such other amount which may be consistent with safety and soundness determinations by Federal banking regulators; and (6) complies with these Best Practices.

APPENDIX B

QUESTIONNAIRE

(IF FEMALE NAME ASK FOR FEMALE HEAD OF HOUSEHOLD)
(IF MALE NAME ASK FOR MALE HEAD OF HOUSEHOLD)
Hello, my name is ____________________, from TELENATION. I am calling for the Credit Research Center at Georgetown University. May I speak to the (female/male) head of your household?

A. We are talking to men and women around the country today about different types of loans and credit. In the last 12 MONTHS, did you take out or make payments on .... (READ LIST)

	YES	NO	DK	REF
1 = A home mortgage loan	1	2	8	9
2 = A car loan	1	2	8	9
3 = A payday advance loan	1	2	8	9 (IF NO/DK/REF, THANK & TERM)
4 = A car title loan	1	2	8	9
5 = A home equity line of credit	1	2	8	9

INTERVIEWER CLARIFICATIONS AND HELP SHEET

Who/What is TELENATION?
TELENATION is a copyrighted name used by a national consumer survey research organization known as Market Facts.

How did you get my name/number?
Your telephone number was chosen randomly to be part of a representative sample of people using specific types of credit.

What is the Credit Research Center?
The Credit Research Center is an academic research center devoted to studying the economics of consumer and mortgage credit markets.

What/Where is the Georgetown University?
Georgetown University is a private school located at Washington DC.

What is a Payday Advance?
It is a short-term loan that you pay back on your next payday also known as payday loans or cash advances.

A. Attitudes toward Credit and Lenders

First, we are interested in your opinions about credit and lenders in general. Please tell me whether you strongly agree, agree somewhat, disagree somewhat, or strongly disagree with each of the following statements.

PROGRAMMER INSTRUCTIONS: RANDOMIZE ORDER FOR A1-A4

A1. Most people benefit from the use of credit.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A2. Overspending is the fault of consumers, NOT lenders.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A3. There is too much credit available today.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A4. The government should limit the interest rates that lenders can charge even if it means fewer consumers will be able to get credit.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

You mentioned that you recently received a payday advance and we would like your opinions about payday advances. Please tell me whether you strongly agree, agree somewhat, disagree somewhat, or strongly disagree with each of the following statements.

PROGRAMMER INSTRUCTIONS: RANDOMIZE ORDER FOR A5-A8

A5. Payday advance companies provide a useful service for consumers.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

PROGRAMMER INSTRUCTIONS: ROTATE QA6a AND QA6b SO EACH RESPONDENT IS ASKED ONE QUESTION ONLY.

A6a. The government should limit the number of payday advances I can get in a year.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A6b. The government should NOT limit the number of payday advances I can get in a year.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

PROGRAMMER INSTRUCTIONS: ROTATE QA7a AND QA7b SO EACH RESPONDENT IS ASKED ONE QUESTION ONLY

A7a. The government should limit the fees charged by payday advance companies.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A7b. The government should NOT limit the fees charged by payday advance companies.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

PROGRAMMER INSTRUCTIONS: ROTATEQA8a AND QA8b SO EACH RESPONDENT IS ASKED ONE QUESTION ONLY.

A8a. The government should limit the number of times a payday advance can be renewed without a break.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

A8b. The government should NOT limit the number of times a payday advance can be renewed without a break.

4 = STRONGLY AGREE
3 = AGREE SOMEWHAT
2 = DISAGREE SOMEWHAT
1 = STRONGLY DISAGREE

.8 = DON'T KNOW
.9 = REFUSED

B. Most Recent Payday Advance

Now, we would like to ask you a few questions on your experiences with payday advances.

B1. Do you have a payday advance outstanding now?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

B2. Is your MOST RECENT payday advance a new advance or a renewal of a previous advance?

1 = NEW ADVANCE	GO TO B2a
2 = RENEWAL	GO TO B2b
.8 = DON'T KNOW	GO TO B3
.9 = REFUSED	GO TO B3

B2a. Did you take out this advance on the same day that you paid off an existing advance?

1 = YES	GO TO B2c
2 = NO	GO TO B2c
.8 = DON'T KNOW	GO TO B2c
.9 = REFUSED	GO TO B2c

B2b. Did you renew by paying only the fee or by paying off the old advance and taking out a new one on the same day?

1 = PAID ONLY THE FEE
2 = TOOK OUT NEW ADVANCE ON SAME DAY

.8 = DON'T KNOW
.9 = REFUSED

B2c. How many weeks have you had this payday advance outstanding without a break?

_________ WEEKS (RANGE 1-52)

.8 = DON'T KNOW
.9 = REFUSED

B3. What was the initial reason for getting the payday advance? Was it for ...(READ LIST)

1 = an unexpected expense,
2 = an expected expense,
3 = getting through a temporary reduction in income,
4 = or some other reason

.8 = DON'T KNOW
.9 = REFUSED

B4. In your MOST RECENT advance, what was the dollar amount you borrowed, not including the fee?

$ _________ (RANGE 1-1,000)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

B5. What was the dollar amount of the fee you paid to get this advance?

$ _________ (RANGE 1-220)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

B6. Were you given any information on the annual percentage rate of interest when you got this payday advance?

1 = YES	
2 = NO	GO TO B8
.8 = DON'T KNOW	GO TO B8
.9 = REFUSED	GO TO B8

B7. What was the annual percentage rate of interest?

_________% (RANGE 0-4,000)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

B8. Please think now about what a payday advance costs you. Which is more useful to you as a measure of the COST of a payday advance? Would you say the dollar amount of the fee or the annual percentage rate?

1 = DOLLAR AMOUNT OF FEE
2 = ANNUAL PERCENTAGE RATE

.8 = DON'T KNOW
.9 = REFUSED

B8a. Before you received your most recent payday advance, did you consider sources other than payday advance companies for borrowing the cash?

1 = YES	
2 = NO	GO TO B11
.8 = DON'T KNOW	GO TO B11
.9 = REFUSED	GO TO B11

B9. What other sources did you consider? ... (DO NOT READ LIST. ACCEPT MULTIPLES) Any other sources?

___ 1 = bank or savings and loan
___ 2 = car title loan
___ 3 = credit card company
___ 4 = credit union,
___ 5 = finance company,
___ 6 = loan from a friend or relative,
___ 7 = pawn shop,
___ 8 = or some other source

.8 = DON'T KNOW
.9 = REFUSED

B10. What was the MOST IMPORTANT reason for choosing a payday advance rather than another source?... (DO NOT READ LIST. ACCEPT ONE ANSWER ONLY)

___ 1 = a more convenient location,
___ 2 = greater privacy,
___ 3 = less paper work,
___ 4 = faster approval,
___ 5 = more respectful employees,
___ 6 = quick and easy process,
___ 7 = a short term or no revolving debt,
___ 8 = less harm to my credit,
___ 9 = less expensive than other sources for borrowing cash
___ 10 = no other alternative source for borrowing cash
___ 11 = some other reason

.8 = DON'T KNOW
.9 = REFUSED

B11. Did you have money in a checking or savings account that you could have used instead of taking out a payday advance?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

B12. Overall, how satisfied or dissatisfied are you with your experience with your most recent payday advance? Are you ...(READ LIST)

1 = very dissatisfied,	
2 = somewhat dissatisfied,	
3 = neither satisfied nor dissatisfied,	GO TO C1
4 = somewhat satisfied,	GO TO C1
5 = or very satisfied?	GO TO C1

.8 = DON'T KNOW
.9 = REFUSED

B13. What was the reason for being dissatisfied? (DO NOT READ, ACCEPT MULTIPLE RESPONSES)

1 = High cost (Not ascertained whether high fee or high interest rate)
2 = High interest rate
3 = High fee (dollar amount)
4 = Insufficient, not clear information
5 = Insufficient handling, collection of later payments
6 = Not able to borrow as much as requested
7 = Not able to renew or extend another payday advance
8 = Rude, discourteous, indifferent, or unfriendly service
9 = Too difficult to get out of debt
10 = Some other reason

.8 = DON'T KNOW
.9 REFUSED

C. Payday Advances in Last 12 Months

C1. Let's talk in general about payday advances. In the last 12 MONTHS, how many times did you get a new payday advance?

__________ NUMBER (RANGE 0-99)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

C2. In the last 12 MONTHS, how many times did you renew an existing payday advance by just paying the fee?

___________ NUMBER (RANGE 0-99)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

C3. In the last 12 MONTHS, how many times did you take out a payday advance the same day you paid off another advance?

__________ NUMBER (RANGE 0-99)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

C3. PROGRAMMER INSTRUCTIONS
___ 1 = R HAD ONLY ONE ADVANCE (C1 = 1) AND NO ROLLOVERS (C2 = 0) OR SAME-DAYS (C3 = 0). GO TO C10
___ 2 = R HAD ONLY ONE NEW ADVANCE , ALL SUBSEQUENT ADVANCES WERE ROLLOVERS (C1 = 1 AND C2 = 1+ AND C3 = 1+). GO TO C8
___ 3 = IF TWO OR MORE ADVANCES (C1 = 2+) CONTINUE TO QC4

C4. In the last 12 MONTHS, have you received payday advances from more than one company?

1 = YES
2 = NO GO TO C8

.8 = DON'T KNOW GO TO C8
.9 = REFUSED GO TO C8

C5. In the last 12 MONTHS, how many different payday advance companies did you use?

__________ NUMBER (RANGE 0-9)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

C6. In the last 12 MONTHS, did you pay off an advance from one company by taking out an advance from another company?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

C7. In the last 12 MONTHS, what was the longest number of weeks that you had a payday advance outstanding without a break?

__________ WEEKS (RANGE 0-52)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

C7a. Is that sequence of payday advances still outstanding?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

C8. In the last 12 MONTHS, have you ever been late in paying back a payday advance?

1 = YES	
2 = NO	GO TO C13
.8 = DON'T KNOW	GO TO C13
.9 = REFUSED	GO TO C13

C9. Were you late, (READ LIST)

1 = ONE TIME ONLY, OR	GO TO C11
2 = TWO OR MORE TIMES	GO TO C11
.8 = DON'T KNOW	GO TO C13
.9 = REFUSED	GO TO C13

C10. Did you pay off this payday advance as scheduled?

1 = YES	GO TO SECTION D
2 = NO	GO TO C11
.8 = DON'T KNOW	GO TO C13
.9 = REFUSED	GO TO C13

C11. When you were late, did the payday advance company treat you fairly or unfairly in resolving the late payment?

1 = FAIRLY	GO TO C13
2 = UNFAIRLY	
.8 = DON'T KNOW	GO TO C13
.9 = REFUSED	GO TO C13

C12. In what way were you treated unfairly? Were you, (READ LIST. ACCEPT MULTIPLES. RANDOMIZE ORDER OF STATEMENTS)

____1 = threatened with criminal prosecution
____2 = embarrassed in front of others
____3 = inconvenienced because the check was cashed
____4 = not allowed to make partial payments
____5 = harassed
____6 = or treated unfairly in some other way

.8 = DON'T KNOW
.9 = REFUSED

C13. In what year did you first start using payday advances?

__________ YEAR (RANGE 1980-2000)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

D. Credit Experience and Availability of Alternatives

Now, I have a few questions about your experiences with other credit products.

D1. Do you have any bank credit cards? These include Visa, MasterCard, Discover, and Optima cards?

1 = YES
2 = NO GO TO D2

.8 = DON'T KNOW GO TO D2
.9 = REFUSED GO TO D2

D1a. What is the total number of bank credit cards that you have?

__________ NUMBER (RANGE 0-10) IF "0" SKIP TO D2

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

D1b. In the last 12 MONTHS, how often did you pay off your balance on your credit cards in full? Would you say that you ALMOST ALWAYS, SOMETIMES, or HARDLY EVER paid off the total balance in full

3 = ALMOST ALWAYS
2 = SOMETIMES
1 = HARDLY EVER

.8 = DON'T KNOW
.9 = REFUSED

D1c. At any time In the last 12 MONTHS, were you unable to use your bank credit cards because you would have exceeded your credit limit?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D1d. What is the annual percentage rate on the bank credit card you use most often?

_________% (RANGE 0-40)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

D2. Do you have any store or gasoline company credit cards?

1 = YES	
2 = NO	GO TO D3
.8 = DON'T KNOW	GO TO D3
.9 = REFUSED	GO TO D3

D2a. How many different store or gasoline credit cards do you have?

__________ NUMBER (RANGE 0-10)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

D3. Not counting the payday advance, mortgage, home equity, automobile, title or credit cards loans you already mentioned, did you make payments on any other loans In the past 12 MONTHS?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D4. In the past 5 YEARS has a particular lender turned down any request you made for credit or not given you as much credit as you applied for?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D5. Was there any time in the past 5 YEARS that you thought of applying for credit at a particular place but you changed your mind because you thought you might be turned down?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D5a. Have you filed for bankruptcy in the past 5 YEARS?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D6. In the past 5 YEARS, have you received cash by pawning something at a pawnshop?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D7. Are you a member of a credit union?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

D8. People sometimes make mistakes. During the past 12 MONTHS, have you written any checks that have overdrawn a checking account?

1 = YES	
2 = NO	GO TO D9
.8 = DON'T KNOW	GO TO D9
.9 = REFUSED	GO TO D9

D8a. In the past 12 MONTHS, how many checks have you written that have been returned because your account was overdrawn?

_________ NUMBER (RANGE 0-10)

.8 = DON'T KNOW
.9 = REFUSED

D9. In your opinion, is the cost of payday advances higher than, lower than, or about the same as the cost of ...(READ LIST)

	Higher	Lower	Same	DK	REF
1 = bouncing a check	1	2	3	.8	.9
2 = fees charged for late rent or mortgage payments	1	2	3	.8	.9
3 = fees charged for late credit card or other debt payments	1	2	3	.8	.9

E. Demographic Characteristics

PROGRAMMER INSTRUCTIONS:
___ 1 = IF R HAS A MORTAGE OR HOME EQUITY LOAN (A=1 OR A=5) GO TO E1b
___ 2 = ALL OTHERS GO TO E1

E1. Do you own your home, rent, or have some other living arrangements?

1 = OWN
2 = RENT
7 = OTHER GO TO E1c

.8 = DON'T KNOW GO TO E1c
.9 = REFUSED GO TO E1c

E1b. How much is the monthly (mortgage/ rent) payment?

$ ________

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

E1c. How long have you lived in your current residence? (READ LIST. ACCEPT ONE ANSWER ONLY)

1 = Less than 1 year
2 = 1 to less than 3 years
3 = 3 to less than 5 years
4 = 5 to less than 10 years
5 = 10 years or more

.8 = DON'T KNOW
.9 = REFUSED

PROGRAMMER INSTRUCTIONS:
___ 1 = R OWED CREDIT CARD OR OTHER DEBTS IN THE PAST 12 MONTHS (A2=1 OR D1=1 OR D2=1 OR D3=1) GO TO E2a
___ 2 = ALL OTHERS GO TO E3

E2a. During the past 12 MONTHS, what was the average monthly dollar amount you needed to make payments on credit card and other non-mortgage debts?

_______ DOLLARS (RANGE 0-9,999)

PROBE: Can you give me an estimate?

.8 = DON'T KNOW
.9 = REFUSED

E2b. During the past 12 months, have you ever been more than 60 days late in making payments on any mortgage or other debts?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

E3. What is the month and year of your birth?

________ MONTH / _______ YEAR (RANGE 1900-1982)

.8 = DON'T KNOW
.9 = REFUSED

E4. What is the last level of education that you have completed? (DO NOT READ, ACCEPT ONE ANSWER ONLY)

___1 = Grade school or less
___2 = Some high school
___3 = High school graduate
___4 = Vocation/technical school
___5 = Some college
___6 = College graduate
___7 = Some postgraduate work
___8 = Postgraduate degree or more

___.8 = DON'T KNOW
___.9 = REFUSED

E4a. How long have you been in your current job? (READ LIST. ACCEPT ONE ANSWER ONLY)

1 = Less than 1 year
2 = 1 to less than 3 years
3 = 3 to less than 5 years
4 = 5 to less than 10 years
5 = 10 years or more

.8 = DON'T KNOW
.9 = REFUSED

E4b. Are you currently on active military duty?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

E5. Are you currently (READ LIST)

___1 = MARRIED OR LIVING WITH PARTNER
___ 2 = SEPARATED
___ 3 = DIVORCED
___ 4 = WIDOWED
___ 5 = NEVER MARRIED

.8 = DON'T KNOW
.9 = REFUSED

E6. Are there any children under the age of 18 currently living in your household?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

E7. Does your family have health insurance?

1 = YES
2 = NO

.8 = DON'T KNOW
.9 = REFUSED

E8. To get a picture of people's financial situation we need to know the general range of income of the people we interview. Now, thinking about (your/your family's) total income from all sources, including your job, disability, social security, stock dividends, how much did (you/your family) receive in 2000?

_________ DOLLARS GO TO E9

.8 = DON'T KNOW GO TO E8a
.9 = REFUSED GO TO E8a

E8a. Did (you/your family) receive $40,000 or more in 1999?

1 = YES	GO TO E8b
2 = NO	GO TO E8d
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E8b. Was it $50,000 or above?

1 = YES	GO TO E8c
2 = NO	GO TO E8c
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E8c. Was it $75,000 or above?

1 = YES	GO TO E9
2 = NO	GO TO E9
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E8d. Was it $5,000 or above?

1 = YES	GO TO E8e
2 = NO	GO TO E9
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E8e. Was it $15,000 or above?

1 = YES	GO TO E8f
2 = NO	GO TO E9
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E8f. Was it $25,000 or above?

1 = YES	GO TO E9
2 = NO	GO TO E9
.8 = DON'T KNOW	GO TO E9
.9 = REFUSED	GO TO E9

E9. Which of the following best describes your ethic background?... Are you (READ LIST) (CHECK ONE)

____ 1 = White,
____ 2 = Black or African American (EXCEPT HISPANIC),
____ 3 = Hispanic,
____ 4 = Asian or Pacific Islander, or
____ 5 = American Indian or Alaskan native?

.8 = DON'T KNOW
.9 = REFUSED

READ: That completes our survey. Thank you for your help.

DON'T ASK THE LAST QUESTION BUT RECORD ANSWER.

E10 . RESPONDENT WAS

1 = MALE
2 = FEMALE

Biographies of Authors

Gregory Elliehausen, Ph.D., is Senior Research Scholar at the Credit Research Center. His research specializes in the economics of markets for consumer and small business financial services. Current research activities include investigations of determinants of delinquency, measurement of household debt burden, market structure of consumer credit markets, effects of market innovations on small businesses access to credit. Before joining the Credit Research Center, Dr. Elliehausen was an economist on the staff of the Board of Governors of the Federal Reserve System from 1981-1998. He conducted research and prepared analyses on the effects of financial regulations, especially consumer protection regulations for financial services. He was also involved in the design and implementation of major data collection projects, including the Survey of Consumer Finances and the Survey of Small Business Finances.

Edward C. Lawrence, Ph.D., is a Professor of Finance and the Department Chair at the University of Missouri - St. Louis. Prior to becoming an academic, he worked professionally in public accounting and commercial banking. He has been at the University of Missouri - St. Louis for 19 years and teaches in the areas of corporate finance, commercial banking, security analysis and real estate. Ed=s research expertise is in the area of consumer finance and banking. He actively consults with companies and attorneys around the U.S. His clients have included many financial institutions and Fortune 500 companies like Southwestern Bell and Ralston Purina. In addition, he has been a lead researcher on several major multi-year contract research projects for Citicorp and Wells Fargo Bank. He has published more than 30 papers in leading professional and academic journals.