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INDEPENDENT RESEARCH ON CONSUMER LENDING

Key Studies

- **The U.S. Department of the Treasury**, with **The Urban Institute**, released reports investigating small- dollar loan usage, availability, policy and research. These reports discover that stringent price caps and prohibitions lead to a lesser supply of alternative financial options, which in turn leads to consumers resorting to costlier, unregulated options for short-term, small-dollar credit. The studies find that prohibiting payday loans is associated with just a 35 percent decline in the use of payday loans, as consumers use the Internet or travel across state lines to obtain these loans. The studies also indicate that traditional financial institutions do not provide the same access to credit as small-dollar lenders, and payday loans are "economically rational" for a large percentage of payday loan customers. The reports conclude by suggesting further research to inform policymaking on meeting the small-dollar credit needs of underserved populations.[1]

- **The Financial Health Network**'s 2019 Financially Underserved Market Size Study is its most recent annual market analysis to quantify and understand the needs of financially underserved consumers and identify opportunities and trends in the marketplace. The 2017 study found that financially underserved consumers in the U.S. spent $189 billion in fees and interest on financial products in 2018. Overall, their spending across a set of 29 financial products continued its historical upward trajectory, with a growth of 4.0% since 2017 and a compound annual growth rate (CAGR) of 3.4% since 2015. The market was projected to expand at a slightly higher 4.2% to reach $196 billion in 2019.[2]

- **The Consumer Financial Protection Bureau (CFPB)** released its 2022 annual consumer response report regarding its consumer complaint database, revealing that only 0.1 percent of all complaints the CFPB received in 2022 were about small-dollar (payday) lenders, and a majority of these complaints are likely related to illegal, unlicensed lenders and scams, not regulated lenders.[3]

- **The Federal Reserve Bank of Kansas City** examined the unintended consequences of restricting payday lending, such as impact on consumers' credit standing and ability to access credit, using data from consumer credit reports provided by the TransUnion credit bureau. The results of this study provide new evidence that restricting payday lending can adversely affect consumers, and demonstrate that payday loans are a cost competitive option. The Bank reports that without access to payday lending, consumers may have limited ability to maintain formal credit standing, may have inadequate access to credit or may resort to more costly credit alternatives.[4]

- In the **Federal Reserve Bank of New York** study titled, "Payday Holiday: How Households Fare after Payday Credit Bans," researchers found that consumers in states where payday lending has been banned are not better off: "Georgians and North Carolinians do not seem better off since their states outlawed payday credit: they have bounced more checks, complained more about lenders and debt collectors, and have filed for Chapter 7 ("no asset") bankruptcy at a higher rate."[5]

- A report by **Professor Victor Stango** of the **University of California, Davis** released in the Cato Institute's Regulation magazine examined both price and non-price characteristics, such as business hours and application process, to determine whether small-dollar loans offered by credit unions can compete with the typical payday loan in the context of the broader small-dollar credit market. The report finds that credit unions cannot viably serve as providers

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[1] "Prohibitions, Price Caps, and Disclosures: A Look at State Policies and Alternative Financial Product Use," Urban Institute, February 24, 2011, https://www.urban.org/research/publication/prohibitions-price-caps-and-disclosures-look-state-policies-and-alternative-financial-product-use
[2] "Research Paper: 2019 Financially Underserved Market Size Study," Financial Health Network, December 20, 2019, https://finhealthnetwork.org/research/2019-financially-underserved-market-size-study/
[3] "Consumer Response Annual Report: January 1 – December 31, 2022," Consumer Financial Protection Bureau, March 2023, https://files.consumerfinance.gov/f/documents/cfpb_2022-consumer-response-annual-report_2023-03.pdf
[4] "Could restrictions on payday lenders hurt consumers," Economic Review, Federal Reserve Bank of Kansas City, 2011, https://ideas.repec.org/a/fip/fedker/y2011iqinv.96no.1x2.html
[5] "Payday Holiday: How Households Fair After Payday Credit Bans," Staff Report, Federal Reserve Bank of New York, 2007, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr309.pdf

of small-dollar credit for customers currently served by consumer lenders. The findings show that very few credit unions currently offer small-dollar loans, small-dollar loan products offered by credit unions carry similar or higher fees than standard payday loans and borrowers prefer payday lenders over credit unions based on factors other than price.[6]

- In a study of bank and credit union overdraft programs, economic research firm **Moebs $ervices** found that the median bank overdraft fee remains $30, compared to $18 in 2000. Michael Moebs noted that in 2000, payday lenders accounted for just about five percent of the overdraft market, but by 2017, half of those who overdrew borrowed from payday lenders. That decision is perfectly understandable, Moebs explained, because the payday loan is less expensive. Payday lenders are "providing almost half of the small-dollar necessary funding when someone doesn't have enough money between paychecks," Moebs said. "They're criticized for charging $18 for $100? The consumers borrowing from them don't even look at that. They look at banks charging $30."[7]

- A study from **former U.S. Comptroller of the Currency Robert Clarke** and **George Mason University Professor Todd Zywicki** examined payday lending and overdraft protection's overlapping customer base, direct competition, and similar consumer protection concerns. Clarke and Zywicki conclude that consumers could be exposed to potential harm should these competing services not be regulated similarly in the future and urge the CFPB to pursue consistent regulation of these similar products, or risk harming consumers. They caution that inconsistent regulatory treatment of payday loans and overdraft protection would lead to reduced choice and higher prices without a corresponding increase in consumer protection.[8]

- A meta-study from four economists writing on the **Federal Reserve Bank of New York** blog examined several entrenched yet misguided criticisms of small-dollar lending, and found "many elements of the payday lending critique—their 'unconscionable' and 'spiraling' fees and their 'targeting' of minorities—don't hold up under scrutiny and the weight of evidence." The post calls for further research into rollovers, which are at the heart of the CFPB's proposed rules, before the Bureau seeks to unilaterally modify or abolish the entire industry. "After reviewing the limited and mixed evidence on that point," the economists wrote, "we conclude that more research on the causes and consequences of rollovers should come before any wholesale reforms of payday credit."[9]

- A study from **Pew Charitable Trusts** reveals that installment lenders, such as OneMain, advertise an APR that is significantly lower than the typical borrower's experience. The "all-in" APR, according to this study, is approximately 90 percent for loans of less than $1,500, however the average stated APRs for such loans are 70 percent. This latter APR does not account for the sale of ancillary products such as credit insurance and the financing of premiums. Only by omitting the true costs of these loans are installment lenders like OneMain able to adhere to APRs required by the Truth in Lending Act (TILA).[10]

- In their 2019 Alternative Financial Services Lending Trend report, **Clarity Services** examines the millions of American consumers who lack the credit history to secure a loan in the traditional credit market. These nonprime borrowers are often seen as a single, uniform segment of the population even though their circumstances, behaviors and intentions behind their credit use are vastly different. Several trends are noted within online lending such as a higher net monthly income of borrowers over the past five years and a decline in average loans per consumer. It was also reported that more than half of consumers who obtained a loan in 2017 were new to the marketplace.[11]

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[6] "Are Payday Lending Markets Competitive," Cato Institute, Fall 2012, https://www.cato.org/sites/cato.org/files/serials/files/regulation/2012/11/v35n3-5.pdf
[7] "Card interchange outpaces overdraft income," Banking Exchange, September 2017, https://www.bankingexchange.com/news-feed/item/7042-card-interchange-outpaces-overdraft-income?Itemid=639#.WbvwOLG7EDQ.email
[8] "Working Paper: Payday Lending, Bank Overdraft Protection, and Fair Competition at the Consumer Financial Protection Bureau, Mercatus Center at George Mason University, November 2013, https://www.mercatus.org/system/files/Clarke_PaydayOverdraft_v2.pdf
[9] "Reframing the Debate about Payday Lending," Federal Reserve Bank of New York, October 2015, https://libertystreeteconomics.newyorkfed.org/2015/10/reframing-the-debate-about-payday-lending/
[10] "State Laws Put Installment Loan Borrowers at Risk," The Pew Charitable Trusts, October 2018, https://www.pewtrusts.org/en/research-and-analysis/reports/2018/10/17/state-laws-put-installment-loan-borrowers-at-risk
[11] "2019 Alternative Financial Services Lending Trends," Clarity Services, 2019, https://www.clarityservices.com/wp-content/uploads/2019/04/2019-Alternative-Financial-Services-Lending-Trends.pdf