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RACHAEL EASTLUND AND TERRI FRIEDLINE

HOW FEATURES OF PAYDAY LOANS VARY BY STATE REGULATION

Results from a Survey of Payday Lenders

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OVERVIEW

The payday loan industry is subject to state regulations and, in effect, the costs associated with these products vary geographically. These variations mean that borrowers in different states assume different costs—and different financial consequences—associated with payday loans. For example, states set different caps on interest rates and the amounts that a consumer can borrow. They may limit the number of times a borrower can roll over a loan. Some states have made the shift to installment loans that require that the loan be broken up into several smaller, more affordable payments. Other states, under pressure from consumer advocates, have placed major restrictions on or outlawed payday loans altogether.

The high price that low-to-moderate income borrowers pay to use payday loans can undermine their financial well-being.

The maximum loan amount, finance fee, and the number of rollovers are important features of a payday loan. Theoretically, regulations should play a role in how lenders choose the features of their payday loans and, given differences in state regulations, these features should vary. This report reveals how these regulations operate in practice

by examining payday loans' maximum amounts, finance fees, and rollovers from a sample of 442 payday lenders with attention to variations between state regulations.

Key Findings

Lenders use state regulations to anchor the features of their payday loans. Lenders use regulations to set their maximum loan amount as high as permissible, which suggests that regulations are effective at capping loan amounts.

- In states that regulate the maximum payday loan amount, lenders consistently report loan amounts that match their states' regulations.
- There is wide variation within states that do not regulate the maximum amount of payday loans. For example, lenders in the state of Texas report maximum loan amounts that range from \$255 to \$3,000.

Payday lenders in states that do not place restrictions on interest rates have a larger variance in the amounts of interest that they charge.

- The average cost in interest on a \$100 payday loan ranges from \$1 to \$45; though, the average cost is \$24 among states without interest rate regulations and \$17 among states with regulations.

- Finance fees in the state of Idaho, for example, range anywhere from \$20 to \$42 per \$100 loan. In Ohio, because of loopholes in state regulations, lenders are able to charge anywhere from \$1 to \$35.

Payday lenders allow fewer rollovers than permissible by state regulations, suggesting lenders could be trained to not advertise rollovers to

potential borrowers or that they could be moving away from this practice.

- Of lenders in states that allow rollovers, nearly half allow five or more rollovers.
- For example, most lenders in Missouri allow six rollovers, which is the maximum amount allowed per state regulations.

INTRODUCTION

Every year, 12 million consumers take out a payday loan. The average payday loan borrower is low-to-moderate income (LMI) and many borrowers are already living paycheck-to-paycheck, having difficulty covering their daily expenses. While 16 percent of borrowers use payday loans to deal with unexpected expenses like a car repair or medical emergency, 69 percent of borrowers use these loans to cover recurring expenses like utilities, credit card bills, rent or mortgage payments, and food.

Given that borrowers are already struggling to cover their daily expenses, it is no surprise that borrowers struggle to repay their loans, too. Payday loans have an average annual interest rate of 391 percent, an exorbitantly high rate when compared to the average annual interest rate of 4 percent charged by banks for small loans. Since interest rates and finance fees

make it difficult for borrowers to repay their original loans in full, about 15 percent of borrowers renew their loans more than 10 times and the average borrower is indebted about five months of the year.

The high price that LMI borrowers pay to use payday loans can further undermine their financial well-being. For example, borrowers from LMI households earning less than \$25,000 per year spend roughly 10 percent of their annual income on interest and fees to high-cost lenders—money that could be diverted to other necessary expenses. Borrowers who live closer to states that permit payday lenders to operate within their borders use these lenders at higher rates, and experience negative effects on their credit scores. Borrowers with greater access to payday lenders also delay medical treatment and struggle to pay their bills.

Given that LMI borrowers can experience detrimental financial consequences from using payday loans, regulations and oversight are needed. Indeed, consumers have even expressed a desire for stronger regulations on the market, preferring lower prices and more affordable payments. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act established the Consumer Financial Protection Bureau (CFPB) to provide federal oversight and regulate the market for consumer financial products, including payday loans. The CFPB has authority to write and enforce federal regulations to the extent that they judge payday loans to be “unfair, deceptive or abusive.”ⁱ For example, the CFPB proposed new consumer protections for payday and other small loans in 2016 and recently finalized new rules that are anticipated to go into effect in 2019.ⁱⁱ Though, a recently introduced Congressional Review Act (CRA) Resolution could nullify these rules.

In addition to federal regulations, the payday loan industry is subject to state regulations and, in effect, the costs associated with these products vary geographically. These variations mean that borrowers in different states assume different costs—and different financial consequences—associated with payday loans. For example, states set different caps on interest rates and the amounts that a consumer can borrow. They may limit the number of times a borrower can renew or roll over a loan. Some states have made the shift to installment loans that require that the loan be broken up into a number of smaller, more affordable payments. Other states, under pressure from consumer advocates, have outlawed payday loans altogether or placed major restrictions on interest rates.ⁱⁱⁱ In a study on payday loan borrowers, fewer than 3 percent of

adults use payday loans in states where they are more strictly regulated. Strong state regulations prohibiting payday lenders have even been found to discourage borrowers from using online payday loans, an important finding given that payday loans are increasingly available over the internet. Even though the internet and online lending can permeate state geographic boundaries, regulations still discourage borrowers within their states from using these loans. In comparison, consumers use online payday loans much more frequently in states where they are moderately or loosely regulated (6 percent and 7 percent, respectively).^{iv}

The costs associated with payday loans are based on state regulations and vary geographically. This means that borrowers in different states assume different costs—and different financial consequences—associated with payday loans.

In sum, not all payday loans are created equal and regulations matter—especially for understanding how burdensome costs may be shifted to LMI borrowers. Interest rates, the amount a consumer is able to borrow, and the number of times they are permitted to re-borrow have major implications for consumers, and each is regulated to varying degrees, per state regulations.

ⁱ Under CFPB regulations, a loan may be considered to be unfair, deceptive, or abusive if the lender has not determined a consumer’s ability to repay; if the consumer has outstanding loans or has recently taken out a loan; or if the lender makes more than two attempts to withdraw money from an account after payment has failed.

ⁱⁱ To read the text of the CFPB rules on payday, vehicle title, and certain high-cost installment loans, visit: https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/http://files.consumerfinance.gov/f/documents/201710_cfpb_final-rule_payday-loans-rule.pdf

ⁱⁱⁱ A total of 15 states and the District of Columbia have outlawed payday loans: Arkansas, Arizona, Connecticut, Georgia, Maryland, Massachusetts, Montana, New Jersey, New Hampshire, New York, North Carolina, Pennsylvania, South Dakota, Vermont, and West Virginia.

^{iv} This study includes all storefront lenders, as well as online lenders.

PAYDAY LOANS PRODUCT FEATURES

In deciding what financial products are right for them, a consumer generally takes into consideration how much they need to borrow, the cost of borrowing this amount, and how long they have to repay the loan. Maximum loan amounts, finance fees, and rollovers are product features that exist in the payday lending market and have been the subject of regulations, given their potential impacts on the costs that borrowers take into account.

Maximum Loan Amount

Maximum loan amounts refer to the size of the loan that can be borrowed. Depending on state regulations, maximum loan amounts can range anywhere from \$255 to \$1,000, though they are commonly limited to no more than \$500.^v The CFPB has found that the median loan size borrowed by consumers is \$350, while the mean loan size is \$392, suggesting that the loan amounts borrowed by consumers vary widely and with amounts that are generally much higher than the median. Contrary to mainstream financial services, which approve loan amounts based on a debt-to-income ratio and credit rating, payday lenders rarely take this information into consideration when setting maximum loan amounts.

^v This research finds that lenders sometimes lend above \$1,000. The maximum loan amount in this study was \$5,000 for one respondent in Nevada- a state which is very loosely regulated.

^{vi} Loans covered under TILA are required to disclose annualized interest rates in plain language. However, the act does not place any regulations on how much a lender can charge.

In Colorado, for example, 96 percent of payday loans were made for the maximum amount before the state changed their payday lending laws in 2012.

Finance Fees, Interest Rates, and APR

Finance fees are the fixed costs that lenders charge consumers for the convenience of borrowing the loan. Payday lenders are required, per the Truth in Lending Act (TILA), to disclose the annualized percentage rate (APR) of their products.^{vi} They often do so in fine print, emphasizing instead a fixed-dollar amount that makes the loan appear quick or short-term and harmless to the consumer. The price of a loan, expressed as a finance fee, generally ranges between \$15 to \$25 per \$100 14-day loan. However, the annualized interest rate for the same \$100, 14-day loan is equivalent to 391 percent to 652 percent APR, and often exceeds 10 times that of a typical credit card. In other words, by emphasizing fixed-cost finance fees and hiding APR in the fine print, payday loans masquerade as a short-term, limited fee product. Though, these loans can really be something else altogether depending on how lenders present information about finance fees, interest rates, and APR.

Research on the payday loan consumer perspective unveils that consumers are more frequently able to recall the finance fee of their loan in the months that follow, and less likely to remember the APR. This is particularly true among borrowers who have less experience with traditional mainstream financial products, and those with lower levels of education. The customer’s misapprehension regarding APR, particularly among the most vulnerable consumers, may discourage them from comparing the loan with other less harmful products on the market, such as small dollar loans from banks.^{vii} Moreover, it may prevent them from recognizing the long-term implications of the loan, should they be unable to pay it back at the time it’s due. Each time the customer reborrows, renews, or rolls over their loan, a new finance fee is assessed. In effect, payday loans appear to be a short-term, time-limited product; however, in reality, these loans are often much more costly and longer-lasting than they initially appear.

Payday loans masquerade as one type of product but are really something else, depending on how lenders present information on finance fees, interest rates, and APR.

Rollovers

Many lenders allow consumers to “roll over” their loan for another term, simply by paying the

interest.^{viii} When rollovers are not permitted, lenders may allow borrowers to take out multiple loans or, alternatively, to take out a new loan immediately after paying off the last. Administrative data on payday borrowers indicate that many borrowers renew their loans several times; though, it is not clear whether borrowers expected, ex-ante, to renew their loan so many times or not. Potential payday loan borrowers may be optimistic about their ability to pay off the loan in one to four weeks, when in fact they are likely to renew the loan several times (as lenders are aware) and put their financial well-being at risk. It is not surprising, then, that payday loan borrowers end up in debt for an average of five months of the year.

Payday loan customers indicate that speed (76 percent), fees (74 percent), certainty they will be approved (73 percent), and loan amounts (67 percent) are their most important considerations when deciding where to get a payday loan. Most customers (79 percent) also believe that having more time to repay the loan would be an improvement to the payday loan industry, and perhaps reduce their need to extend or roll over their loans. However, little research explores payday lenders’ maximum loan amounts, finance fees, and rollovers from the consumer’s perspective. Research that examines the policies and practices of the lenders, as experienced by the consumer, would speak to the transparency of the lenders, and their level of conformity and adherence to the regulations of their respective states.

^{vii} Though, few banks offer small dollar loans, and those that do generally do not make many of them. Current regulations do not give banks and credit unions guidance for offering small dollar loans and regulators have made it difficult to lend small sums except via credit cards and overdraft.

^{viii} The terms “rollover or extension” are generally used to refer to loans which are extended by paying only the interest, while “renewal” means paying off the loan entirely and taking out a new loan immediately. However, this language varies between lenders and states, and sometimes can be used interchangeably.

RESEARCH QUESTIONS AND METHODOLOGY

The maximum loan amount, finance fee, and the number of rollovers are important features of a payday loan. Theoretically, regulations should play a role in how lenders choose the features of their payday loans and, given differences in state regulations, these features should vary geographically. In other words, lenders may price their maximum loan amounts, finance fees, and rollovers at their ceilings by matching state regulations. Lenders can also choose to price these features below regulatory requirements. This report reveals how these regulations operate in practice by examining the following questions, with attention to variations between state regulations:

- What is the average maximum loan amount?
- What is the average finance fee for a payday loan?
- What is the average number of rollovers permitted?

Methodology

This report examines payday loan practices and the state regulations that shape them. Data were collected between March and December 2016 from a random sample of 765 alternative financial service providers located in 41 states and the District of Columbia,^{ix} which was identified based on a list of 36,704 alternative financial services providers in the country in 2015 and that was purchased from InfoGroup USA.^x Of the 765 alternative financial service providers that were surveyed, 57 percent offered payday loans and representatives from 442 payday lenders were surveyed.^{xi} Multiple methods were used for collecting survey data. Information was gathered using both the phone and internet for 61 percent of the surveys. Information was gathered using only the lender's website for 26 percent of the surveys, and information for 12 percent was completed only by phone without

^{ix} Twenty-two states and the District of Columbia were excluded from the survey because these states passed legislation that prohibited or greatly restricted predatory lending practices, lenders located in these states were not part of the original sampling strategy, and/or representatives from lenders located in these states declined to participate in the survey. These included Arizona, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Georgia, Hawaii, Maine, Maryland, Massachusetts, Minnesota, Montana, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, South Dakota, Vermont, and West Virginia.

^x InfoGroup USA is a consumer database that provides market information of over 25 million businesses to researchers and marketers.

^{xi} Other products included installment loans, title loans, or check cashing services.

internet collection.^{xii} Generally, basic information was gathered from the website in advance, and subsequently verified by respondents over the phone.^{xiii} Respondents often placed the call on hold for extended periods of time, asked the surveyor to call back, or altogether declined to participate in the survey. As a general rule, the surveyor made a minimum of two attempts to call a lender back to complete the survey before moving on in the data collection process. Survey respondents included payday lender sales associates, tellers, cashiers, and managers. As such, these data do not necessarily represent lenders' official policies. Instead, these data represent the information a customer might be given when researching or borrowing a payday loan.

In order to compare the survey data to states' regulations, information on state regulations was

gathered through Consumer Federation of America's (CFA) information resource on payday lending. The resource provides current regulations for each state, indicating which states have outlawed loans, and the restrictions on loans' basic features such as APR, loan amount, and term length. At the time of data collection, the payday loan industry was awaiting a series of federal regulations issued by the CFPB. Survey respondents were aware of the regulations, and on occasion explained that their products may change if the regulations were put into place. For this reason, regulations used in this report were examined to ensure that they had not been amended since the survey was conducted. Though, an exception is the CFPB's new rules on payday lending. Moreover, detailed field notes were collected in order to record lenders' responses or reactions to the shifting regulatory environment.

^{xii} Generally surveyors gathered information using only the internet when respondents were not willing to participate in the survey, or were unable to be reached. To ensure that the data being recorded were accurate, the surveyor only recorded what was available in plain language on the lender's website and did not appear to be outdated or questionable. Surveys were completed entirely on the phone if the lender did not have a website, if the lender's website was "under construction", lacking in information, or if the information on the website appeared to be outdated or false.

^{xiii} Basic information gathered in advance from the lender's website often included the types of products offered, the cost of the loan (usually available in dollar amount), and the maximum loan amount.

FINDINGS

The following findings represent information reported by payday lender representatives regarding maximum loan amount, finance fee, and rollovers. Figures and tables are presented that show variations between states, and Appendix A provides information on the number of lenders from each state whose representatives participated in the survey.

Maximum Loan Amount

When asked about the maximum amount a customer could borrow, payday lender representatives provided a range of responses; though, for the most part, these responses were consistent with states' regulations (see Figure 1). Figure 1 compares payday lender representatives' responses to their states' regulations. In states that regulate the maximum payday loan amount, lenders consistently reported loan amounts that matched their states' regulations. For example, in Virginia, payday lender representatives indicated that the maximum amount a customer could borrow was \$500—consistent with the state's allowed maximum amount. Responses on maximum loan amounts,

irrespective of regulations in the states where lenders were located, are available in Table 1.

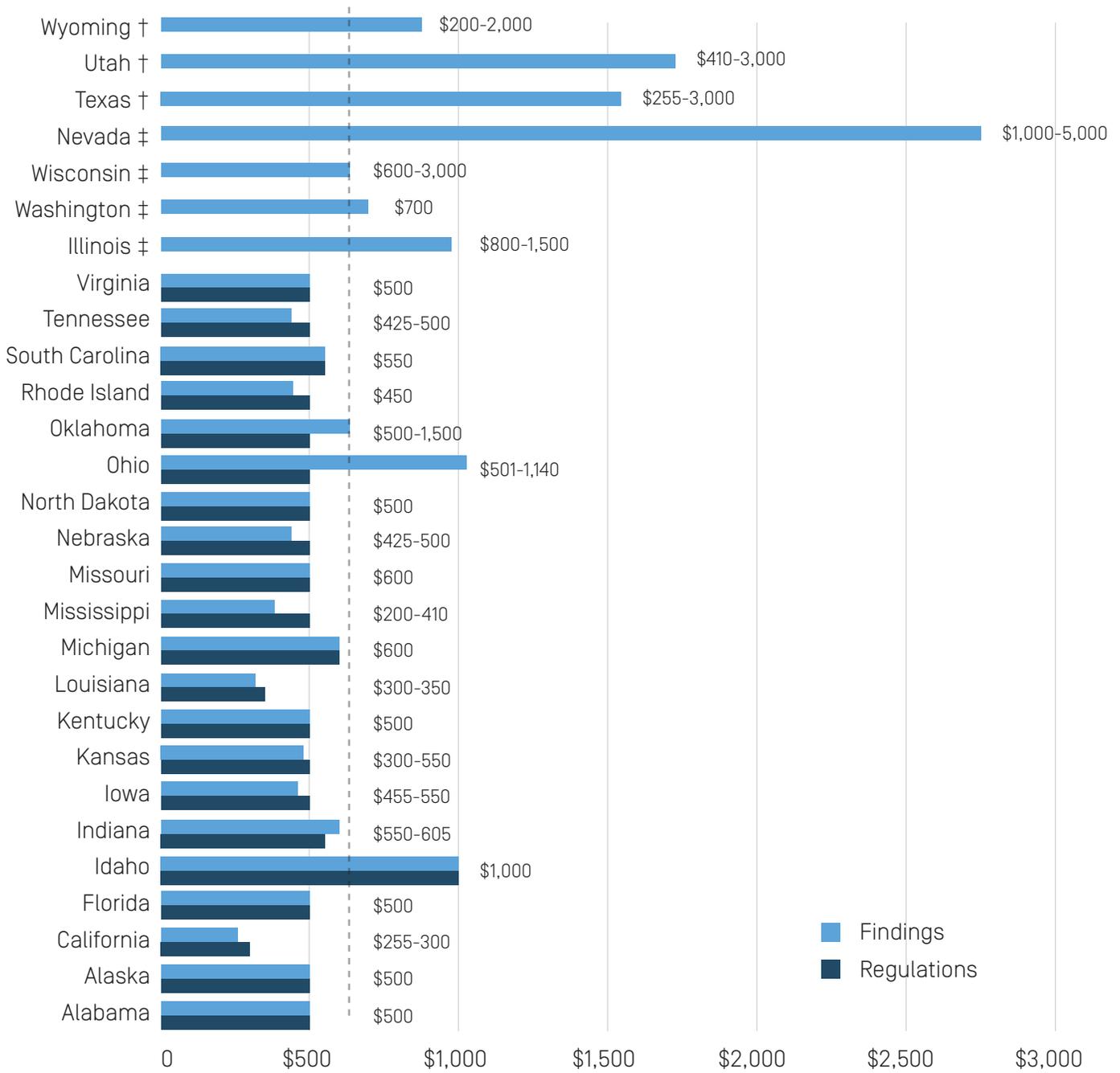
According to the Consumer Federation of America, Wyoming, Utah, and Texas are three states without regulations on the maximum payday loan amount.^{xiv} Maximum loan amount has a high standard deviation among the lenders in these states. For example, respondents in the state of Texas had maximum loan amounts that ranged from \$255 to \$3,000.^{xv} Four states determine the maximum loan amount based on a customer's gross monthly income rather than (or in addition to) a fixed dollar amount.^{xvi} Lenders in Wisconsin, Washington, and Illinois may set a standard maximum amount but allow a customer larger loans depending on their income. Nevada, per state regulations, has no fixed maximum and allows a customer to borrow up to 25 percent of their gross monthly income (GMI). Of those that responded, Nevada had the highest maximum loan amount, with the highest standard deviation in responses—anywhere from \$1,000 to \$5,000. The remainder of states in the survey had maximum loan amounts which were approximately the same as what was regulated. One exception was

^{xiv} While these states do not limit maximum loan amount, they do regulate other payday loan features. Also, Maine and Oregon also do not regulate maximum loan amount.

^{xv} Texas has no law requiring lenders to determine ability to repay.

^{xvi} Lenders in other states may use GMI to determine the amount a borrower is eligible for, though it is not required by state regulations.

Figure 1 | Maximum Loan Amount



† State does not regulate the maximum loan amount.

‡ State regulates loan amount relative to a consumer's gross monthly income (GMI).

Notes: 428 (97%) of those surveyed responded to this question. Information was unavailable for 1% of respondents, and 2% refused to answer. Response rates for each state range from 1 (Rhode Island) to 79 (California), with an average of 16 respondents per state. The grey dotted line represents the average maximum loan among all states: \$641.

Source: Regulatory information was collected from CFA.

Table 1 | Maximum Loan Amount

	Percentage	Average Dollar Amount
Average maximum loan amount	n/a	\$641 (\$200 to \$5,000) [†]
Loans limited by dollar amount	77%	\$485 (\$200 to \$1,000)
Loans limited by income [‡]	1%	\$2,750 (\$1,000 to \$1,500)
Loans limited by dollar amount <i>or</i> income [§]	11%	\$735 (\$300 to \$1,500)
Loans without restrictions	10%	\$1,497 (\$255 to \$3,000)

[†] \$5,000 loan was an outlier in the data, and was not included in the average amount.

[‡] Income-based approvals allow lenders to write loans for up to 25 percent to 35 percent of a borrower's GMI.

[§] Loans limited by dollar amount or income mean that a customer can qualify for a percentage of their GMI or a dollar amount, whichever is less/greater.

Notes: 428 (97 percent) of those surveyed responded to this question. Information was unavailable for 1 percent of respondents, and 2 percent refused to answer. Percentages do not add up to 100 percent and were rounded.

Source: Regulatory information was collected from CFA.

Ohio, which allowed lenders to loan larger amounts due to a loophole in lending policy.^{xvii}

The majority of lenders (77 percent) responded that they limit loans to a fixed dollar amount (see Table 1). The low variation between the findings and the state regulations among lenders that limit loans in this manner suggests that lenders set their maximum loan amount as high as they can, as per state regulations. Although, states can still set this number high.^{xviii} Eleven percent of respondents had flexible maximum loan amounts. These lenders may have had a tentative maximum, but allowed the borrower to take out more according to their income.^{xix} Only lenders from eight states reported amounts that were below their states' required maximum amounts and, even so, these amounts were not greatly lower.^{xx} For example, lenders in Mississippi reported the widest range below the state's maximum amount of \$500: between \$200 and \$410. Generally, the maximum loan

amount was smaller when it was determined by a fixed amount. Ten percent of lenders were not restricted to a maximum loan amount by their state regulations. Among these lenders that were not subjected to state regulations on maximum loan amounts, variation in the maximum amounts was high, with an average of nearly \$1,500.

Finance Fees, Interest Rates, and APR

Lenders were asked the cost of a \$100 payday loan in order to calculate the loan's interest rate or finance fee (see Figure 2). Table 2 presents the average responses, regardless of the states in which lenders were located. Twenty-three of states reported placing restrictions on interest rates. Payday lending was legal in 36 states in 2016, and 28 of them regulated interest rates that year. Lenders in these states showed consistency in the cost of the loan, and generally charged fees as large as was

^{xvii} Lenders in Ohio can license themselves under the Ohio Mortgage Lending Act or the Ohio Small Loan Act or as credit services organizations to escape payday lending regulations.

^{xviii} For example, in Idaho, state regulations allow a lender to loan up to \$1,000. This can be very dangerous to the borrower, as the state does not require the lender to determine ability to repay.

^{xix} Survey respondents were asked to answer the question regardless of what a customer's income was.

^{xx} As per Table 1, these states included California, Iowa, Kansas, Louisiana, Mississippi, Nebraska, Rhode Island, and Tennessee.

Table 2 | Cost of a \$100 Payday Loan

	Percentage	Average Cost Per \$100 Loan
Loans with no APR restrictions	11%	\$24 [\$15.45 to \$42]
Loans with APR restrictions	89%	\$17 [\$1.08 to \$45]
Average cost of all loans	n/a	\$18 [\$1.08 to \$45]

Notes: 394 (89 percent) of all respondents disclosed the cost of each \$100 14-day loan. Nineteen respondents (4 percent) were unable to provide the information, and 30 respondents (7 percent) refused to answer.

Source: Regulatory information was collected from CFA.

allowed per state regulations. Contrarily, lenders in states that did not place restrictions on interest rates had a larger variance in responses, and the average cost in each of these states was higher than the average cost of all loans.

Missouri and Ohio are unusual outliers in the data set. Ohio has passed stringent laws which limit interest to 28 percent APR, or roughly \$1 per \$100 14-day loan. Ohio also has a 31-day minimum under the short-term loan act where no lenders are licensed. However, because of the state’s regulation loopholes, Ohio lenders are able to charge much more: anywhere from \$1 to \$35 among lenders that participated in this survey. The state of Missouri prohibits interest rates above 75 percent of the principal amount, which should allow lenders to charge up to \$75 per \$100 loan. In practice, Missouri lenders in this survey charged an average of \$18.^{xxi} The remaining five states represented in the data had average finance fees above the overall average of all states, with a moderately high standard deviation. Finance fees in the state of Idaho, for example, ranged anywhere from \$20 to \$42 per \$100 loan.^{xxii}

The majority of the lenders in this survey had interest rates that were restricted by state regulations. Lenders in this category had finance fees that were significantly less on average. The large range between these responses is expected,

given the larger number of respondents represented. Although there were fewer respondents whose interest rates were not subject to state regulations, these lenders showed a moderately large range, and a higher average finance fee.

Without state regulation, lenders tend to charge higher and more variable interest rates.

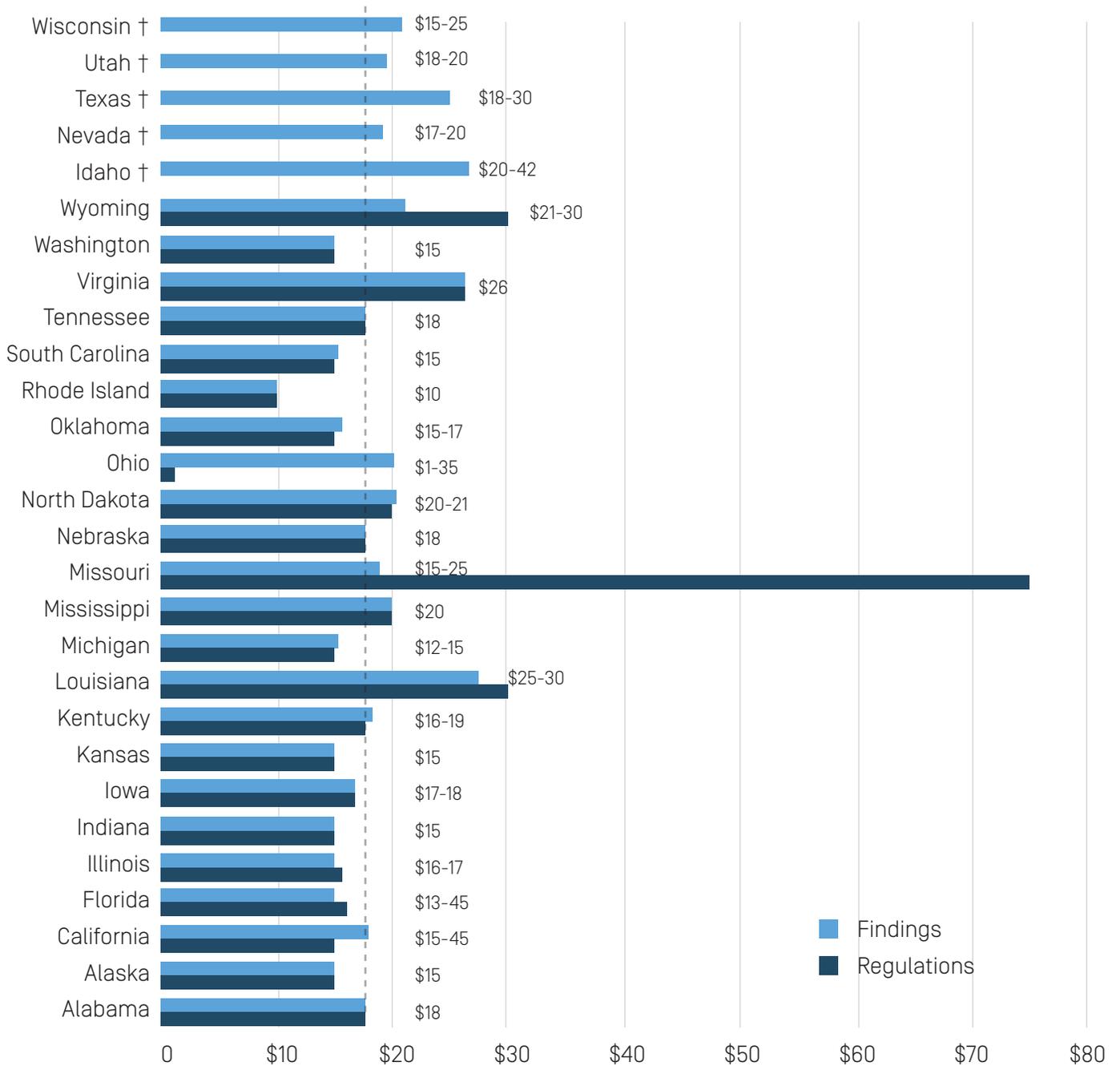
Rollovers

Respondents were asked if borrowers were allowed to extend or roll over their original loan (see Table 3). If each lender were to allow the maximum number of rollovers they were permitted per state regulations, the columns in Table 3 should be identical. The findings show a different result: payday lenders are actually allowing rollovers less than expected, according to what respondents disclosed. This could mean that respondents are trained not to advertise rollovers. It could also mean that, in response to the growing pressure from consumer advocates, lenders are actually moving away from this practice. When a lender prohibits rollovers, they can still allow a customer to take out multiple loans, or reborrow immediately once a loan is paid off.

^{xxi} The survey data include responses from 18 lenders in the state of Missouri. It is possible that some lenders charge much higher interest rates than were captured in these findings, and a larger sample size might show more variation.

^{xxii} The survey data include responses from five lenders in the state of Idaho. A larger sample size would likely reveal greater variation.

Figure 2 | Cost of a \$100 Payday Loan



† APR is not regulated.

Notes: Dollar values presented at the ends of each bar are for the ranges of findings (values are not presented for regulations). 394 (90.3%) of all respondents disclosed the cost of each \$100 14-day loan. Six respondents (1%) were unable to provide the information, and 24 respondents (5%) refused to answer. Response rates for each state range from 1 (Rhode Island) to 79 (California), with an average of 16 respondents per state. The grey dotted line represents the average of maximum loan amounts among all states: approximately \$18.

Source: Regulatory information was collected from CFA.

Of the states that do allow rollovers, nearly half stated that they allowed five or more (see Figure 3). Most lenders in the state of Missouri responded that they allow six rollovers—the maximum amount allowed per state regulations. Idaho and Nevada

show similar trends (three and four rollovers, respectively). Respondents that did not have limits on rollovers include lenders from Ohio, Oklahoma, Texas, and Utah.

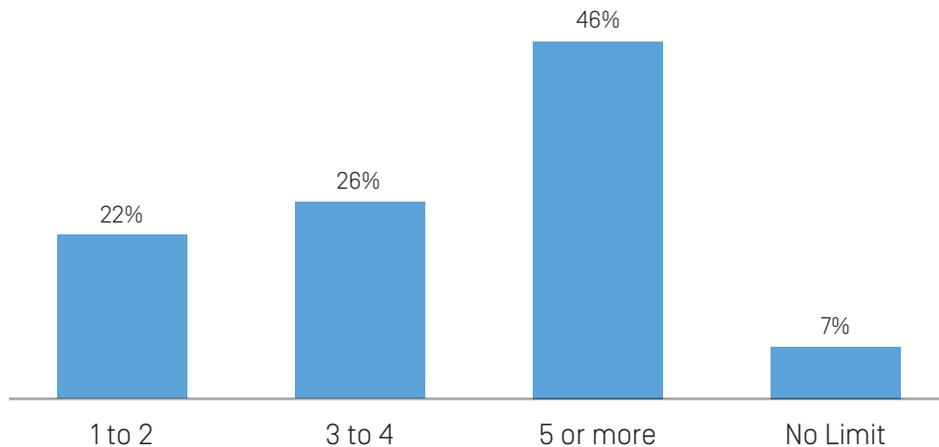
Table 3 | Rollover Practices

	Percentage of Survey Sample: In Practice	Percentage of Survey Sample: By Regulation
Rollovers are prohibited	82%	69%
At least one rollover is allowed	15%	31%

Notes: 422 (95 percent) of participants answered to whether or not they allowed customers to roll over a loan. Nine respondents (2 percent) refused to answer, and 11 respondents (3 percent) were unable to respond.

Source: Regulatory information was collected from CFA.

Figure 3 | Maximum Number of Rollovers



Notes: Among lenders that were permitted by regulation to allow rollovers, 74 respondents (84 percent) were able and willing to disclose the exact number of rollovers that a customer can have. Percentages were calculated from those that responded *and* could provide information (excluding refusals and information unavailable).

DISCUSSION

The survey findings suggest that regulations are important because lenders use state regulations to anchor their payday loan features. In other words, lenders price their products accordingly depending on their states' regulations and, without regulations, lenders impose very few restrictions. In states that allow rollovers, for example, nearly half of the lenders represented in the survey (46 percent) reported allowing customers to roll over their loans five times or more. Similarly, in states that do not restrict the maximum loan amount, the average maximum loan amount was almost three times as large (\$485 versus \$1,497). Therefore, regulations may be needed to protect consumers from the payday lending business model that is designed to charge high costs to consumers.

Low-to-moderate income (LMI) households are most likely to experience negative financial consequences from the high costs associated with payday loans. Compared to the lowest-income households, LMI households with incomes ranging between \$15,000 and \$50,000 are more likely to use payday loans because they can more easily meet payday lenders' eligibility criteria like having a regular income and owning a checking account. Therefore, these households tend to use payday loans with greater risk to their financial well-being. For LMI households, having access to payday loans also means having greater difficulty making

rent or mortgage payments, paying utility bills, delaying or foregoing important medical care, and avoiding filling medication prescriptions. To avoid the negative consequences to their financial well-being, most payday loan borrowers (81 percent) prefer lower-cost loans from banks or credit unions; however, these types of small-dollar loans are rarely available to LMI households from banks and credit unions.

State regulations are important because lenders use these regulations to anchor payday loan features. Without regulation, lenders impose very few restrictions.

Regulation of payday loans can help protect consumers by lowering costs, promoting consistency, and closing loopholes. This means that consumers are better protected against high maximum loan amounts or finance fees in states where loans are regulated. For example, lenders in states that limit loan amounts by a fixed dollar amount have a minimal standard deviation, while lenders in the remaining states show significant variance in the amount for which a customer is

eligible.^{xxiii} Similar patterns emerge from the lack of restriction of interest rates, as observed by the lenders' variation of "finance fees", and absence of regulations on roll-overs.^{xxiv} In the state of Texas, which has no statewide restrictions, a customer can roll over their loan anywhere from four to 48 times. Results also show the need to identify and close loopholes in state regulations, for example, in the state of Ohio. Annual percentage rate in Ohio is capped at 28 percent and loans are limited to \$500 (Ohio Rev. Code Ann. 1321.35 et seq.). Among the 36 payday lenders from the state of Ohio who responded to the survey, the average maximum 14-day loan offered in Ohio is \$1,000, and interest rates or APR on a \$100 loan is as much as \$35.

Regulations have the power to eliminate predatory practices that can harm consumers and undermine their financial well-being.

Payday lenders are often given credit for their high level of transparency. The payday lender representatives in this survey revealed that lenders are reasonably transparent to the degree that they are knowledgeable about the features.^{xxv} Though, it is clearly deceptive to intentionally sell 14-day loans that have the potential to leave borrowers in debt for months. The answers respondents provided were generally scripted and consistent, suggesting that their practices were guided by policy with little room for discretion. This is likely because payday lenders are required, per Truth in Lending Act (TILA), to state the dollar cost and APR of a loan. But regulations can take the form of usury laws that cap excessively-high interest rates or disclosure laws that make loan information publicly available

to consumers; however, arguably, one type of law cannot be fully effective without the other. A lender can be entirely transparent while still using exploitative marketing to appeal to consumers who they know are in a state of urgency. In sum, transparency and disclosure policies should be supplemented by greater restrictions on payday lending practices.

Payday lenders are subject to regulations that often vary greatly between the states they are located, which yields a geographically-dependent array of products. Thus, as supported by this survey's findings, regulations matter for the types of payday loan products and services that customers can expect to receive. The findings from payday lenders' representatives would need to be consistently inaccurate in order to weaken the supposition that regulation matters for payday lenders. State regulations have the power to eliminate predatory practices that can harm consumers, but only to the extent that they take the necessary steps to do so. This means amending restrictions, closing loopholes and, ideally, following the example of the states that have effectively outlawed payday lenders.

Conclusions

Given that payday lenders appear sensitive to regulation, regulation can be important for protecting consumers against costly payday loans. The CFPB released new rules in October 2017 to ensure that regulation is in place to protect consumers from the high costs associated with payday loans. To develop these rules, the CFPB hosted listening sessions in communities around the country, heard the stories and experiences of payday loan borrowers, empirically investigated the impacts of payday loans on borrowers' financial

^{xxiii} Findings show that lenders in fourteen states with maximum loan restrictions amount have a standard deviation of \$0, meaning they charge exactly the amount they are permitted to charge by state regulations. Among the 35 respondents in the state of Texas, reported maximum payday loan amounts ranged from \$255 to \$3,000, the average being \$1,499.

^{xxiv} Most states with restrictions on APR have a standard deviation at or near zero. This is not to suggest that they are any more affordable, it simply shows that the presence of regulations are effectively implemented.

^{xxv} Lenders in this survey were often unable to answer questions regarding defaults, legal penalties, or anything that is handled "outside of the store" [i.e., by collections agencies or headquarters].

well-being, and talked with industry representatives and consumer advocates. Based on this information, the CFPB developed rules requiring lenders to determine borrowers' ability to repay the original loan and prohibiting rollovers—product features that can undermine borrowers' financial well-being. To gauge borrowers' ability to repay, the new rules require lenders to assess whether borrowers would be able to repay the original loan amount in full without rolling over the loan and without jeopardizing their basic living expenses or other major financial obligations.

Recently, a Congressional Review Act (CRA) Resolution of CFPB's payday lending rules introduced in December 2017 may undermine these important consumer protections. This joint resolution submitted by representatives from the House and Senate recommends that Congress vacate the rules released by the CFPB. However, the 12 million consumers that borrow payday loans every year need protection. Low-to-moderate income borrowers may literally be unable to afford a CRA resolution that exposes them to high maximum loan amounts, finance fees, interest rates, APR, and rollovers.

Appendix A | Number of Payday Lenders per State (N = 442)

	Average Dollar Amount
Alaska	1
Alabama	15
California	79
Florida	38
Iowa	8
Idaho	5
Illinois	20
Indiana	19
Kansas	15
Kentucky	11
Louisiana	15
Michigan	27
Missouri	18
Mississippi	27
North Dakota	2
Nebraska	7
Ohio	36
Oklahoma	8
Oregon	3
Rhode Island	1
South Carolina	15
Tennessee	14
Texas	35
Utah	5
Virginia	6
Washington	5
Wisconsin	3
Wyoming	4

Notes: Data were retrieved from surveys of 765 alternative financial service providers, 57 percent of which (N = 442) reported offering payday loans.

Notes

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