

Service Alberta Payday Loans Usage and Attitudes

SUMMARY REPORT

February 2009



1. BACKGROUND AND METHODOLOGY

This summary presents the findings of a research study on Payday Loans that Leger Marketing conducted on behalf of Service Alberta Consumer Services Branch. More detailed results are available in the Payday Loans Usage and Attitudes Final Report.

The primary purpose of the research is to further inform the Government of Alberta about issues to take into consideration when considering and drafting regulations for the payday loan industry. The study will also help determine what need exists for the Government of Alberta to educate Albertans about payday loans and the legal issues surrounding them.

The research consisted of two components:

- (1) A telephone survey of 700 Albertans including 300 users of payday loans and 400 non-users, aged 18 years and over. Results for users are statistically accurate to within ± 5.7 percentage points, 19 times out of 20. Results for non-users are statistically accurate to within ± 4.9 percentage points, 19 times out of 20.
- (2) Four focus groups were held, including three conducted with payday loans users (one Edmonton, one in Calgary, and one in other areas of Alberta through a teleconference) and one conducted with non-users in Edmonton.

2. RESEARCH RESULTS

Characteristics of Payday Loan Users

Albertans who have used payday loans in the past tend to have lower household incomes than the general population. Specifically, the survey shows 37% of payday loan users have incomes between \$20,000 and \$49,999 per year versus 23% for the general population. The payday loan users participating in the survey also demonstrate a higher than average likelihood to be between 25 and 35 years of age (35% vs. 18% of the Alberta general population) and a lower likelihood of being under 25 (6% vs. 14%) or 65 years and over (5% vs. 14%). Reflecting their ages, 46% of users report having children under 18 years of age in their household, versus 39% in the general population.

Use of Payday Loans

The incidence of payday loan users in the Alberta general population is estimated to be between 3% and 6%, based on two different surveys Leger Marketing conducted.

The vast majority (93%) of non-users rate themselves unlikely to consider a payday loan. Consistent with this view, most Albertans would not need a payday loan if they needed \$300 in cash, as they tend to have access to funds from their bank accounts, relatives, lines of credit, overdraft protection and cash advances. Non-users are more confident than users about being able to obtain the funds they need through their bank account or through a line of credit.

Focus groups identified that non-users perceive payday loan users to be poor financial managers, and users of payday loan companies admit to financial challenges and poor budgeting skills.

The focus group discussions revealed that payday loans are used for a variety of situations including emergency cash requirements for unexpected life events, as well as for convenience.

Payday loan users in the focus groups report having other debts in addition to their payday loan. They indicate using payday loans as a last resort, although occasionally payday loans are used instead of alternative financing that might be available. Sometimes a payday loan is obtained to avoid asking friends or relatives, when there is no other form of credit available.

Survey results demonstrate that Albertans who have had a payday loan before tend to be repeat users (79%), using payday loans an average of four times in the past. However, only 22% anticipate using payday loans again in the future. Users perceive that they pay their loans off as soon as they are due (80%) and only use payday loans as a last resort (62%). Some users see themselves using payday loans at certain times of year (20%) and 10% use payday loans as part of their regular banking. There is a degree of stigma associated with payday loans, with 25% of users agreeing they would be concerned about being seen at a payday loan store.

Payday loans most frequently involve obtaining between \$200 and \$499 (52% of users' most recent loan value), and the amount is almost always under \$1,000 (88%).

Motivations for Using Payday Loans

Users cite a range of situations of great need, or emergency situations in general, as their reasons for needing payday loans. The most frequently mentioned reason for needing a payday loan is to pay bills or prevent overdue bills (40%).

When asked for top of mind reasons for choosing a payday loan instead of another form of lending, users say it is a last resort (41%). Convenience factors represent other motivators for obtaining payday loans; for example, that it is easy to apply (12%), the loan can be obtained quickly (10%) and the location is convenient (6%). However, when asked to rate the importance of a number of specific aspects of payday loans, users rate speed, ability to borrow a small amount, hours of operation, convenient location, and ease of applying for the loan substantially more important (87-92% important ratings) than being the only place they are confident to apply (61%) or not being approved at other places (44%).

Internet Payday Loans

A low percentage of users obtain their loans through the Internet (3%). Almost all users obtain their loans from a payday loan store, usually somewhat or very close to their home. Most users (82%) have Internet access, at about the same incidence as the general population of Alberta (84%).

User Satisfaction with Payday Loan Lenders

The majority of payday loan users are satisfied with their most recent payday loan experience, including 49% who are very satisfied. While users are highly satisfied with the rates and terms being explained to them (82%), they are substantially less satisfied with the cost of the payday loan (54%).

Understanding of Payday Loan Interest Rates

Focus group discussions demonstrate a lack of understanding among both users and non-users regarding the actual interest rate that is charged by payday lenders, and a serious underestimation about the actual interest rate being charged with typical payday loan lenders on an annual basis. Payday loan users in the focus groups generally understand payday loans are an expensive form of financing but felt it was their only option.

Payday Loan Agreements

While almost all payday loan users (92%) report having received a copy of their payday loan agreement, only 66% read the loan agreement before signing.

Attitudes towards the Payday Loan Industry

Users and non-users have very different views about the payday loan industry, with users expressing much higher agreement that the payday industry satisfied a need (73% users vs. 39% non-users), and that the payday loan industry ensures applicants understand the agreement (62% users vs. 37% non-users).

In the focus group discussions, payday loan users echo the results of the survey, perceiving a need for the payday loan industry in Alberta. While users express a positive view of payday loan businesses, those opinions that are negative tend to be strongly expressed. As in the survey, opinions are more negative among users than non-users.

Payday Loan Regulation

Both users and non-users of payday loans believe the payday loans industry should be regulated (85% users, 84% non-users) so that consumers are protected from unfair or predatory practices. They believe regulation should apply to all of these areas:

1. Making lending agreements easier to understand (81% users and 84% believe this should be regulated)
2. Allowing a "cooling off" period (81% users, 68% non-users)
3. Total cost of the loan, including interest and fees (79% users, 71% non-users)
4. If there is a violation by business, the borrower should be allowed to pay back the loan without interest (79% users, 70% non-users)
5. The practice of "discounting" (75% users, 67% non-users)
6. Requiring payday lenders to post a bond or other security (72% users, 69% non-users)
7. Rollovers (71% users, 66% non-users)

The focus groups identified that the regulation should be clear and simple. Participants strongly feel that regulation should address the interest rate and the need to explain the agreement to applicants in clear and simple language so they completely understand it.

4. CONCLUSIONS

Needs Satisfied by Payday Loans

Albertans who have had payday loans tend to perceive that the lenders of that type of financing are in a unique position to satisfy a short-term, emergency need for a small loan. Payday loan lenders are perceived by users to offer loans that other lenders would refuse, either for credit reasons or because of the small amount and/or short term of the loan. Other motivations for using payday loans are fast turnaround and convenience.

Those who have not personally used payday loans do not see payday loan lenders as satisfying a need, reinforcing their more negative opinions about payday loan lenders. Non-users of payday loans demonstrate concern that payday loan users can become trapped in a cycle where they are paying off loans with other loans, and at a very high rate of interest.

Profile of Payday Loan Users

Payday loan users represent a very small portion of the general population, with greater than average representation of young, working age adults who have children in their households and earn below-average incomes. Non-users perceive that payday loan users are particularly vulnerable to being taken advantage of due to emergency situations they find themselves in, and negative socioeconomic circumstances.

Payday loan users have different patterns of borrowing than non-users, with a greater tendency to borrow money from people they know personally, and through cash advances. Payday loan users are less likely than non-users to have had a bank loan, line of credit, or overdraft protection. These differences suggest payday loan users tend to have fewer options for borrowing than non-users.

Use of Payday Loans

Users of payday loans most frequently obtain the loan for emergency needs such as food, rent or paying other bills that are due or already overdue. Very few payday loans are over \$1,000 in value, with the majority being for less than \$500.

There is high repeat usage of payday loans, potentially indicating users find themselves in a number of emergency situations, and/or that their payments on previous borrowing takes a number of loans to pay off their debts to the point where it becomes manageable. Nevertheless, users perceive themselves to pay off their payday loans as soon as they are due, and only use payday loans as a last resort.

While some users of payday loans perceive that they have a greater need for payday loans at certain times of year, most do not see that as a factor in their borrowing. A small percentage of users admit they use payday loans as part of their regular banking.

Payday loan users tend to be satisfied with their most recent payday loan experience, and with having the rates explained to them. However, they understand the rates are high and are not as satisfied with that aspect as they are with other aspects of the lender. Despite the perceived high rates, users do not feel they have any other choice besides a payday loan.

While almost all users recall receiving a copy of their payday loan agreement, a substantial proportion do not read the agreement before signing. It is possible that making the agreement easier to understand, or explaining the agreement more in depth could increase users' understanding of it. Other communication, such as from government or payday loan lenders, could be supplied to users to help them make informed choices.

Perceived Need for Regulation

Both users and non-users of payday loans believe the payday loan industry in Alberta should be regulated to address these areas of concern:

- Making agreements easier to understand
- Allowing a "cooling off period" during which the agreement can be cancelled without penalty
- Total cost of the loan
- Allowing the borrower to pay the balance back without any interest if the business violates the regulations
- The practice of "discounting,"
- Requiring payday lenders to post a bond or other security
- Rollovers