Where Banks are Few, Payday Lenders Thrive

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More than 25% of U.S. households are financially underserved

- $89 billion spent on interest and fees for non-bank services
- Average household paid $2,412 in fees and interest in 2012

Photo credit: Seth Anderson, Creative Commons. Source: Office of Inspector General.
“About 10 percent of a family’s income [spent on non-bank services] just to manage getting checks cashed, bills paid, and, sometimes, a short-term loan to tide them over. That’s more than a full month’s income just to try to navigate the basics.”

- Senator Elizabeth Warren
How does a payday loan work in California?

- Customer writes a post-dated check for the amount they want to borrow, plus the cash advance fee.

- Payback period is two weeks.

- You can borrow up to $300 and the maximum fee charged is 15% of check amount.

Photo credit: Thinkstock.
Source: Milken Institute.
How expensive is a payday loan?

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Annual Percentage Rate</th>
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<tbody>
<tr>
<td>Auto loan</td>
<td>6.4%</td>
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<tr>
<td>Credit card</td>
<td>12.8 - 24.9%</td>
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<tr>
<td>Subprime Mortgage</td>
<td>5.5%</td>
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<tr>
<td>Payday loan</td>
<td>460%</td>
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</tbody>
</table>

Source: Milken Institute.
Research Questions

1- What are the financial and demographic characteristics of California counties where banks and payday stores locate?

2- Is there a significant spatial relationship between banks and payday loan stores?
Banks locate in more affluent areas

Select characteristics for California counties

Source: Milken Institute.
Payday loan stores locate in more disadvantaged areas

Select characteristics for California counties

Source: Milken Institute.
More Banks = Fewer Payday Stores

Source: Milken Institute.
The distribution of banks and payday loan stores in California

Source: Milken Institute.
Senate Bill 318: *Increased Access to Responsible Small Dollar Loans Pilot Program*

- Signed by Governor Brown in October 2013, program is an extension of 2010 pilot

- Incentivizes private sector to develop profitable business models to benefit borrowers
Businesses creating financial products that benefit borrowers

<table>
<thead>
<tr>
<th>Progreso Financiero</th>
<th>LendUP</th>
<th>ZestFinance</th>
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<tbody>
<tr>
<td>• Focus on Latino communities</td>
<td>• Matches expediency and convenience of payday loans</td>
<td>• Big data underwriting</td>
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<tr>
<td>• Lending of $3,500 or less</td>
<td>• Aims to educate clients and build creditworthiness</td>
<td>• Uses 70,000 variables to calculate risk</td>
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<tr>
<td>• Pay-back over several months</td>
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Sources: The Sacramento Bee, The Economist, Milken Institute.