

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



The poor pay more and get stuck at the bottom

“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.



How expensive is a payday loan?

Type of Loan	Annual Percentage Rate
Auto loan	6.4%
Credit card	12.8 - 24.9%
Subprime Mortgage	5.5%
Payday loan	460%



Research Questions



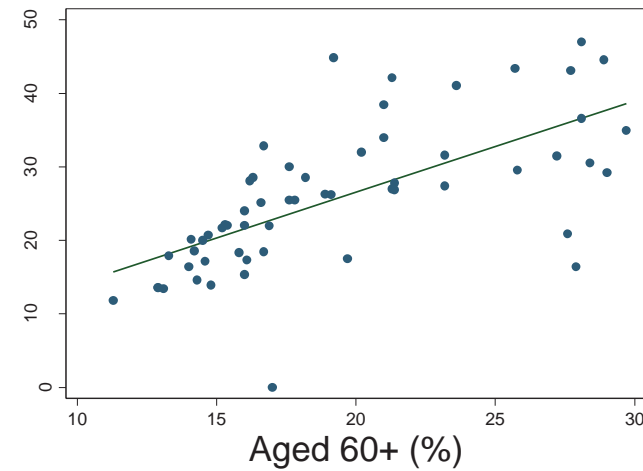
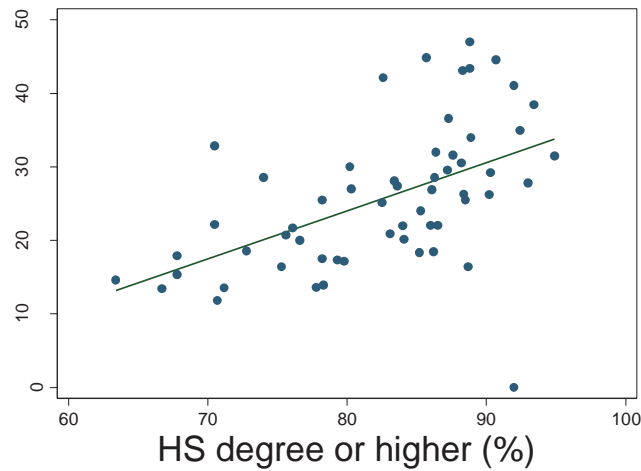
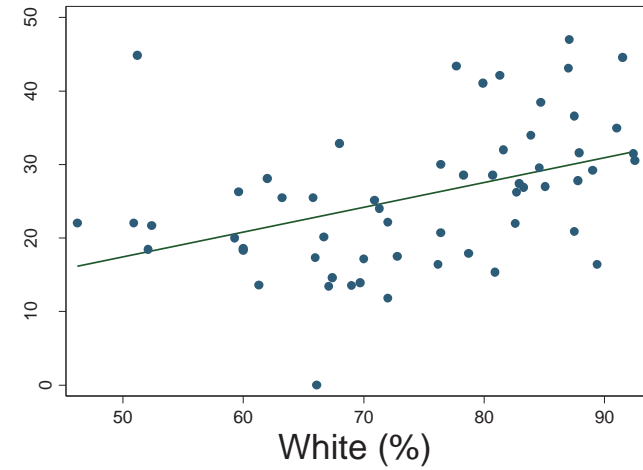
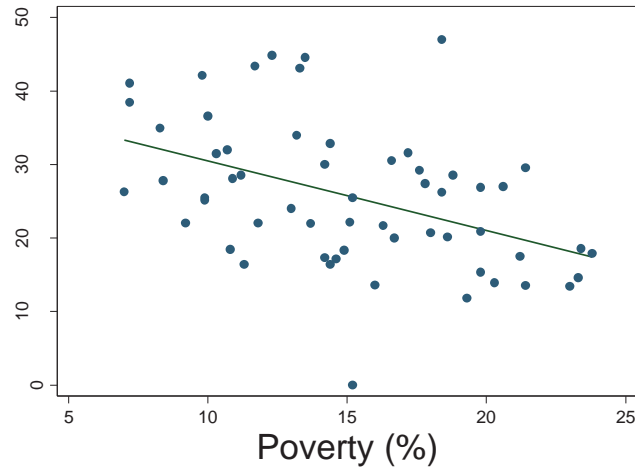
1- What are the financial and demographic characteristics of California counties where banks and payday stores locate?

2- Is there a significant spatial relationship between banks and payday loan stores?



Banks locate in more affluent areas

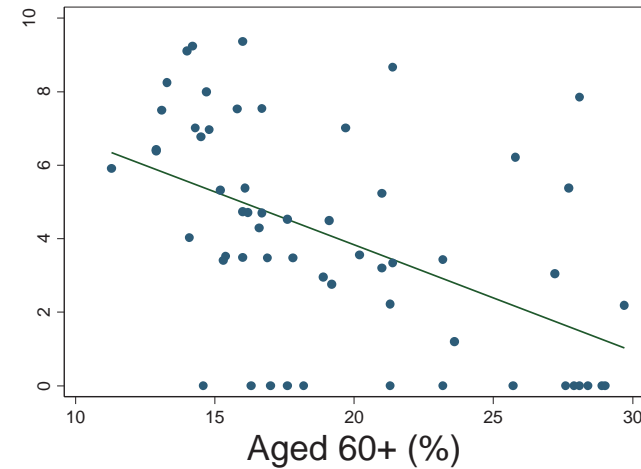
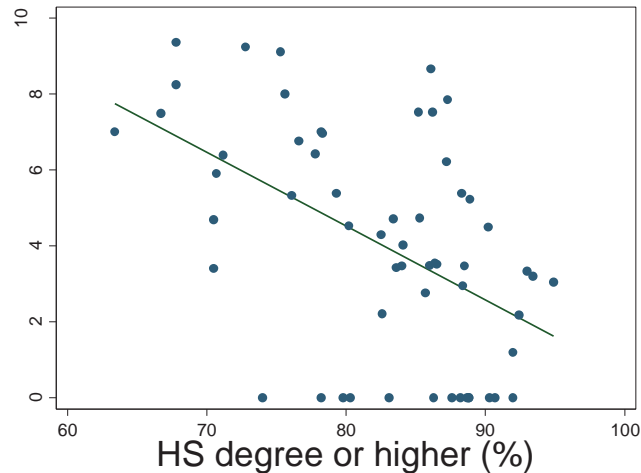
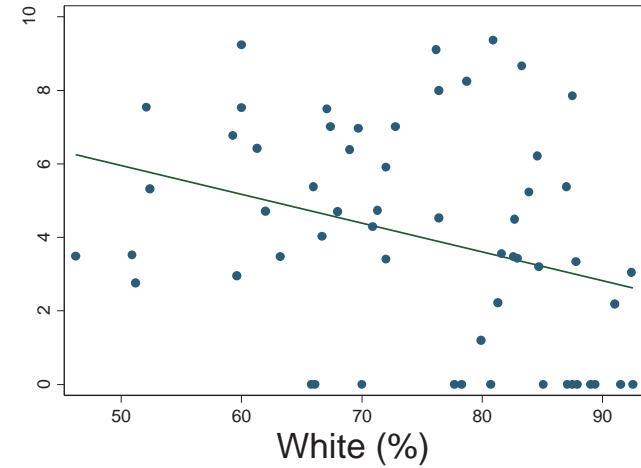
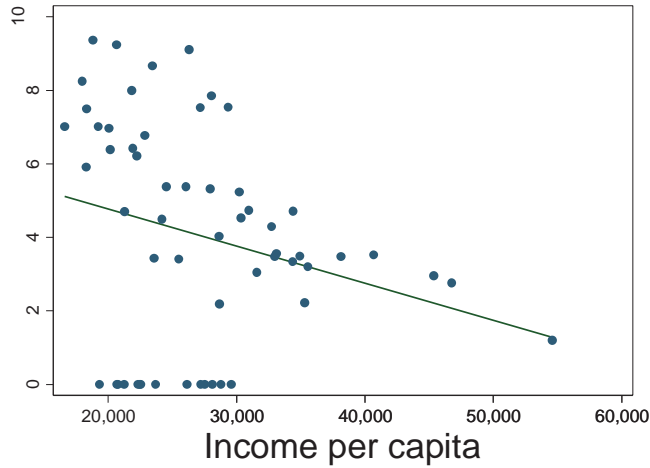
Select characteristics for California counties





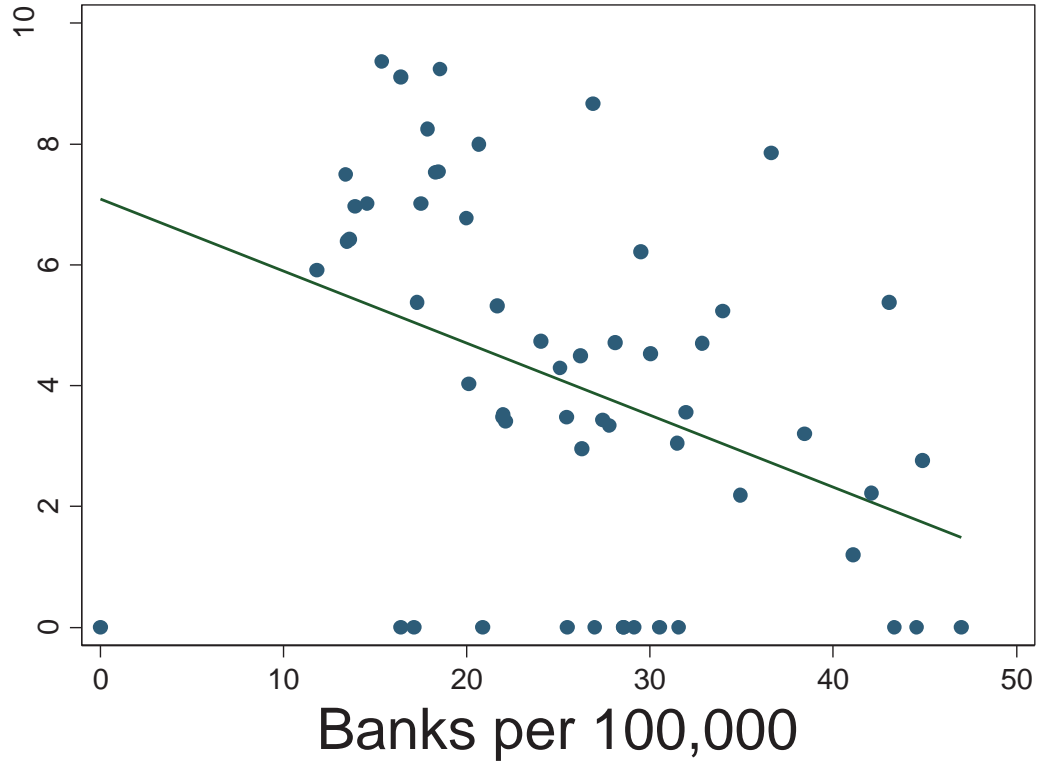
Payday loan stores locate in more disadvantaged areas

Select characteristics for California counties





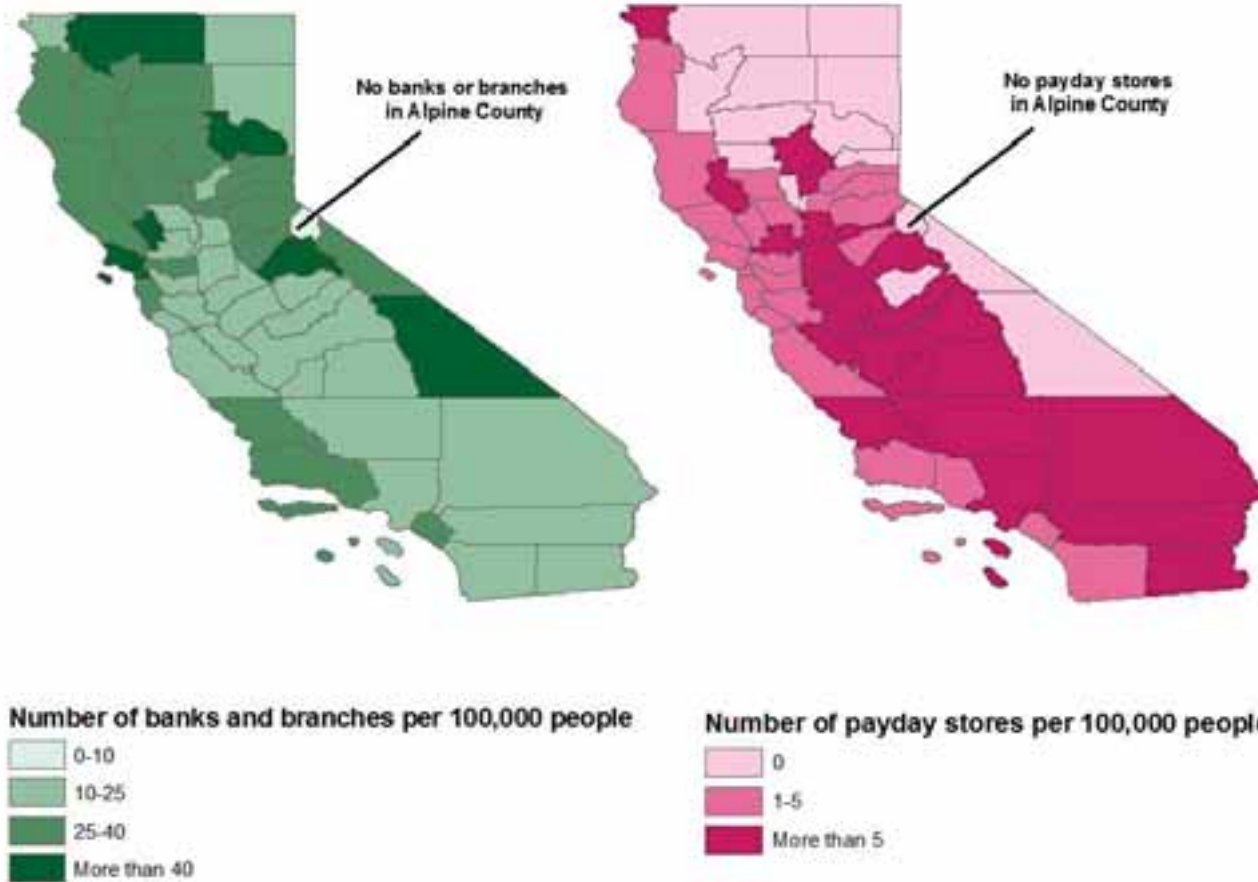
More Banks = Fewer Payday Stores



Source: Milken Institute.



The distribution of banks and payday loan stores in California





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

Progreso Financiero	LendUP	ZestFinance
<ul style="list-style-type: none">• Focus on Latino communities• Lending of \$3,500 or less• Pay-back over several months	<ul style="list-style-type: none">• Matches expediency and convenience of payday loans• Aims to educate clients and build creditworthiness	<ul style="list-style-type: none">• Big data underwriting• Uses 70,000 variables to calculate risk

Questions?



*Full report can be downloaded at
milkeninstitute.org*

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