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CFPB Finds Four Out Of Five Payday Loans Are Rolled Over Or Renewed

Research Shows the Majority of Payday Loans Are Made to Borrowers Caught in a Revolving Door of Debt

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) issued a report on payday lending finding that four out of five payday loans are rolled over or renewed within 14 days. The study also shows that the majority of all payday loans are made to borrowers who renew their loans so many times that they end up paying more in fees than the amount of money they originally borrowed.

"We are concerned that too many borrowers slide into the debt traps that payday loans can become," said CFPB Director Richard Cordray. "As we work to bring needed reforms to the payday market, we want to ensure consumers have access to small-dollar loans that help them get ahead, not push them farther behind."

The report is at: http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf

Payday loans are typically described as a way to bridge a cash flow shortage between paychecks or other income. Also known as "cash advances" or "check loans," they are usually expensive, small-dollar loans, of generally $500 or less. They can offer quick and easy accessibility, especially for consumers who may not qualify for other credit.

Today's report is based on data from a 12-month period with more than 12 million storefront payday loans. It is a continuation of the work in last year's CFPB report on Payday Loans and Deposit Advance Products, one of the most comprehensive studies ever undertaken on the market. That report raised questions about the loose lending standards, high costs, and risky loan structures that may contribute to the sustained use of these products.

Today's report provides a deeper analysis of the data, focusing on repeated borrowing by consumers after they take out an initial payday loan. A primary driver of the cost of payday loans is that consumers may roll over the loans or engage in re-borrowing within a short window of time after repaying their first loan. Today's study looks at not only the initial loans but also loans taken out within 14 days of paying off the old loans; it considers these subsequent loans to be renewals and part of the same "loan sequence." Today's study is the most in-depth analysis of this pattern to date.

Key Findings: Many Payday Loans Become Revolving Doors of Debt

By focusing on payday loan renewals, the study found that a large share of consumers end up in cycles of repeated borrowing and incur significant costs over time. Specifically, the study found:

- **Four out of five payday loans are rolled over or renewed:** More than 80 percent of payday loans are rolled over or renewed within two weeks. The study found that when looking at 14-day windows in the states that have cooling-off periods that reduce the level of same-day renewals, the renewal rates are nearly identical to states without these limitations.
- **Three out of five payday loans are made to borrowers whose fee**

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expenses exceed amount borrowed: Over 60 percent of loans are made to borrowers in the course of loan sequences lasting seven or more loans in a row. Roughly half of all loans are made to borrowers in the course of loan sequences lasting ten or more loans in a row.

- **One out of five new payday loans end up costing the borrower more than the amount borrowed:** For 48 percent of all initial payday loans – those that are not taken out within 14 days of a prior loan – borrowers are able to repay the loan with no more than one renewal. But for 22 percent of new loans, borrowers end up renewing their loans six times or more. With a typical payday fee of 15 percent, consumers who take out an initial loan and six renewals will have paid more in fees than the original loan amount.
- **Four out of five payday borrowers either default or renew a payday loan over the course of a year:** Only 15 percent of borrowers repay all of their payday debts when due without re-borrowing within 14 days; 20 percent default on a loan at some point; and 64 percent renew at least one loan one or more times. Defaulting on a payday loan may cause the consumer to incur bank fees. Renewing loans repeatedly can put consumers on a slippery slope toward a debt trap where they cannot get ahead of the money they owe.
- **Four out of five payday borrowers who renew end up borrowing the same amount or more:** Specifically, more than 80 percent of borrowers who rolled over loans owed as much or more on the last loan in a loan sequence than the amount they borrowed initially. These consumers are having trouble getting ahead of the debt. The study also found that as the number of rollovers increases, so too does the percentage of borrowers who increase their borrowing.
- **One out of five payday borrowers on monthly benefits trapped in debt:** The study also looked at payday borrowers who are paid on a monthly basis and found one out of five remained in debt the entire year of the CFPB study. Payday borrowers who fall into this category include elderly Americans or disability recipients receiving Supplemental Security Income and Social Security Disability.

Today's report will help educate regulators and the public about how the payday lending market works and about the behavior of borrowers in the market. The CFPB has authority to oversee the payday loan market. It began its supervision of payday lenders in January 2012. In November 2013, the CFPB began accepting complaints from borrowers encountering problems with payday loans.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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