harris INTERACTIVE

AHEAD OF WHAT'S NEXT.

Payday Loans and the Borrower Experience

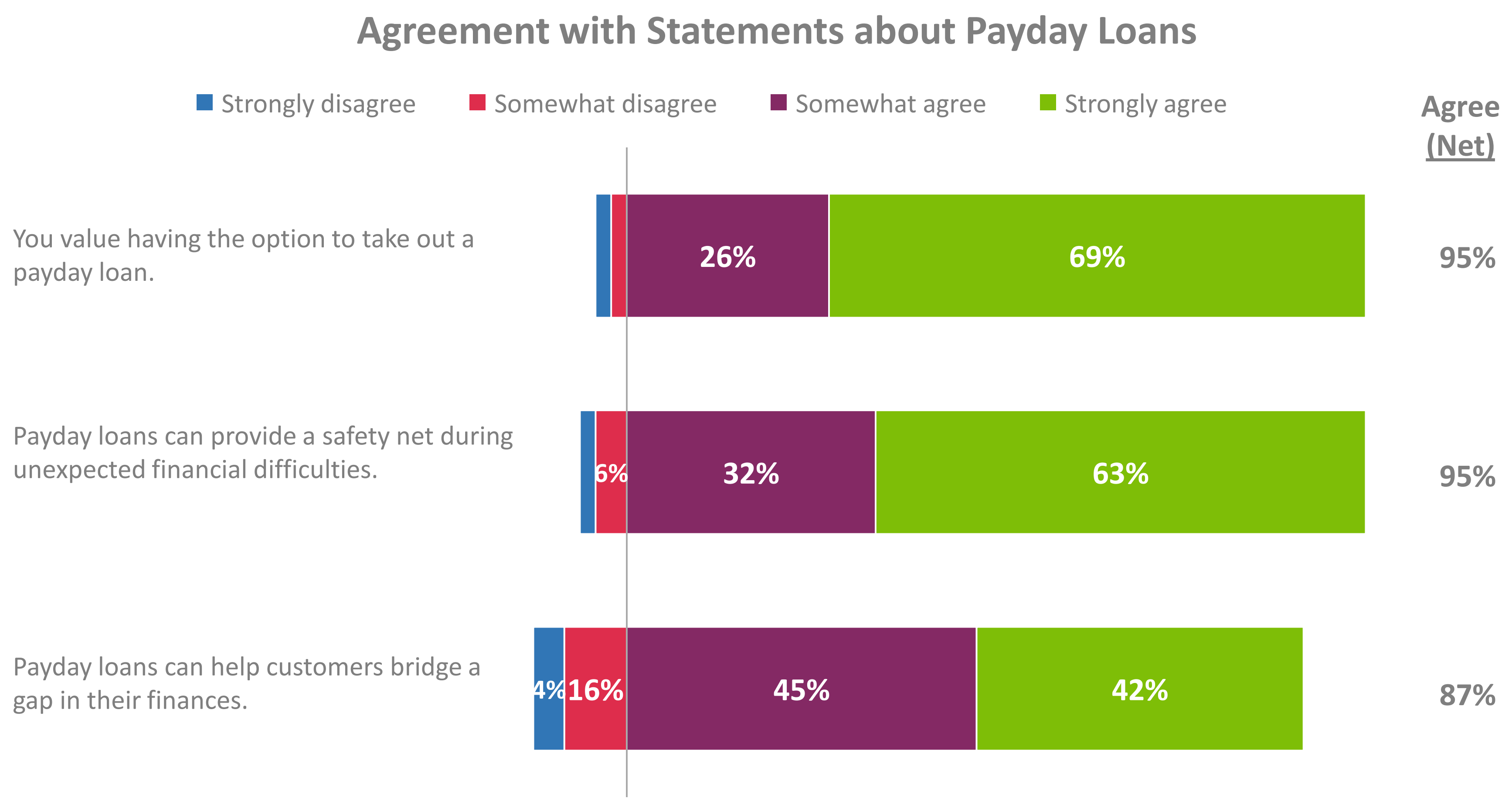
December 2013

COMMUNITY FINANCIAL SERVICES ASSOCIATION OF AMERICA
CFSA
A COMMUNITY OF RESPONSIBLE LENDERS

Research Method & Presentation Notes

- Community Financial Services Association of America (CFSA) commissioned Harris Interactive to conduct this telephone survey from October 9 – 24, 2013 among 1,004 respondents, ages 18+, who are customers of store-front companies within the CFSA, and took out a two-week payday loan of $700 or less which they made final repayment of in July or August of 2013.
  - CFSA emailed 12 member companies inviting them to include their customer data in the sample pool for this survey, with instructions for pulling the sample attached. Member companies were instructed to email their sample files directly to Harris Interactive, and not to copy anyone from CFSA.
  - Four member companies responded and provided Harris with a complete list of their customers who met the sampling criteria. One member company responded and provided Harris with a randomly selected list of 10,000 of their customers who met the sampling criteria. A total of 281,031 records were received by Harris from the five participating member companies.
  - Harris Interactive handled all further sample preparation. Sample files were de-duped (meaning duplicate records were removed) based on phone number, and 10,000 records were randomly selected from each company (with the exception of the company which sent a total of 10,000 records – 9,667 usable records were selected from this company). Quotas were set during interviewing to ensure that 200 completed interviews were obtained from each company.
- Data are unweighted and are a representative probability sample of the population who were surveyed.
  - With a sample of this size, the estimated sampling error is +/- 3%.
- Throughout this presentation…
  - Qualified respondents will be referred to as “Borrowers”.
  - The phrase “most recent payday loan experience” will refer to the loan borrowers repaid in July or August of 2013 – regardless if they have taken out a new loan since, as this was their most recent, complete experience with a payday loan.

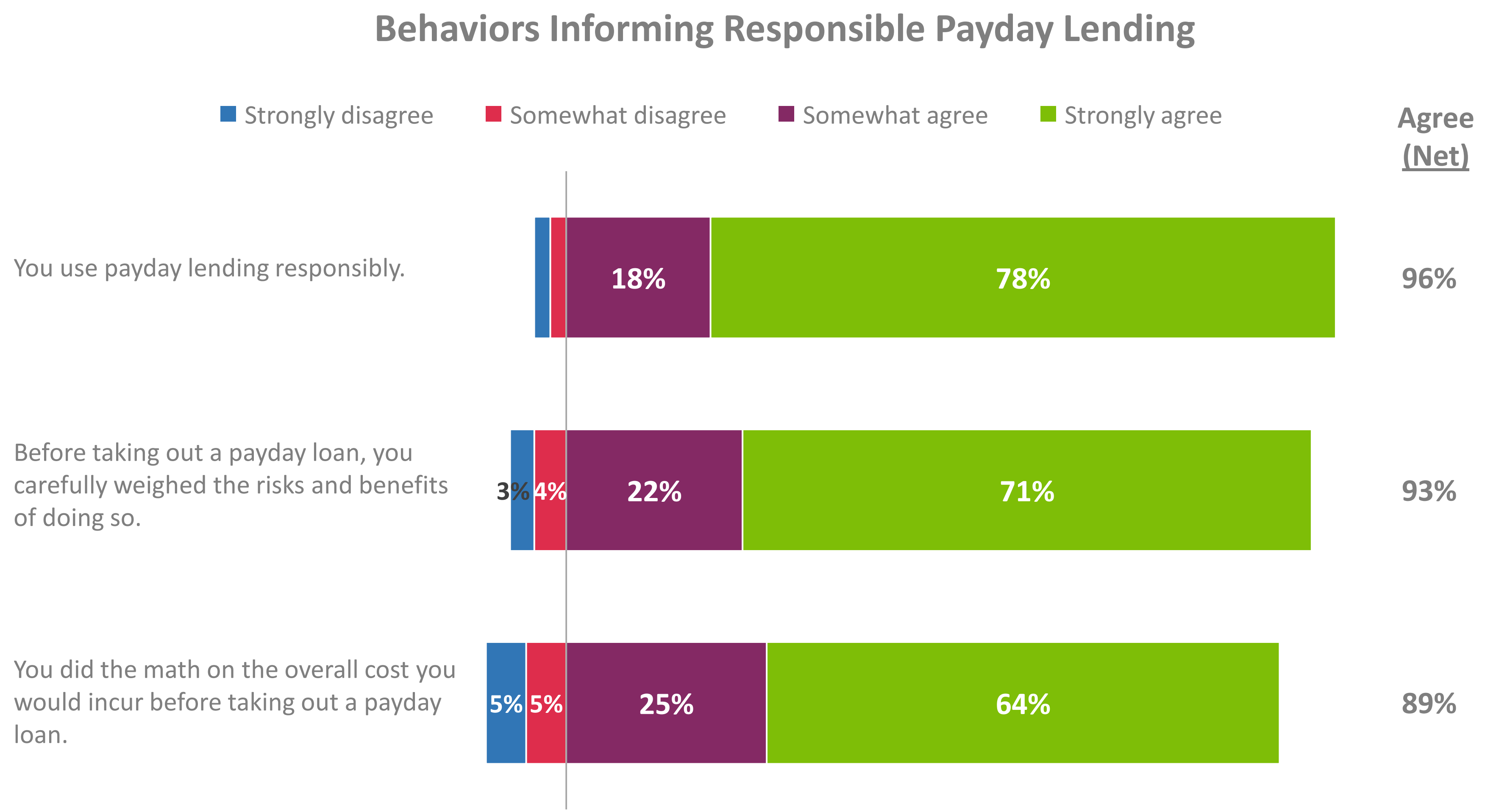
Ninety-five percent of borrowers say they value having the option to take out a payday loan and the same proportion believe that payday loans can provide a safety net during unexpected financial difficulties. Just under nine in ten borrowers feel that payday loans can help customers bridge a gap in their finances.



Base: Qualified respondents (n=1,004)
Q740 How much do you agree or disagree with each of the following statements?
Q700 How much do you agree or disagree with each of the following statements about payday loans?

harris INTERACTIVE

Over nine in ten borrowers say that they use payday lending responsibly, and similar proportions say that before taking out a payday loan, they carefully weighed the risks and benefits of doing so and did the math on the overall cost they would incur.



Base: Qualified respondents (n=1,004)

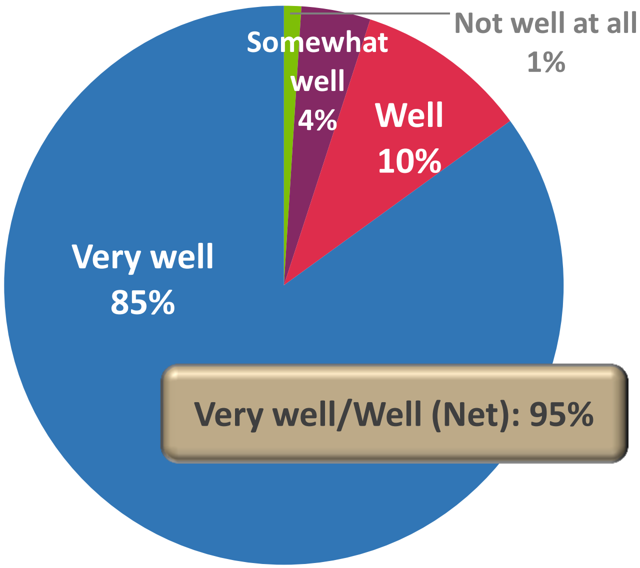
Q800 How much do you agree or disagree with each of the following statements about the payday loan you recently paid off?

Q740 How much do you agree or disagree with each of the following statements?

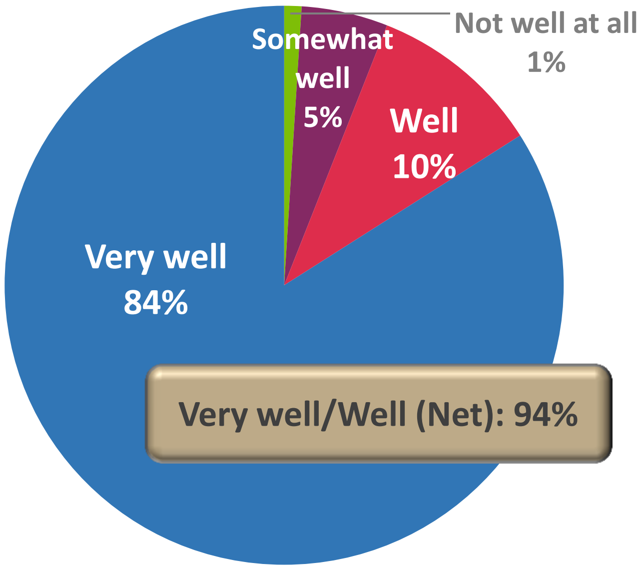
More than nine in ten borrowers report that before starting the payday loan process, they understood both how much it would cost and how long it would take to completely repay the loan very well or well, and a similar proportion indicate that they were able to repay their loan in the amount of time they had expected to.

Understanding of the Overall Cost and Time to Repay Loan

How much it would cost you to completely repay the loan



How long it would take to completely repay the loan



94% of borrowers agree they were able to repay their payday loan in the amount of time they had expected.

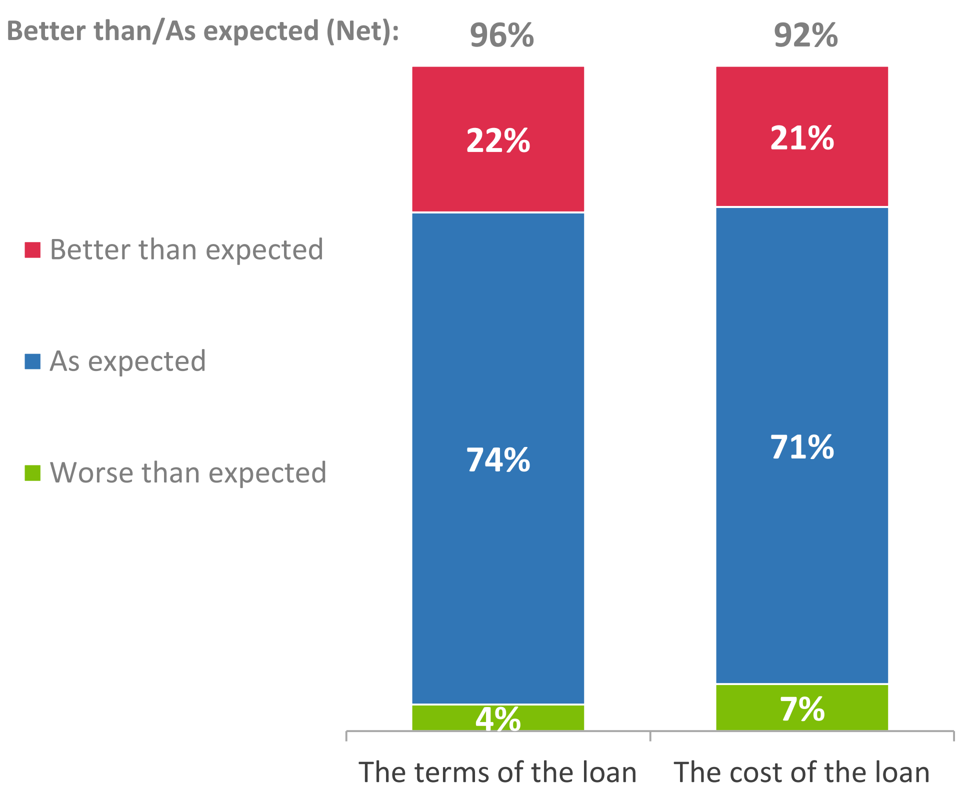
Base: Qualified respondents (n=1,004)

Q805 Still thinking of the payday loan you recently paid off, how well did you understand each of the following aspects of the loan before starting the process?

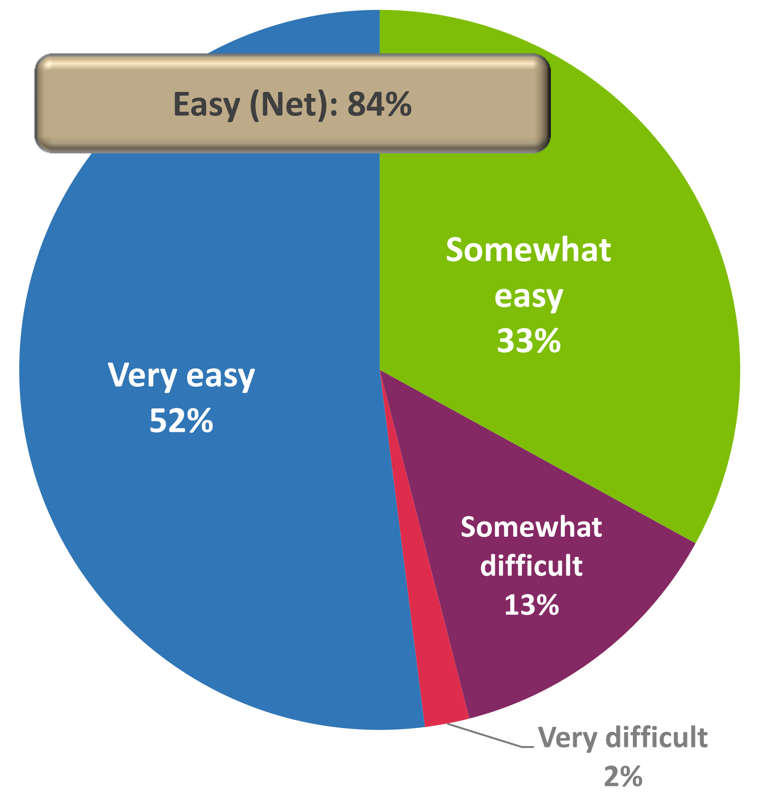
Q740 How much do you agree or disagree with each of the following statements?

By a large majority, borrowers say their experience with both the terms and the cost of the payday loan were either as expected or better than expected. Over four in five say it was very or somewhat easy to repay their payday loan, including more than half who say it was *very easy*. 16% feel it was very or somewhat difficult to repay.

Loan Experience vs. Expectations



Ease of Repayment



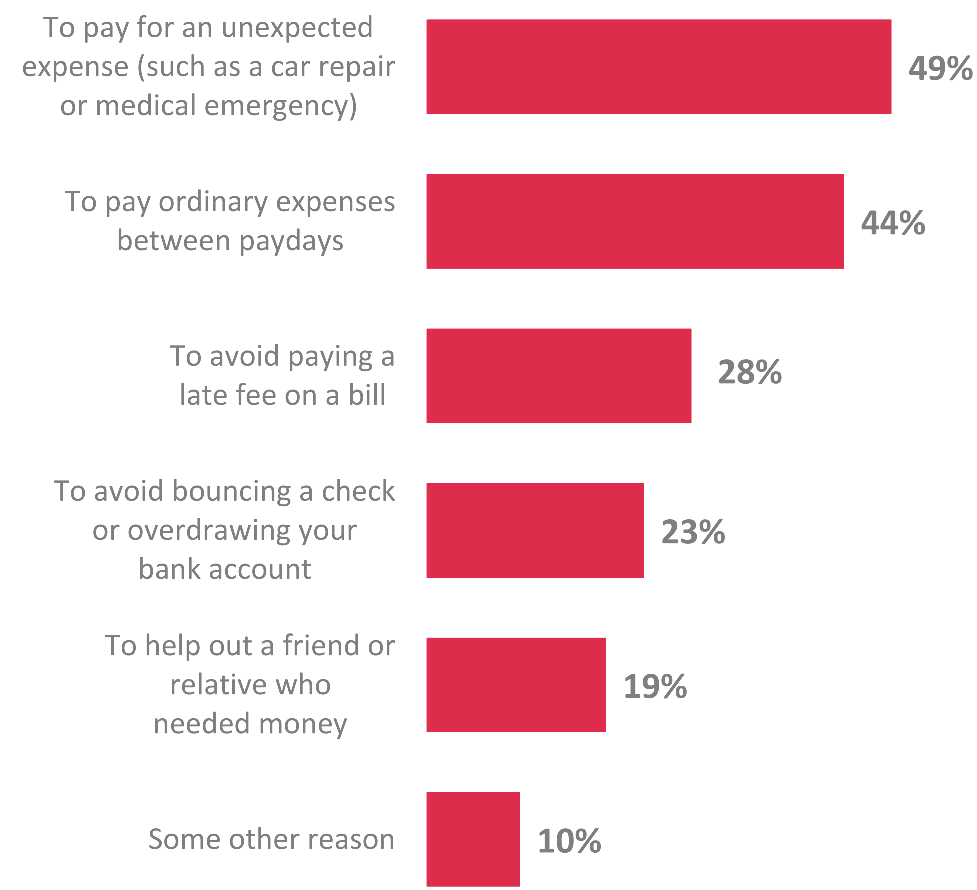
<u>Base: Qualified respondents (n=1,004)</u>

Q720 Still thinking of the payday loan you recently repaid, was your experience with each of the following better than you had expected, as you expected, or worse than you had expected before beginning the payday loan process?

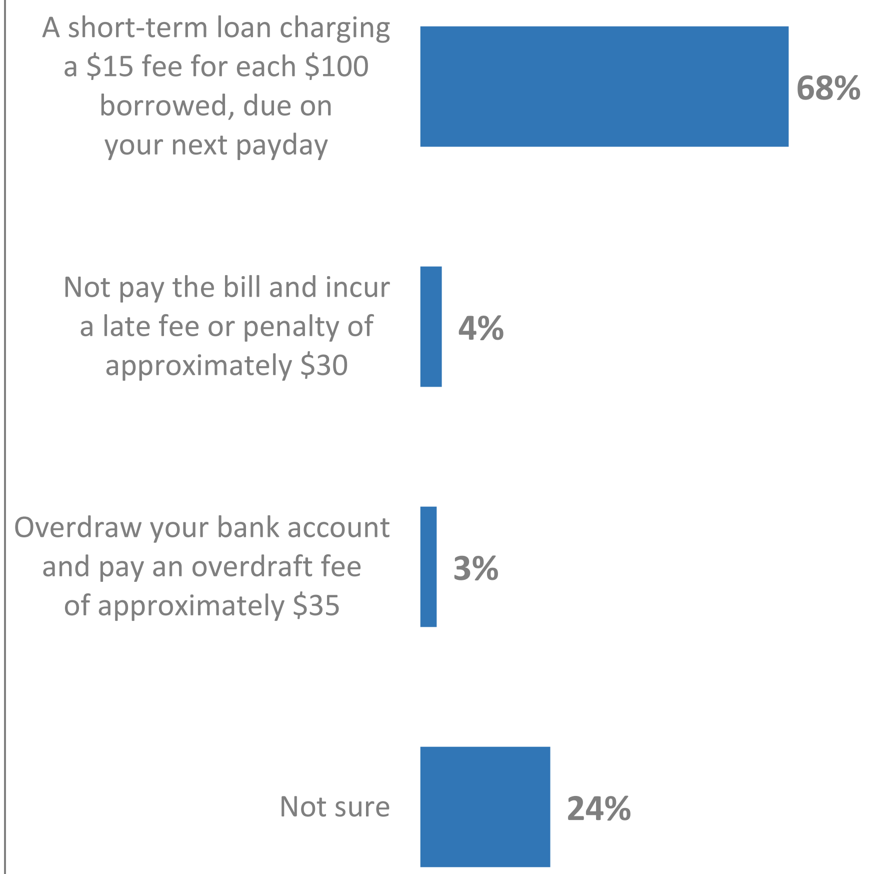
Q730 How easy or difficult was it for you to repay your payday loan this past summer?

Half of borrowers say they needed the money from a payday loan to pay for an unexpected expense, such as a car repair or medical emergency. If faced with a short-term financial crisis and unable to pay a bill, borrowers overwhelmingly say they would prefer the payday loan option over incurring late fees on a bill or overdraft fees from their bank.

Reasons Payday Loan was Needed



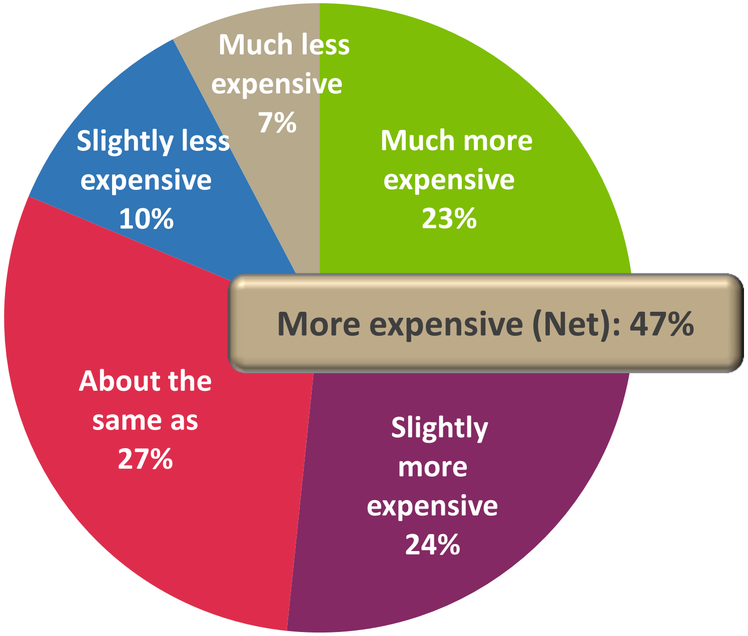
Preference in Short-term Financial Crisis



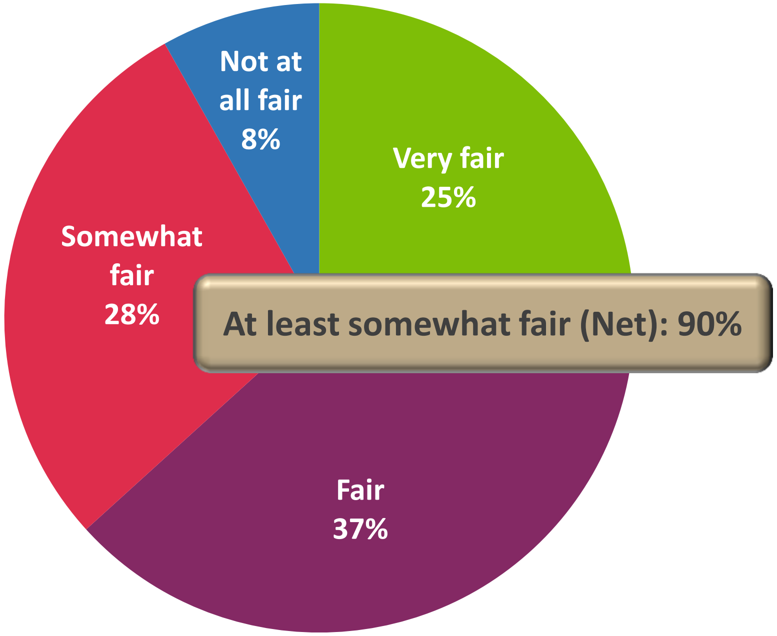
Base: Qualified respondents (n=1,004)
Q710 Still thinking of the payday loan you repaid this past summer, which of the following are reasons you needed the money?
Q835 If you were faced with a short-term financial crisis and unable to pay a bill, which one of the following three options would you choose?

Nearly half of borrowers believe that compared to other lending resources, payday loans are much or slightly more expensive, while over one-quarter say they are about the same, and 17% feel they are slightly or much less expensive. Additionally, a majority of borrowers think a flat fee of $15 per $100 borrowed as a payday loan term is very fair or fair, while over one-quarter feel more neutral, saying it is somewhat fair, and 8% say it is not at all fair.

Expense of Payday Lending vs. Other Lending Resources



Fairness Assessment of Flat Fee of $15 per $100 Borrowed

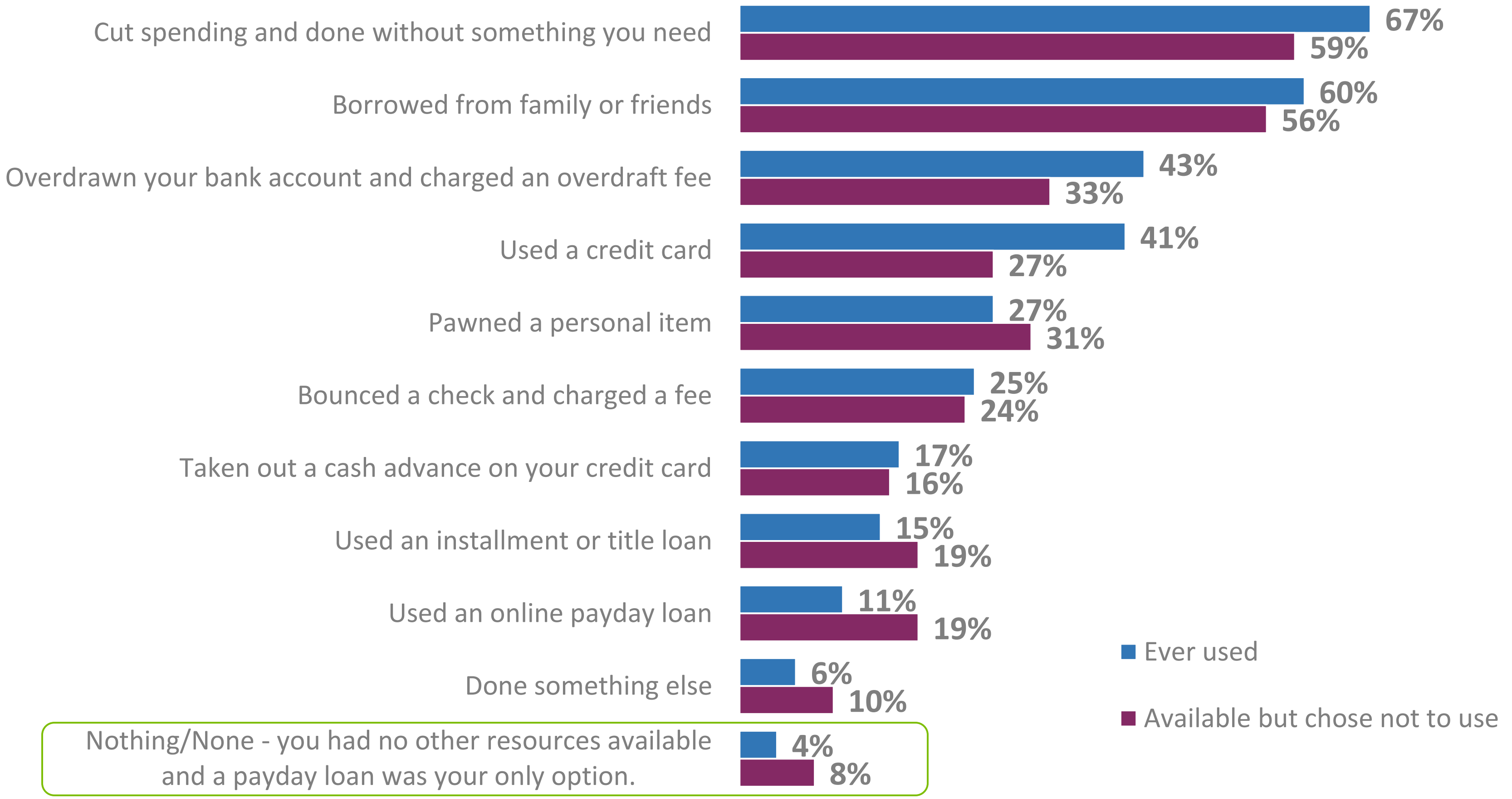


Base: Qualified respondents (n=1,004)
Q760 How does the cost of payday loans compare to other lending resources?
Q830 How fair is a flat fee of $15 per $100 borrowed as a payday loan term?

harris INTERACTIVE

A plurality of borrowers report that when they needed money between paychecks in the past, they have cut spending and done without something they need, or borrowed from family/friends. Most say that these or other options were available when they chose to take out a payday loan instead – 92% indicate that a payday loan was not their only option and they did have other resources available at the time.

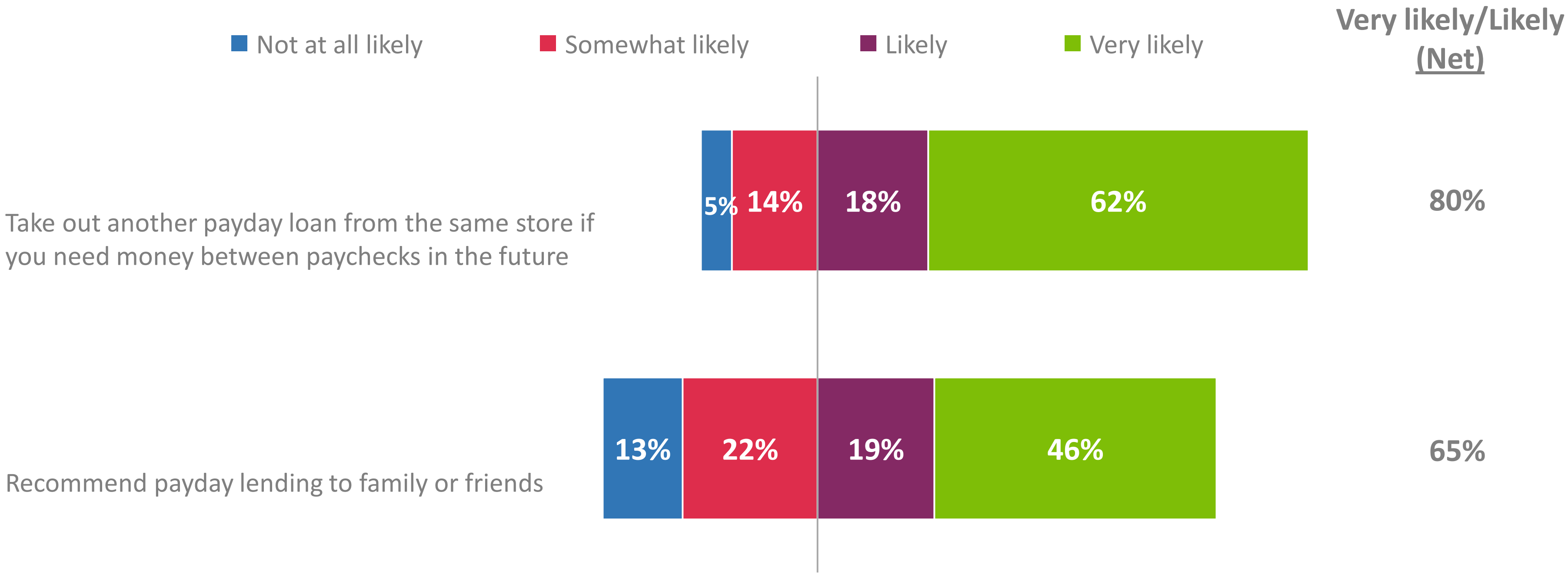
Money Resources Ever Used vs. Those Available but Not Chosen



Base: Qualified respondents (n=1,004)
Q745 Besides taking out a loan at a payday loan store, what else have you done when you needed money between paychecks?
Q750 Thinking again of the payday loan you repaid this past summer, if you had not been able to obtain a payday loan, which of the following resources could you have used instead?

The vast majority of borrowers indicate that their most recent overall experience with the payday loan process was as expected or better. Moreover, two-thirds say they are very likely or likely to recommend payday lending to family or friends.

Likelihood to Recommend or Use Again



97% of borrowers say their overall payday loan experience was as expected (61%) or better than expected (36%).

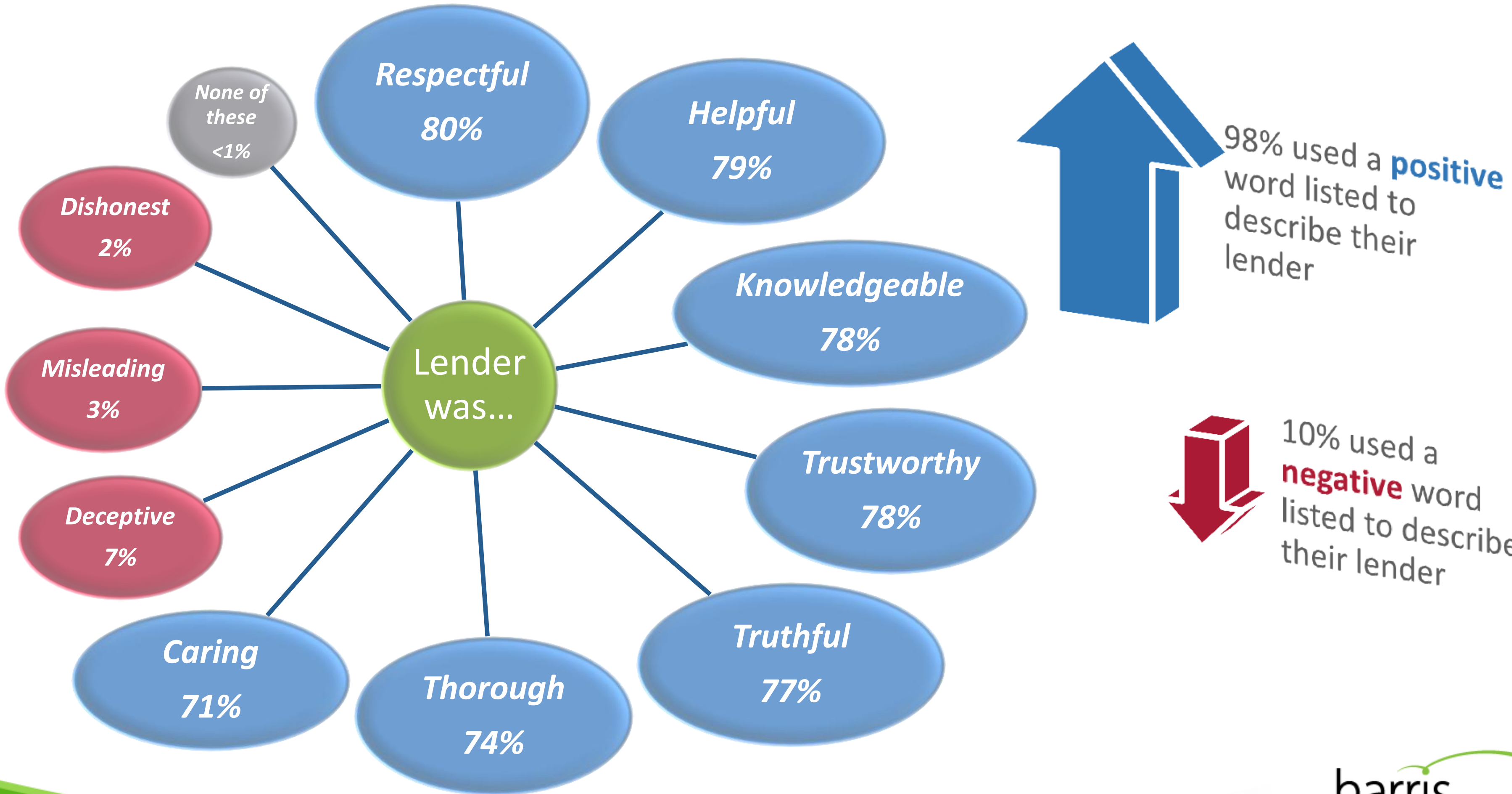
Base: Qualified respondents (n=1,004)

Q825 Based on your experience with the payday loan you recently paid off, how likely are you to do each of the following?

Q720 Still thinking of the payday loan you recently repaid, was your experience with each of the following better than you had expected, as you expected, or worse than you had expected before beginning the payday loan process?

Borrowers tend to choose positive words to describe the payday lender they worked with during their most recent payday loan experience: about four in five say their lender was respectful, helpful, knowledgeable, trustworthy, and truthful. However, 7% say deceptive, and a few respondents say misleading or dishonest.

Words Used to Describe Lender

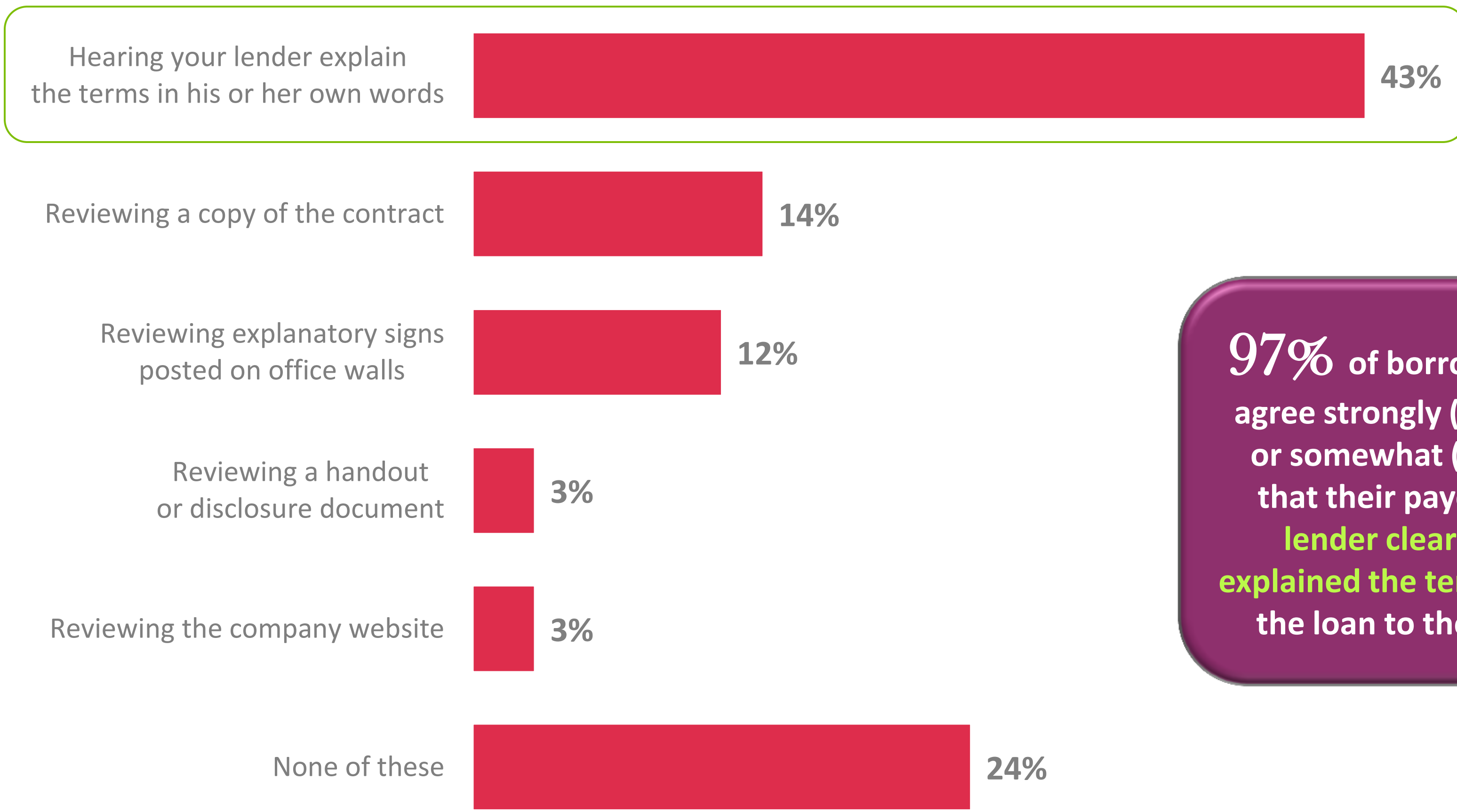


Base: Qualified respondents (n=1,004)

Q820 Which of the following words would you use to describe the lender you worked with on the payday loan you recently paid off?

The vast majority of borrowers indicate that their payday lender clearly explained the terms of the loan to them. In fact, hearing their lender explain the loan terms in his or her own words was, by far, the most helpful factor in borrowers' decision to take out a payday loan.

Most Helpful Factor in Payday Loan Decision



97% **of borrowers agree strongly (88%) or somewhat (9%) that their payday lender clearly explained the terms of the loan to them.**

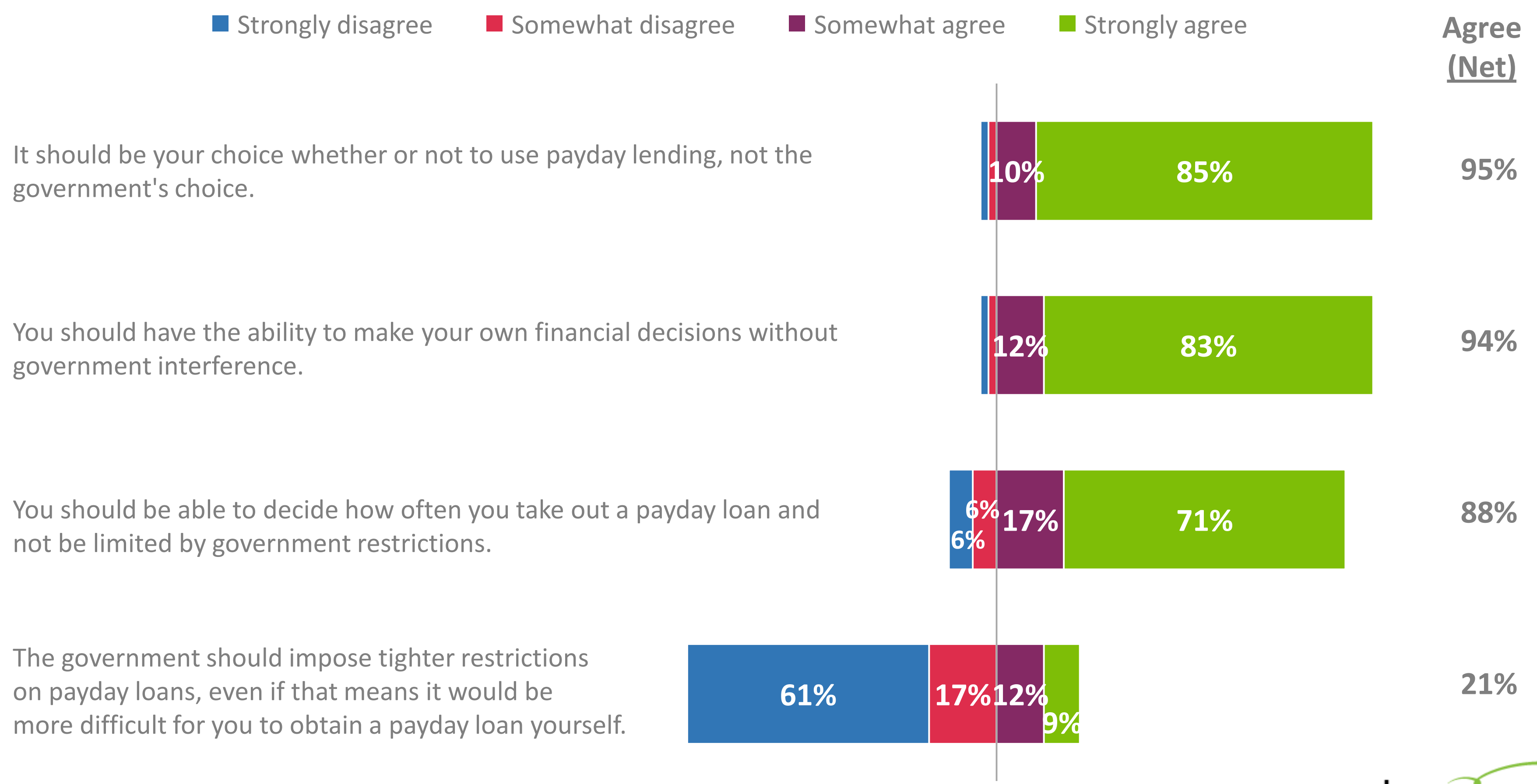
Base: Qualified respondents (n=1,004)

Q815 Which of the following was most helpful in making your decision to take out a payday loan?

Q800 How much do you agree or disagree with each of the following statements about the payday loan you recently paid off?

Over nine in ten borrowers agree that it should be their choice whether or not to use payday lending, not the government's choice, and that they should have the ability to make their own financial decisions without government interference. However, a one in five minority say the government should impose tighter restrictions on payday loans.

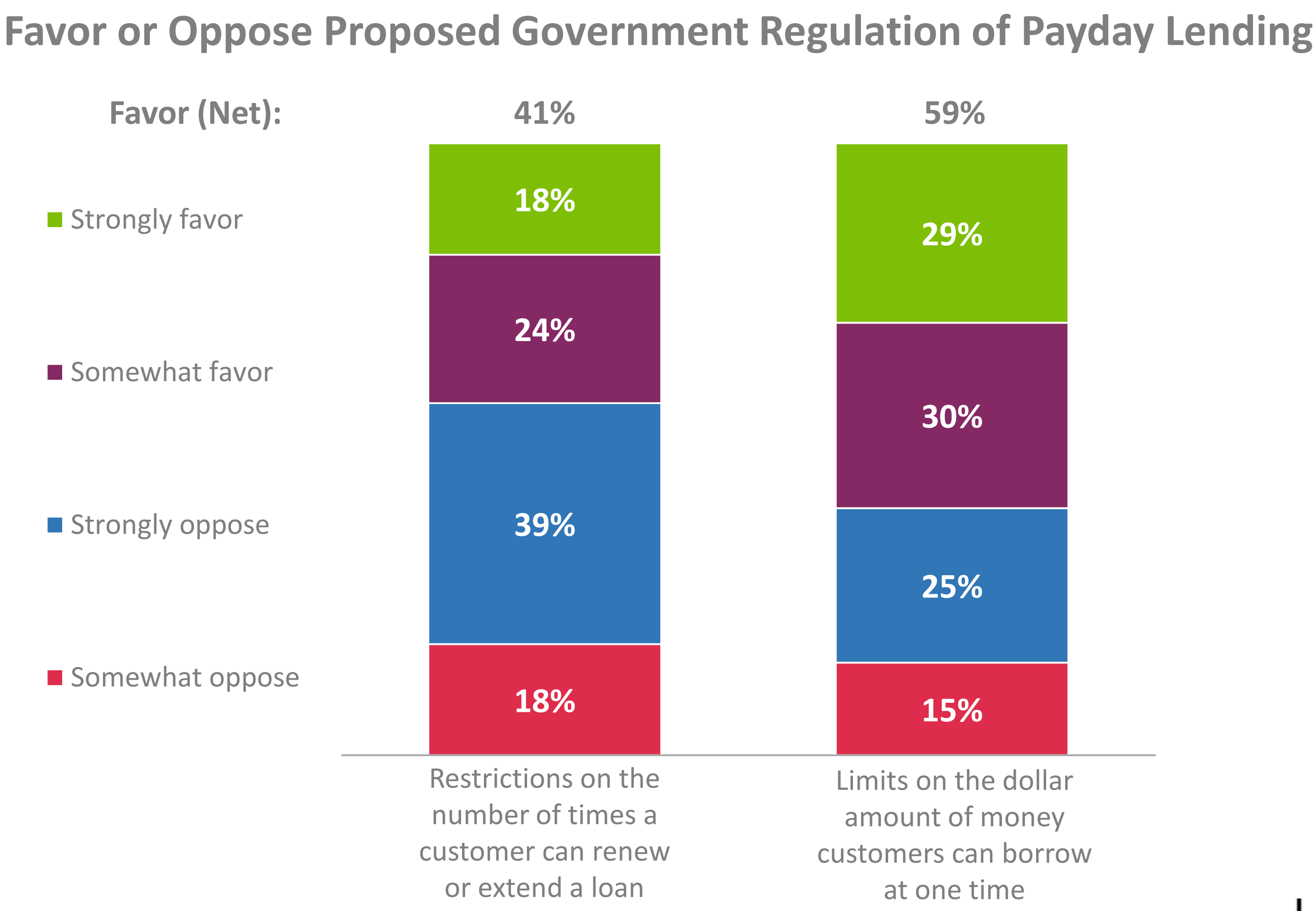
Attitudes about Government Regulation of Payday Loans



Base: Qualified respondents (n=1,004)
Q910 How much do you agree or disagree with each of the following statements?

harris INTERACTIVE

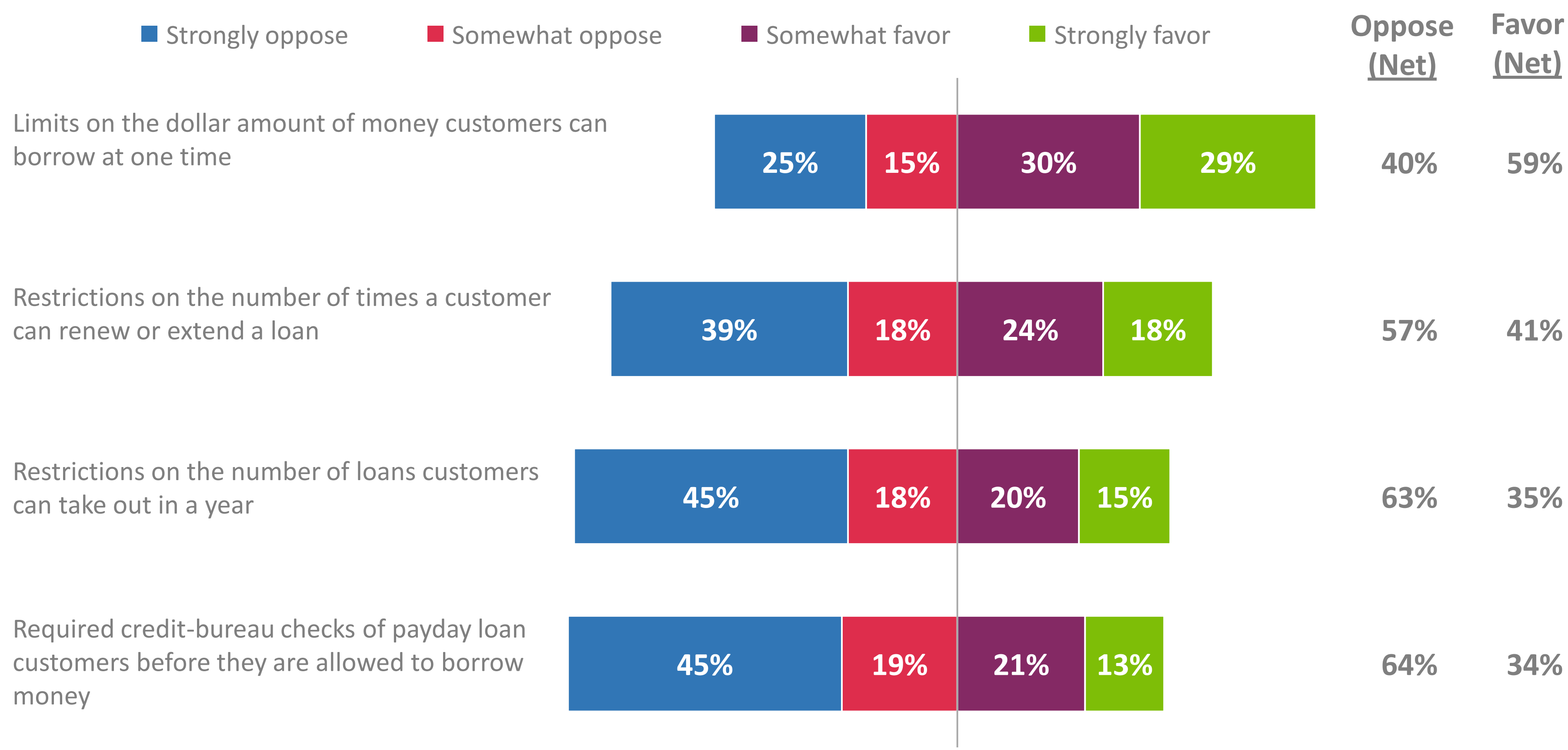
Three in five favor the government setting limits on the dollar amount of money customers can borrow at one time, and two in five feel the same about government restrictions on the number of times a customer can renew or extend a loan.



<u>Base: Qualified respondents (n=1,004)</u>
Q905 To what extent do you favor or oppose each the following potential governmental regulations surrounding payday lending?
Q910 How much do you agree or disagree with each of the following statements?

The majority of borrowers oppose potential government regulations that would require credit-bureau checks of payday loan customers before they are allowed to borrow, restrict the number of loans customers can take out in a year, and restrict the number of times a customer can renew or extend a loan. However, three in five do favor the government setting limits on the dollar amount of money customers can borrow at one time.

Favor or Oppose Proposed Government Regulation of Payday Lending



Base: Qualified respondents (n=1,004)

Q905 To what extent do you favor or oppose each the following potential governmental regulations surrounding payday lending?

harris INTERACTIVE

Conclusions & Implications

- **The overwhelming majority of borrowers provide positive feedback regarding payday lending and their most recent experience with the payday loan process.**
  - 94% of borrowers agree they were able to repay their payday loan in the amount of time they had expected.
  - Over four in five (84%) say it was very or somewhat easy to repay their payday loan, including more than half (52%) who say it was *very easy*.
  - About four in five borrowers say the lender they worked with during their most recent payday loan experience was respectful (80%), helpful (79%), knowledgeable (78%), trustworthy (78%), and truthful (77%).
- **However, considerable numbers of borrowers provide feedback on areas for improvement.**
  - Nearly half (47%) of borrowers believe that compared to other lending resources, payday loans are much more (23%) or slightly more (24%) expensive.
  - While a majority of borrowers think a flat fee of $15 per $100 borrowed as a payday loan term is very fair (25%) or fair (37%), over one-quarter (28%) say it is just somewhat fair, and 8% say it is not at all fair.
- **A majority of borrowers are opposed to most potential government regulations that would affect payday loan customers, however some regulations do receive borrower support.**
  - 95% say it should be their choice whether or not to use payday lending, not the government's choice.
  - About two-thirds of borrowers are opposed to regulations that would require credit-bureau checks of payday loan customers before they are allowed to borrow money (64%) and restrict the number of loans customers can take out in a year (63%).
  - However, three in five (59%) do favor the government setting limits on the dollar amount of money customers can borrow at one time.