

Dec. 4, 2007

Center for Community Capital Response to Payday Industry Misrepresentation of Study Findings

In a Dec. 4, 2007, press release and a study summary posted on their Web site, the Community Financial Services Association of America (CFSA), trade association for the payday lending industry, misrepresented the findings of a Center for Community Capital study.

The study, commissioned by the N.C. Carolina Commissioner of Banks, examined how low- and moderate-income households have managed financial hardships since payday lending ended in the state, and their attitudes toward the available options to manage those hardships.

Among its misleading statements:

- ▶ The headline on CFSA's Web site summary of our study claims: *Survey by University of North Carolina Finds Consumers Face Costly Short-term Credit Choices Since Payday Loans Exited the State/*

These were not the research findings.

The Center's main conclusion is that the absence of storefront payday lending has had **no significant impact on the availability of credit** for households in North Carolina. The vast majority of households surveyed reported being unaffected by the end of payday lending. Households reported using an array of options to manage financial shortfalls, and few are impacted by the absence of a single option — in this case, payday lending.

- ▶ CFSA president Darren Anderson further states in the trade association's Dec. 4 press release: *"While the UNC study concluded that consumers were better off without payday loans, this conclusion does not match the actual findings."*

This statement is not true.

The findings and conclusions reached in the Center for Community Capital study were:

1. That the end of payday lending has not had a significant impact on credit availability for households in North Carolina.

This finding is based on the fact that 60% of all households surveyed (58% of households having experienced a recent financial shortfall and 39% of former payday borrowers) did not even know payday lending was banned and that 77% of households (72% of households having experienced a recent financial shortfall and 68% of former payday borrowers) stated that the end of payday lending had no effect

on their household, while another 16% (22% of households experiencing a financial crises and 23% of former payday borrowers) said the end of payday lending had affected their household positively. Relative to the small share – 7% of households (7% of those experiencing a financial shortfall and 9% of payday borrowers) – who said the end of payday lending had adversely affected them, one could even conclude that the net effect of the end of payday lending has actually improved the credit landscape for these households.

2. That almost nine out of ten households surveyed think that payday lending is a bad thing.

This conclusion is based on the results that 88% of respondents (87% of households with a recent financial shortfall and 74% of former payday borrowers) rated payday lending as a “bad thing,” again suggesting that the net effect of the ban is a significant benefit.

3. That households have a number of strategies for dealing with short-term cash-flow problems.

This conclusion is based on the finding that households who had experienced recent shortfall crises reported using as many as 16 different types of resources and that the vast majority reported using multiple strategies together. The top three, accounting for more than half the responses, were paying late/not paying, using savings, and friends and family.

The study does not conjecture whether the options used were better or worse than a hypothetical payday loan. Instead, it asks respondents about their own attitudes and experiences since the end of payday lending.

The Center for Community Capital invites people who are interested in this topic to read our study, which documents the actual **experiences and attitudes of cash-strapped households and former payday loan borrowers** in North Carolina.

About the Study

We surveyed 400 low- and middle-income N.C. residents who were making less than \$45,000, earned regular income, had checking accounts and lived in areas with greater concentrations of payday lending shops. Our random cluster sample enabled us to survey a population representative of those likely to use payday lending and other forms of small-dollar credit for financial emergencies so we could learn how they managed financial shortfalls after the payday-lending ban. We report extensively on the 159 respondents who reported a recent financial crisis.

To hear from actual payday customers, we held focus groups of former payday lending borrowers and report on their experience with payday lending and the impacts of payday lending de-authorization on their ability to manage financial shortfalls.

View the complete report at www.ccc.unc.edu.