Center for Responsible Lending

SINKING FEELING

Colorado Borrowers Describe their Experiences with Payday Loans

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Repayment Experiences of Borrowers of Longer-Term Payday Loans in Colorado

Lump sum single balloon payment payday loans with a two-week term have historically dominated the payday loan market. A shift in recent years, due to regulatory or industry changes, has been for payday lenders to make payday loans with longer terms due in multiple installment payments, each due on or around the borrower's payday. Payday lenders often market these products as a better, more affordable option, even though longer-term payday loans carry triple-digit interest rates, require access to a borrower's bank account to extract payments, and are made with little to no assessment of the affordability of the loan in light of a borrower's income and expenses. This paper seeks to examine the repayment experiences of borrowers of longer-term payday loans in a single state—Colorado. Colorado provides a natural experiment to answer questions about the borrower experience with longer-term payday loans. At the time that the focus groups were conducted, Colorado was the only state where payday lenders could originate only longer-term loans, rather than both short- and long-term loans. As such, current borrower experiences in Colorado provide insights into the likely borrower experiences in other states where payday lenders have and continue to seek authorization to make longer-term payday loans.

This study examines borrower experiences with longer-term payday loans and other household debt through four focus groups conducted in September 2017 in four Colorado cities. Borrowers also discussed their perceptions of other available credit options and their financial well-being through an exit questionnaire.

The results of this analysis found that:

- In many cases, unaffordable loan payments triggered significant additional financial hardships, either immediately or down the road, such as not having enough money remaining to meet other basic expenses, aggressive debt collection, and damaged credit reports;

- Payday lenders made back-to-back loans to borrowers and made payday loans to borrowers who already had outstanding loans from other payday lenders, both of which indicate payday lenders' failure to assess whether the loan can be paid without re-borrowing or in light of a borrower's existing debt load;

- Payday borrowers faced frequent financial challenges and elevated levels of debt from a wide range of sources such as student loans and medical debt that pushed them to seek other, often high-cost debt and made the repayment of their total debt load difficult;

- While many payday borrowers looked to payday loans to avoid other credit options, many viewed borrowing from credit cards and family and friends as an available option for them.

Section 1

Background on Short- and Long-Term Payday Lending

Payday loans are marketed as a quick financial fix and made without consideration of a borrower's ability to repay at triple-digit interest rates. Payday lenders can get direct access to the borrower's bank account either through a post-dated check or electronic debit authorization. Historically, payday loans have been short-term, often required to be repaid in two weeks or 30 days with a lump sum balloon payment due on the borrower's payday. While this type of loan is the most common and well-documented, some states, including Colorado, authorize longer-term payday loans. Except for Colorado, in states where longer-term payday loans are permitted, lenders offer longer-term loans alongside short-term payday loans.

Short-term payday loans cost borrowers over $8 billion per year in fees and often lead to financial challenges, such as delinquency on other bills, overdraft fees, loss of a checking account, debt collection costs, and bankruptcy.[1] Because borrowers typically cannot repay such a high-cost loan in two weeks, they are forced to repeatedly borrow. Recent research from the Consumer Financial Protection Bureau (CFPB) also found that over 80% of payday loans are renewed within 14 days, and that half of all loans are part of a series of 10 or more loans.[2] To date, 15 states and the District of Columbia have passed or preserved interest rates caps of 36% or less to protect borrowers from excessive fees. These caps have saved people in those states over $2.2 billion in fees and another $2.8 billion in fees associated with car-title lending—for a total of over $5 billion in savings.[3]

In recognition of the well-documented harms of short-term payday loans, Colorado sought to enact protections against the debt trap of these loans. In 2010, the Colorado legislature passed new payday loan laws. These laws replaced the short-term balloon loans with payday loans that are required to have a six-month minimum loan term, lower permissible fees, and origination fees that were refundable if the loan was repaid early (an important component aimed at reducing loan "churning," that is, the lender practice of encouraging early repayment and immediate re-borrowing to generate fees). Even with these changes, payday lenders in Colorado can still charge as high as 214% APR, gain access to a borrower's bank account, and originate loans without any assessment of affordability.

Previous research by the Center for Responsible Lending (CRL) found that eight years after changes to the legislation authorizing high-cost, longer-term payday loans, Colorado borrowers continued to pay triple-digit interest rates and faced frequent default. The report found that, in 2016, payday loan costs averaged 129% APR with an average loan amount of $392. Fees and interest averaged $119 and loans were repaid in an average of 97 days. A default or delinquency occurred in 23% of all loans taken out in 2016. In total, the report found that payday loans drained nearly $50 million per year from Colorado payday loan borrowers.[4] Previous research also found that payday loan licensees in Colorado concentrate in communities of color. Majority-minority areas are nearly twice as likely to have a payday loan store than all other communities and seven times more likely than predominately white communities.[5] These confirm similar findings in other states. A 2008 report found that even after controlling for income, unemployment rate, retail concentration, homeownership rate, and other factors, payday lenders were more than twice as likely to concentrate in African American and Latino communities in California.[6]

After over five years of careful research and policy analysis, the CFPB issued a final rule putting in place important new protections for short-term payday loans in late 2017.[7] Enforcement of this rule is scheduled to begin in August 2019. This new rule will require lenders to consider a borrower's ability to repay the loan in full and on time without additional borrowing based on a review of their income and expenses, and institute other important protections against debt trap lending. The rule does not apply to longer-term loans such as the longer-term payday loans in Colorado.

BORROWER PROFILE: Jacqueline—Denver, Colorado

Jacqueline is in her early 20s and works as an administrative assistant. She lives with her boyfriend who is also working and is thankful to have two incomes. But she has no health insurance and readily admits that any emergency—car trouble, for example—is a worry. "But my car works fine and I'm healthy, so it's OK." Jacqueline recalls taking out three or four payday loans in the span of three months in 2014 or 2015, in amounts ranging from $100 and $600.

At the time, she wasn't thinking about consequences and was optimistic about her ability to pay them back. That changed. "I just couldn't afford paying all these payday loans. My whole check would go to them." By the third payday loan, Jacqueline said, "At that point I realized all the fees and how much I really am paying and how much of a rip-off it really is." She stopped making payments and "just let it go to collections." A couple of years down the road, Jacqueline was hoping to buy a home and quickly found that her unpaid payday loans remained on her credit report.

With a new, better-paying job she was able to pay them off relatively quickly, but it made it so her other credit options, such as a mortgage, were limited. "It just sucks to have that thing on your credit report. Even though I paid it off, it says paid or charged off.… But it's still there. It still shows up." In the end, she described payday loans as "more bad than good." "We should just get rid of them" or at the very least, reduce the interest to make it manageable for "vulnerable people."

Section 2

Methodology and Limitations

This study provides a deeper understanding of the practice of taking out a long-term payday loan generally and the borrower experience in Colorado specifically. It seeks to provide context to borrower financial health before, during, and after a payday loan and how payday borrowers manage high-cost and other debt. It also seeks to better understand the experiences of payday borrowers with debt collection and their views on the availability of other options.

To answer these questions, this study analyzes and summarizes many of the key themes identified in four focus groups, along with the results of an exit questionnaire.

In the fall of 2017, four focus groups were conducted to help understand how borrowers experience taking out and repaying installment payday loans in Colorado. Four cities were selected based on population and concentration of payday loan licensee locations—Centennial, Colorado Springs, Denver, and Pueblo. Local marketing research companies recruited qualified participants based on a pool of respondents who had opted-in to be contacted for marketing research purposes through the mail and in-person channels. Participants had to have taken out a payday loan since 2012 from one of 10 large payday companies operating a physical payday loan location in Colorado. While some focus group participants took out loans from lenders operating primarily online and without licenses to operate in Colorado, participants that had only taken out online loans were excluded from the participant pool. The Farkas-Duffett Research Group, an experienced focus group provider and participant recruiter, was retained to coordinate recruitment with local market research firms, moderate the four focus groups, and provide assistance analyzing the findings. All participant names have been changed to ensure anonymity. Participants that met these criteria were interviewed over the course of two hours.

The screening data provided additional information on educational attainment, race, ethnicity, and gender. Fourteen participants had graduated from college, and 14 participants had graduated from high school. The remaining participants had completed some college (7) or a certificate or associate's degree (6). Screener information revealed the following breakdown by race and ethnicity: white only (19), African American (9), Hispanic/Latino (6), Asian (2), Native American (2), two or more races/ethnicities (2) and Portuguese (1).[8] Fourteen participants owned their own homes, and the remaining 27 participants were renters. Fourteen participants were identified in the screener as male and 27 were identified as female.

Participants also completed an exit questionnaire made up of two parts: a survey instrument developed by the CFPB to allow for the calculation of a composite Financial Well-Being Score and a questionnaire developed by CRL used to determine other financial products used before and after taking out a payday loan and the credit options this group of borrowers perceived as available to them.

The research approach described above has three primary limitations. First, qualitative research provides a detailed, nuanced understanding of decision processes, as well as repayment and coping mechanisms; it also offers a deep understanding of the household financial position of the borrowers included in the participant group. Qualitative research does not, however, provide numerical representativity. Second, the nature of focus group recruitment can result in a participant pool that is different from payday borrowers generally. To determine how focus group participants' financial well-being varies from payday borrowers nationally, the Financial Well-Being Survey developed by the CFPB was administered to focus group participants.[9]

The results were compared to the responses provided by payday borrowers included in the National Financial Well-Being Survey (NFWBS), a nationally-representative sample of adults who provided information on financial well-being, financial skill, financial knowledge, financial behavior, financial attitudes, financial experiences, and other related factors.[10] The weighted mean Financial Well-Being Scores for respondents who indicated they had used non-bank short-term credit in the NFWBS was 42 and ranged from 14 to 73. The weighted mean score of those respondents who had not used non-bank short-term credit was 55. The mean Financial Well-Being Score for focus group participants fell in between these two groups at 49 and ranged from 27 to 71. This finding suggests that the recruitment process did not result in the selection of a disproportionate number of borrowers that had a level of financial well-being lower than payday borrowers nationally and the experiences of the focus group borrowers is not skewed towards less favorable loan outcomes (Appendix A).

Third, focus group discussions are limited to what participants can recall or are willing to share in a group discussion setting. Questions related to the perceived availability of other options were included in the focus group moderator's guide and again in the exit questionnaire to compare the views that participants were willing to share in a group discussion to their non-public questionnaire responses.

Finally, questions related to increases or decreases in the total availability of credit accessible to payday borrowers and public support for specific interventions are best addressed using other research methods and fall outside the scope of the project.

Section 3

Borrowers Are Starting Off Behind, already Carrying Substantial Debt from other Sources or Struggling to Meet Current Ongoing Expenses

Nearly every focus group payday borrower spoke frequently and candidly about living "paycheck to paycheck." Even those participants who recognized and appreciated their present financial stability often spoke of it as a reprieve rather than as a permanent state. Income shortfalls, exacerbated by often long-term income instability, were common occurrences. For focus group payday borrowers, income instability meant that they often turned to a variety of credit options, including payday lending.

> I can't seem to get above water with my bills, with rent and everything. It's kind of hard. – *Joyce, Centennial*

> You're living from week to week, like we all live from check to check. I think the question is, how do you get above that? How do you go to where you can be like, "Oh, well, I have money in my account. I'm okay." Nobody can break between check to check. – *Maria, Pueblo*

> I'm getting there, but still it's a total struggle. – *Phillip, Pueblo*

Perceived emergencies were often the next expense that came up after a payday borrower's income was exhausted, rather than true one-off, short-term needs.

> I would say paycheck to paycheck right now, so if something comes up, something breaks, like I'll probably have to do a payday loan or something, so, yeah, that's where we're at. My husband's in the military, and I stay home with our son. – *Amy, Pueblo*

> I mean, if life comes at any direction, it's going to push me over the edge completely, no matter what it is, the smallest little things…. Sometimes you have to take from this bill to pay for this one just to put food on the table…. Trying to afford everything at once, you have to just break down. – *Gloria, Pueblo*

While all participants had taken out payday loans at some point in the past, payday loans were rarely a focus group borrower's only source of debt. Rather, payday loans were in most cases just another type of debt that, when stacked on top of their other obligations, painted a picture of substantial, often conflicting debt loads. When combined with day-to-day expenses, high debt levels made taking on any new obligations a challenge.

For many borrowers, paying student loans on top of their living expenses and other debts is a serious financial challenge.

> My biggest thing is student loan debt, and cost of living and trying to save goes along with that, but because of my student loan debt I don't even have a savings account, and I pretty much go paycheck to paycheck. – *Nancy, Centennial*

> …. [M]ine is about $20,000 in loans. I have no[t] finished yet. It's going to go on my credit and it's—I'm young, you guys. I want to buy a house. I want to be able to buy a car and be able to be successful somehow. I don't know, because my student loans are crazy expensive, too. – *Ann, Centennial*

> Because I pretty much, every two weeks when I get paid it either goes to rent or it goes to student loans. And I have like $200 left, and that goes to car or utilities or…. - *Nancy, Centennial*

> I'm struggling, always. I work. I have a college loan, too, so you go to school for five years, four years and then you have to pay for it on top of the rest of the bills. – *Maria, Pueblo*

> I just finished school, so I have $60,000 in student loans coming through…. – *Gloria, Pueblo*

Around half of all focus group borrowers had experienced previous challenges with medical debt, the cost of medical insurance, or challenges paying medical expenses. Struggling to pay health insurance or forgoing insurance all together were frequent themes, along with the unexpected and often catastrophic costs of medical care.

> If they want to insure him, then we have to pay a crazy amount, so we dropped him off medical insurance. – *Rose, Pueblo*

> I got terminally ill, and we maxed out all our credit cards and our medical bills are outrageous. We have good insurance for what good insurance is I guess. We pay a lot, let's say that. It has just been—you could never pay people enough of what they want, they always want more…. That's where we are at. We are just living, not doing great, but we have a roof over our head. – *Helen, Colorado Springs*

> What concerns me, I think, is maybe a health care disaster with all the crazy rates and stuff in health care. My wife being ill, that's always kind of in the back of my mind…. But you keep talking about this hump, and even working three jobs and I'm still not making what I was before, and then we've got the insurance, our medical insurance raising, and we can't go without medical insurance because we're not as healthy as we should be, but I don't know. There's just certain things you can't give up.
> – *Christian, Denver*

> Mine is pretty similar where I had gotten it [a payday loan] knowing I was going to get a paycheck, but I had a bill that was due, and it was medical and they are calling and calling and calling. And it was $250 that I needed to pay. And I was like I am so sick of these people calling me because they are calling me in the middle of the day and I am working. So I just went in and I paid it back within the same week. But I felt very embarrassed to walk in, I think is the word, because I thought I shouldn't be having to do this.
> – *Teresa, Colorado Springs*

Others participants frequently turned to credit cards but had reached their limit. These borrowers talked about the difficulty in taking out new credit cards when their overall debt loads increase, as well as the challenge of paying off their cumulative debt obligations from credit cards and other sources.

> Someone like me, I have so much debt already. Credit is terrifying to me because it's so easy to stack up. I opened a new credit card because I finally found one that approved me like two months ago and it's already at $750…. – *Nancy, Centennial*

> Oh yes, we had maxed them out. In fact, at one point we took out a second mortgage on our home to pay off our credit cards. So we got that taken care of. – *Helen, Colorado Springs*

Still others felt the constant pressure of meeting rising rent and housing costs with incomes that do not keep up. These worries are often compounded by the ups and downs in monthly income, concerns about the cost of living, rapidly rising rents, and housing costs.

> I think I'd always like to be doing better, but I think my biggest thing is the housing here in Denver is a problem. – *Christian, Denver*

> But I live in the business district down here, and the cost of the apartments and townhomes it's gone up, it's quite a bit, because of the housing market. So, it's going to cause that to go up, so that's going up, and it's not terrible, but it'd be nice if it wasn't constantly raising every six months. – *Sean, Denver*

> I said the biggest obstacle is the rising cost of living here in Denver, kind of being priced out of the location…. – *Brandon, Denver*

> My problem would be cost of living. Every year—I live in an apartment and I'm single, and every year it seems to increase the amount of rent. That's been a problem with me. – *David, Centennial*

> Like I said, everybody's talking about the rents and stuff. Rent is very high in Denver. – *Joyce, Denver*

> I think I'm okay financially. I have two, me and my boyfriend's income. The housing thing is, it sucks, because two years ago we were paying one amount, and now it's doubled, pretty much. – *Jacqueline, Denver*

These themes suggest persistent household debt from multiple sources and indicate that any individual source of debt, including payday loan debt, cannot be considered in isolation. Student loans, medical debt, credit cards, and income shortfalls combined for most people in the focus groups, making it difficult to meet living expenses. These challenges with overall household debt mean that, for borrowers seeking any additional credit, a consideration of the entire debt profile of the borrower is necessary to fully understand the affordability of payday loans and how any new debt—particularly high-cost debt—will impact their current financial health and future financial opportunity.

Section 4

Fast Credit: "You Can Get it in Five Minutes, Boom. You Walk out the Door with 500 Bucks."

Focus group borrowers frequently described turning to payday loans as easy credit, taking on new debt that they often found difficult to fit into their budget. Focus group participants also frequently described taking out a payday loan as an act of desperation and feeling "wrapped up in the moment." The nature of the payday loan transaction—no documentation, no credit checks, and no wait—made it seem like a viable option in the moment. A quick approval process is further indication of the payday lenders' failure to assess the suitability of the loan product to the borrower's budget. The result is new debt that borrowers typically had difficulty fitting into their existing income and expenses.

> I had pretty much had her same experience. Once I asked for the money they just gave me the clipboard with the papers without talking to me. Just told me to fill it out, and right then and there they just gave me the money. – *David, Centennial*

> I don't know about anybody else, but when I went they just talked so fast. "Oh, you're approved. Here you go." They didn't even tell—I'm sure they mentioned what the percentage rate was, but they were talking so fast for me. I'm sure it was in there somewhere. "You just sign here." Instead of me saying, "Can you explain that again?," I just signed on the line and got my money. – *Sandra, Centennial*

> No, I was kind of upside down in some of my problems. Just like Amber, you get desperate. You know they're not a bank, and they make their money one way, and that's interest. You go in, and I think you're just so wrapped up in the moment, you just sign on the dotted line. When I got out and read the paperwork, I just got nauseated. It was crazy. – *Christian, Denver*

> It's instant. It's instant. Just like that. You can get it in five minutes, boom. You walk out the door with 500 bucks. – *Willie, Denver*

> Instant gratification. If that one won't take you, there'll be one next door giving a special offer like hey, they won't take you, we will. We only need one paycheck stub instead of two. They compete with each other, it seems. – *Andrea, Denver*

BORROWER PROFILE: Joyce—Centennial, CO

Joyce is a home healthcare aid in her 50s, earning about $40K a year. Joyce works hard to make ends meet and is always looking for new opportunities to take on more work. "I try to get more clients, to ask them do they need me to come in, or do they know anybody else and I can go help them clean up or do anything like that. Anything." She has taken out several payday loans to help her daughter. "My daughter lives in Philadelphia. She has two kids. She's not working. She has a boyfriend who lives with her who works, but they're always coming across hard times."

Each of the loans was for $200. For the first few, she managed to repay within the allotted time. The problem started with the last one. "Because I planned on paying them back right away, which I did do [for the earlier ones], but they were taking out money—it cost me more money than I understood. I didn't understand the paperwork. I was just signing to get the loan. I didn't understand. They didn't explain to me….Like everybody said, I'm not a financial wizard. Ok?.... It just wasn't worth it to me because I didn't realize what I was getting into like that. I really didn't."

Joyce didn't ask friends or family for help, saying that "nobody I know has that kind of money." After finally paying off the last loan, Joyce did not have enough money remaining to pay for food that month. She "had to go to the food banks, because I budget for my food and everything. I had to go to the food bank because I don't get any type of assistance. I did that. Of course, like everybody else says, you cut down on what you have to cut down on."

Section 5

"I Start Sinking ..."

Financial hardship often followed, even though nearly every participant repaid their loan as agreed.
Borrowers often described their optimism at the outset of the loan, but then shifted to the challenges they faced when having to repay payday loans in addition to already unmanageable debt and other financial obligations. Sentiment among these borrowers ranged from regret for taking on more debt than they could handle to the recognition that the loan interest was stopping them from being able to manage their next financial need. High rates of successful repayment are common, even when borrowers expressed concerns about repayment challenges.[11] Successful repayment is true of most payday loans, since payday lenders gain access to the borrowers' bank account as a part of the loan transaction. This enables them to seize money for repayment as soon as it comes in. Borrowers frequently discussed their desire to pay the loan off as quickly as possible, since total payday loan costs in Colorado increase the longer a borrower is in the loan.

> I had good intentions, like yeah, I'll pay this back, but then I just kept getting them, and I'm like I can't do this. – *Jacqueline, Denver*

> I believe it was $300 I took out, and I had actually just started my nanny position, so I was in between jobs and I needed to pay my bills. Rent was due, electric was due, water was due, everything was due, and it was time to pay. And my fiancé killed me for it. He hated me for it, and I regret it so much because I'm still paying on it. – *Colleen, Centennial*

> Yeah. I start sinking more than I have ever. I was like I can't do this. I'm going to find myself back into another loan. You struggle, and you're struggling because you're outside of the means of what you can afford. Then that equals the loan. Now I have my loan, but then I haven't given anything up to get myself under the means of what I couldn't afford before, and now I'm financially struggling even more. – *Amber, Denver*

> Take out a $700 payday loan on 20%. That's $140. You're going to pay $840 back, and then so you're paying that monthly, you're paying that over 60 days. Then that extra $140 that you have to pay back, that could go towards your cell phone or that could go towards another bill. Then that bill gets behind or that credit card gets behind. – *Jose, Denver*

Unsustainable debt and increased debt load often drove borrowers toward higher-cost options.
Unsustainable debt is the result of a persistent mismatch between income and expenses coupled with the widespread availability and use of debt products to meet living expenses. When these factors persist beyond a short period, household debt loads increase. When a borrower's increased debt load results in repayment challenges, lower-cost debt options will likely become less available or unavailable to the borrower. Some focus group participants described turning to payday loans often after taking on substantial debt through other means. As described in Section 4, payday lenders make no inquiry into whether the payday loan is affordable in light of a borrower's other debt obligations.

> We bought it hook, line, and sinker, we felt like we didn't have a choice at that point. I thought "Oh, God…." I didn't want to do it. I did not want to do it. It just—we are already in debt, why get more in debt? It just felt like it was our last option. – *Helen, Colorado Springs*

> I didn't say it, but I also was in the hospital last year, and I had owed—it doesn't seem like much, but $2,000 to that after insurance. Then, losing my job I lost that insurance I did have, so I had the medical bill to pay. We don't have good credit, so that's why we couldn't go to a bank. – *Marilyn, Pueblo*

BORROWER PROFILE:
Helen—Colorado Springs, CO

Helen is a 61-year-old woman who has taken several payday loans, most recently in 2016. She is married and her household income is less than $50,000. Helen has a terminal illness and is facing high and unaffordable medical bills—debt that pushed her to take out payday loans to help cover ongoing living expenses.

"It was just to eat and keep our head above water so we don't bounce checks." Helen and her husband: "You've got to call and make arrangements with the utility company, we were [paying] just bare minimal. Our mortgage company was awesome; they worked with us. Everything was a struggle. And of course we applied for food stamps, and they said my husband made too much money.... We had maxed out credit cards. In fact, at one point we took out a second mortgage on our home to pay off our credit cards."

But she still needed money, so she turned to payday loans as a quick fix—loans that quickly pushed her to make the same tough choices and tradeoffs she was making before she turned to payday loans. "The most we ever got was $400, and I think we paid back $900, it was just ridiculous.... Because we were just so far behind in things, paying that loan back, we got behind on other things.... I think our second one, there was one for $200.... And I think our last one was for $300. And I said I don't care what we do, we are eating beans, we are not doing this ever again."

Section 6

Payday Lending and Debt Collection

Debt collection experiences, while not unique to the payday loan market, are an ongoing concern because of high rates of default. In Colorado, roughly one out of every four payday loans resulted in default or delinquency.[12] Some focus group borrowers discussed struggling to keep a loan out of collections, while others touched on the effect that additional collection accounts on their credit report contributed to limiting future financial options. Still others indicated that they had considered bankruptcy before or after a payday loan.

> Yeah. I had to keep postponing and paying the extra costs, the late fee and the late fee. I think I did four payments, and I was—I was just like I can't do it no more. I let it go into collections and everything because I was just still living check by check without any extra to be took into payback.
> *– Jacqueline, Denver*

Borrowers who raised debt collection concerns spoke of the impact these types of collection activities had on their credit reports and their ability to access other types of credit, such as credit cards and telephone or utility service.

> One of mine, one or two of mine went to collections, too, so it is hard to qualify to buy anything else, like if you want a new phone or if you want a credit card, it does have consequences for that until you pay it off. *– Andrea, Denver*

> I don't think I had any short-term consequences until I got to six months where they put me in collections. Then I saw a huge decrease in my credit score, and that affected everything from applying to an apartment, a car, a bank account. Everything was just ruined because of my credit score.
> *– Amber, Denver*

> It literally was like $54 that I owed left, and instead of saying, "Hey, wait until my next payday, let me pay you all off," it was gone. They were quick to send me to collections. With everything else going on, I just spaced out. You know, "Hey, let me take care of this real quick," and before I knew it bankruptcy came.
> *– Gloria, Pueblo*

Ten participants noted in their exit questionnaire that they had considered bankruptcy before taking out a payday loan, and nine indicated that they considered bankruptcy after taking out a payday loan. Of these, five participants indicated that they had considered bankruptcy both before and after taking out a payday loan. While exit questionnaire results are not representative of all Colorado borrowers, these findings suggest that payday borrowers are struggling with debt before, during, and after their payday loan.

BORROWER PROFILE:
Gloria—Pueblo, CO

Gloria is a 36-year-old single mother of two, who earns about $25K working full time as an electronic home monitoring case manager. She recently earned a bachelor's degree—an education that resulted in her taking on nearly $60K in student loans. She struggles financially and frequently spoke about making trade-offs and hard choices to get by. "Sometimes you have to take from this bill to pay for this one just to put food on the table."

Gloria took out two payday loans between 2012–2015 after losing a good-paying job. While she downsized and took on a new, lower-paying job, she turned to payday loans to cover some expenses. Her first loan she paid off completely and estimates that it ended up costing her $900. Her second loan, however, set off a cascade of financial consequences. "The second one I ended going to bankruptcy, because I just hit a complete low with everything. I couldn't catch up to save my life…. Because they take it out of my account, so when I don't have it I'm screwed, and then I have an overdraft." The bankruptcy negatively affected her credit.

As she tells it, "It hurt me. It literally was like $54 that I owed left, and instead of saying, hey, wait until my next payday, let me pay you all off, it was gone. They were quick to send me to collections. With everything else going on, I just spaced out…and before I knew it bankruptcy came." For Gloria, just one late payment on a payday loan caused severe consequences.

Section 7

Uncertainty about the Cost of Borrowing

Nearly all focus group borrowers expressed, with some certainty, the cost of a payday loan in Colorado—but frequently the true cost of the loan was higher than the borrower understood it to be.

In Colorado, payday lenders are permitted three separate charges as part of the transaction. Lenders are permitted a finance charge of 20% of the first $300, plus 7.5% of any principal that exceeds $300. Lenders may also apply a 45% interest rate to the loan and a monthly maintenance fee of $7.50 per $100 borrowed, not to exceed $30 per month and charged at the end of each month, starting with the month beginning 30 days after loan origination.[13] Borrowers who repay their loans before the end of the loan term can avoid some or all monthly maintenance fees and can also receive a pro-rata refund of origination fees and interest. Loan amounts are limited to $500, and a lender may only issue one outstanding loan to a borrower at any given time.[14]

The combination of interest, monthly fees, and origination costs permitted under Colorado law results in loan costs of up to 214% APR—the amount disclosed on a borrower's contract and on lenders' websites. Focus group borrowers, when recalling the cost of their recent loan, often indicated paying a lower amount. The reason for this disconnect is unclear, though a practice that sometimes occurs in the payday lending industry is payday lenders describing the cost of the loan as a percentage of the loan amount.

> I kind of blocked all that out, because it was really traumatic. I want to say it was some of them were like 15%, some of them were 27%.... The interest is just a percent. It's not a dollar sign. If they said you're going to pay back $300, but all I saw was like 15%, 27%. – *Andrea, Denver*

> It's just when you see the interest rate, you see a 15% or 10%, and you're like oh, that's not that much…. I did a 60-day, $700 at I think it was 18%. – *Jose, Denver*

> I know that credit cards are usually about 29 depending on the credit card, and I know that it is more than that. – *Debra, Denver*

> That's all I remember, but even then I remember getting it and I'm like, okay, this will be all right, because we're still getting $80 out of the $100, but then the next paycheck you're like you have to give back that money that you've already just borrowed upon, and we got sucked into a cycle.
> – *Marilyn, Pueblo*

> No. Because they gave you—when you do the contract they give you how much the interest rate will be total and it is just way out there. That got me so scared I was like dude I need to pay this away.
> – *Eric, Colorado Springs*

Section 8

Multiple Loans at the Same Time and Back-to-Back Loans

Colorado law allows lenders to extend loans to borrowers who have multiple loans at the same time from multiple lenders. The Colorado Deferred Deposit Loan Act sets the maximum permissible loan amount at $500 but places no enforceable restrictions on the number of concurrent loans.[15] While the act requires lenders to provide a notice of the potential harm of multiple outstanding transactions,[16] some focus group borrowers suggested that concurrent lending, or loan stacking, is occurring. Multiple, concurrent payday loans suggest an inherent unaffordability and a disregard for the important safeguard of assessing affordability to prevent high levels of outstanding debt, including payday loan debt.

> It was a lot harder to pay them back, especially when you have three or four out at one time. It was harder than I thought it was going to be to pay them back. I got it done, but at one point there for about six months I was working three jobs just so I could make sure that I paid them off as fast as I could to get them out of the way. – *Willie, Denver*

> I ended up getting two, from two different places at the same time. Because the max was $500 and I needed more than that. I was living in Denver. I ended up going for two of them, and got $500 each, and I struggled. It took me the longest time to pay. I paid one off completely. It was about almost $900 each, that I had total, so I figure about $1,800. – *Gloria, Pueblo*

> It was the span of maybe about two to three weeks. It was $500 each. Then I would pay it back, and then, yeah, and then extend. Some of them have extends. It was from maybe four different companies, three or four different companies. – *Andrea, Denver*

Many focus group borrowers also discussed the need to frequently borrow and re-borrow. The Colorado Deferred Deposit Loan Act limits lenders to one renewal and limits additional interest charges.[17] The act does not limit back-to-back lending, however. Once a transaction is repaid a new loan can be issued.[18] Participants discussed back-to-back lending, both regarding refinancing their original loan and re-borrowing shortly after paying off a previous loan.

> Because I got Ace Cash Express in February and then the next month I went to the other place because I liked it and I was like, ay, I need more money. – *Eric, Colorado Springs*

> I think it was 36% within a six-month period of paying back. At that time, I didn't know and I didn't care about the interest rate. I was like okay, whatever, I just need the $500. After I did that one, I was like wow, that was easy. I was like phew, okay, so I went and did another one. – *Sean, Denver*

Section 9

Focus Group Borrowers Seek to Avoid Borrowing from Family and Friends, but Many Recognized that this Was an Available Option

Focus group participants frequently cited the desire to avoid borrowing from family and friends as a reason for selecting a payday loan as a credit option but indicated that they viewed informal borrowing as an available option. Some participants cited the desire to avoid discussing financial matters with friends or relatives, while others cited the need for financial independence or the high unlikelihood that family or friends would be able to provide adequate support. While this theme was frequent, and borrowers were emphatic about their desire to avoid this option, results from the exit questionnaire suggest they would turn to family and friends if necessary.

> My parents and his parent's financial situations, we probably just could have borrowed it, but it was more that I want my financial independence. I wasn't willing to tell people oh by the way I didn't have $500 bucks to buy what I needed for my kid, so I had to go borrow money from a payday loan. – *Donna, Colorado Springs*

> It was like I could have asked my parents, but I don't want to put any extra pressure on them. They're already trying to keep their own boat afloat, just like everybody else. – *Sean, Denver*

> No, with us we don't have any—really don't have any family. Like him, my husband could ask his mom, but we would rather—it's quicker for us to just go get the payday loan, pay it back the next paycheck. – *Amy, Pueblo*

> …. [S]o even family sometimes it's hard to ask, I guess because of the pride and they judge. Do you know what I mean? – *Marilyn, Pueblo*

However, responses collected as part of the exit questionnaire developed to collect additional information about borrower financial well-being and the range of credit options available to them provided conflicting results. While participants overwhelmingly agreed that borrowing from friends and family was not a desirable option available to them, nearly half identified borrowing from family and friends as an option when completing an exit questionnaire.[19]

This perception and frequent use of other options in the absence of or in conjunction with payday lending is evident in existing research where new limitations or restrictions on payday lending are put in place. In North Carolina, low- and moderate-income borrowers continued to use formal and informal credit options, such as a credit card, a cash advance, or financial assistance from family and friends after payday loans were no longer permitted.[20] Similar results were found as part of a survey of former payday borrowers in Arkansas.[21] The Department of Defense (DoD), in a report issued to Congress in 2014, took a similar view when it proposed expanding rate limitations on longer-term installment loans. In that report, DoD stated that, when access to heavily-marketed, easily-accessible products was limited, military personnel would likely consider a wider set of available options to resolve their financial stress.[22]

Borrower Concerns about Payday Lending in Colorado

Many focus group payday borrowers expressed serious concerns about current interest rates, and nearly all borrowers supported lower rates. High-frequency users, in particular, expressed serious doubts about the fairness and appropriateness of the product and whether it, in fact, solved their long-term financial challenges.

Many focus group borrowers expressed concerns about the cost of payday loans.

> Your money is guaranteed pretty much if you have my bank account information, so why do you need to charge me 50%? – *Patricia, Denver*

> With smaller loans, you don't necessarily think about the larger return of the payback sometimes. It seems kind of small, but ultimately, it's actually a lot more. – *Ray, Denver*

> I would say I'm more angry with the amount of interest that I have to pay every month. It should be—interest is something I am very angry about. If you don't pay it back as immediately as possible. If you have a nine-month plan to pay back $1,000 you're going to pay the 125% or whatever.
> – *Brandon, Centennial*

> The fees are ridiculous. To me, they scare me. I don't want them to add all those—I mean it's hard enough. – *Tammy, Centennial*

Still other frequent borrowers said they would consider using payday loans in the future but expressed concern that the loan changed very little about their financial situation.

> I don't know. I'm still in just as much debt as I've been, so I don't know. – *Nancy, Centennial*

> It didn't get me out of debt. I'm still in debt. I still have an issue paying my rent. – *Ann, Centennial*

Many focus group payday borrowers indicated that they would continue to seek out payday loans and any other type of credit available to them to address financial shortfalls. However, these concerns, coupled with the challenges many borrowers face with high and often unsustainable debt loads, suggest a complicated relationship with debt in general and payday loan debt in particular.

Section 11

Conclusion

Payday loan borrowers interviewed commonly described the struggle to stretch limited incomes to cover the cost of basic necessities. They turned to payday lenders seeking to fill the gap between income and expenses, frequently after already struggling with other debts. Problems such as inadequate health insurance coverage, unaffordable housing, job instability, and income insufficiency make individuals vulnerable to the draw of payday loans, but the fundamental problem—income insufficiency relative to expenses—remained. For many borrowers, the high cost of payday loans, piled onto expenses that may themselves exceed borrower income, exacerbated their struggles. Matters were worse for the people connected with the one in four loans in Colorado that went into delinquency or default.[23] These loans are tied to people with complex financial lives that are further unsettled by negative outcomes associated with costly products.

Appendix

Financial Well-Being Scores of Focus Group Participants and a National Representative Sample of Payday Users and Non-Users

Group	Financial Well-Being Score	
	Mean	Standard Deviation
Colorado focus group borrowers	49	10
CFPB NFWBS payday users	42	13
CFPB NFWBS non-payday users	55	14

Source: CFPB Financial Well-Being Survey Public Use File and data collected by CRL.

Endnotes

1 Davis, Delvin, and Diane Standaert. "Payday and Car-Title Lenders Drain $8 Billion in Fees Every Year." Durham, NC: Center for Responsible Lending, May 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_payday_fee_savings_jun2016.pdf.

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8 Participant race and ethnicity are described based on the self-determined race and ethnicity contained in the screener provided by the market research firm used in each of the four focus group locations. Some participants indicated race or ethnicity only, others identified two or more races and/or ethnicities. In these cases, this summary preserves these differentiations.

9 Questions administered in the exit questionnaire used to determine the CFPB Financial Well-Being Score were determined using the CFPB Standard Version Scoring Worksheet available at https://files.consumerfinance.gov/f/201512_cfpb_financial-well-being-questionnaire-standard.pdf.

10 For more information on the sampling methodology and questions included as part of the National Financial Well-Being Survey see "National Financial Well-Being Survey: Public Use File User's Guide." Consumer Financial Protection Bureau, September 2017. https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_nfwbs-puf-user-guide.pdf.

11 Ratcliffe, Janneke. "North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options." Center for Community Capital. Accessed May 22, 2018. https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-ratcliffe.pdf.

12 Default and delinquency is defined by the lender and reported as part of the lender's annual report to the Colorado Department of Law. See "2016 Deferred Deposit/Payday Lenders Annual Report." Denver, CO: State of Colorado Department of Law, 2016. https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2016_ddl_composite.pdf.

13 Colorado Uniform Consumer Credit Code 5-3.1-105.

14 Colorado Uniform Consumer Credit Code 5-3.1-106.

15 Colorado Uniform Consumer Credit Code 5-3.1-106.

16 For more information on the text of the required notice, see Colorado Uniform Consumer Credit Code 5-3.1-107.

17 Colorado Uniform Consumer Credit Code 5-3.1-108(1).

18 Colorado Uniform Consumer Credit Code 5-3.1-108(3).

19 Participants were asked: "Tell us about your experience managing an unexpected expense: I can earn overtime at work, I can take out a loan from friends or family, I can pay a utility bill late, I can use money from my savings account, I can take out a credit card advance, I can sell or pawn some personal items, I can use money from my retirement account, and I can earn money at a second job or informal work."

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The Center for Responsible Lending (CRL) is working to ensure a fair, inclusive financial marketplace that creates opportunities for all responsible borrowers, regardless of their income, because too many hard-working people are deceived by dishonest and harmful lending practices.

CRL is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices. Our focus is on consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts, and auto loans.

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