

Small Dollar Economics: The CFPB White Papers

Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.



Consumer Financial
Protection Bureau

Outline

1. A framework for consumer financial protection research in small dollar credit
2. Findings from the CFPB white paper on payday and deposit advance
 - Repeated use is prevalent
 - Repeated use of payday loans is driven by same-day renewals
 - Deposit advance users incur more overdraft/NSF fees than eligible non-users
3. Payday methodological contribution
4. A brief look at the overdraft white paper

A Framework for Consumer Financial Protection Research on Small Dollar Credit

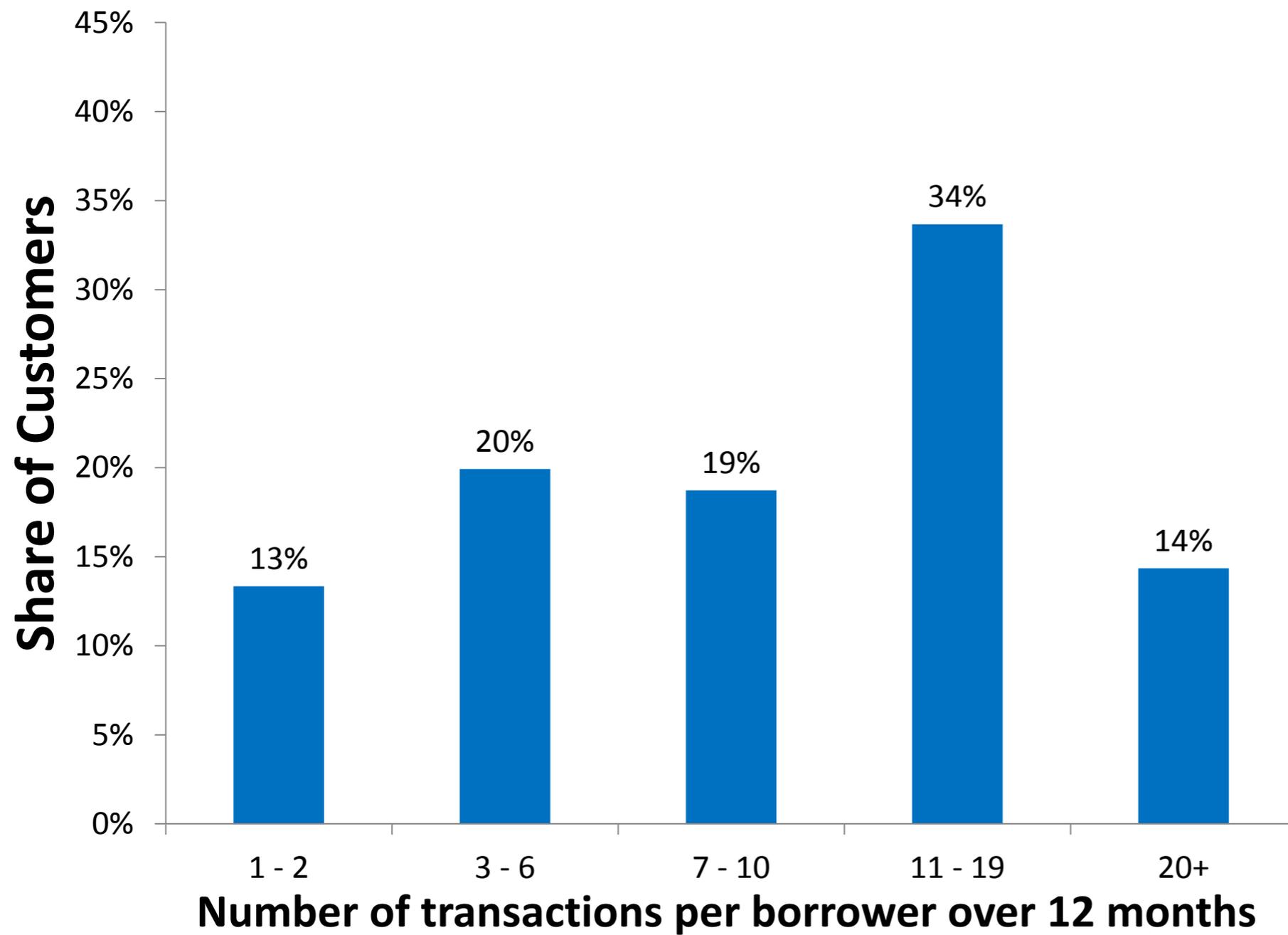
- Economic basis for consumer protection
 - Traditional market failures
 - Consumer understanding and behavioral biases
 - Economic impacts of transaction structure (e.g. posting order, fund availability, etc.)
- Key research questions
 - Do small dollar products benefit or harm consumers? If there is some of both, which consumers are benefitted, and which are harmed?
 - What are the mechanisms for consumer harm, to the extent it exists?
 - What would be the impact of potential interventions?
- CFPB Research
 - Payday and Deposit Advance White Paper (April 2013)
 - Overdraft White Paper (June 2013)
 - Ongoing research

Overview of Key Results

Payday Loans And Deposit Advance Products: A White Paper of Initial Findings

April 2013

Repeated Use is Prevalent: Nearly Half of Storefront Payday Consumers Borrow More Than 10 Times a Year



Lender Sample:

Loan portfolios from multiple lenders for 12 month periods

Consumer Sample:

Consumers with a loan in the first month of a lender's 12-month sample, with usage tracked over the subsequent year

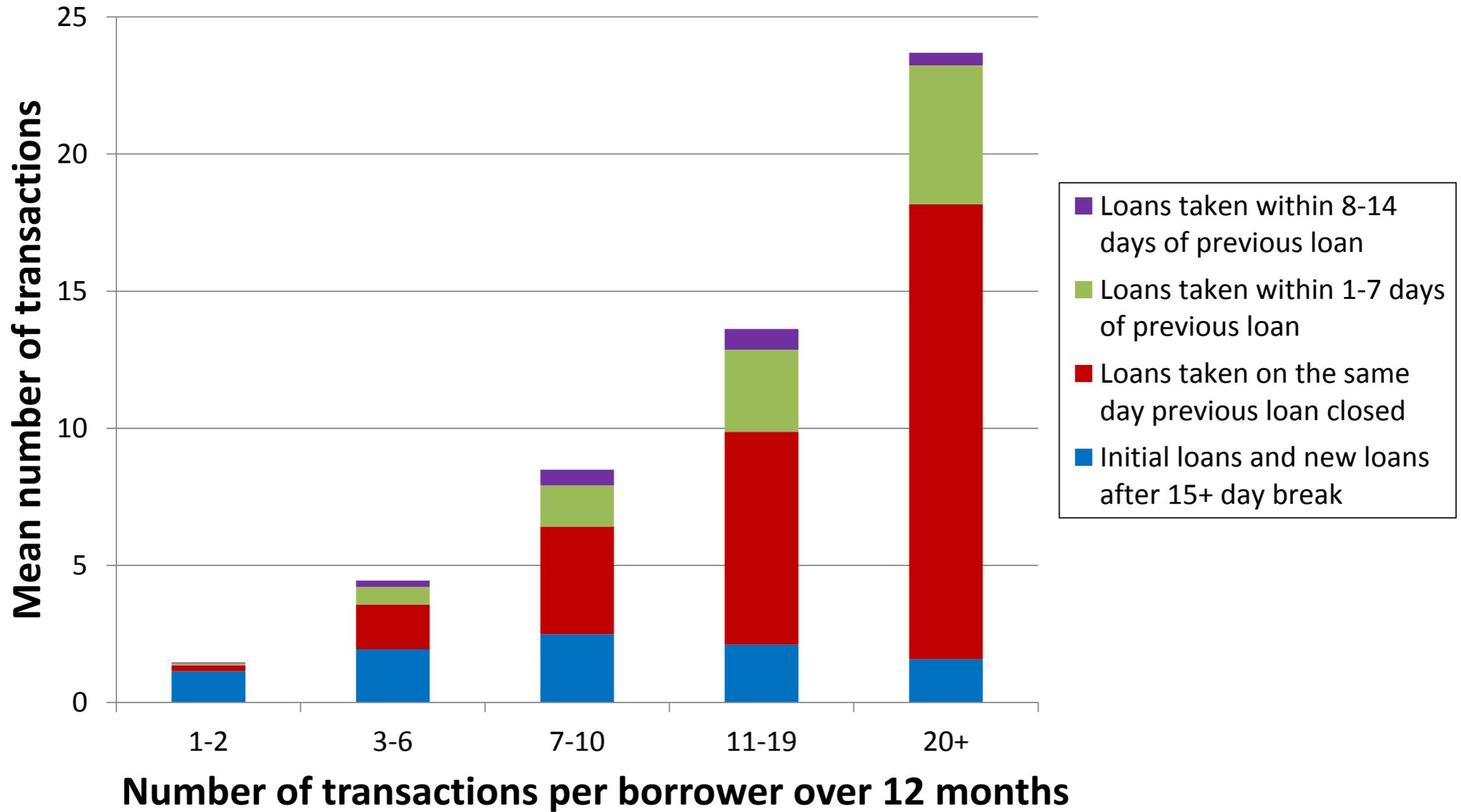
More discussion of our sampling method later!

Loan Sample:

15 million loans

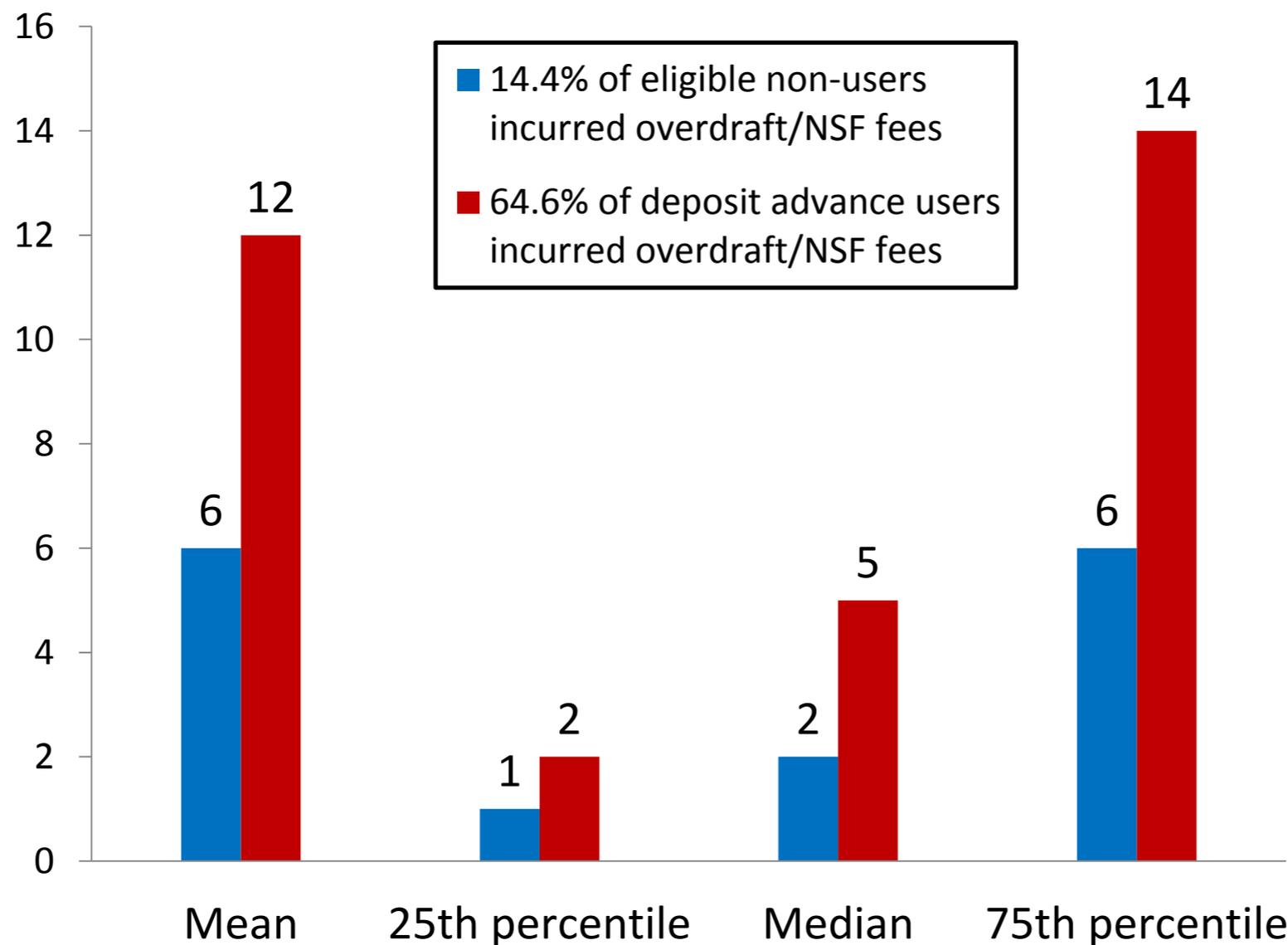
Excludes online payday loans, or payday variants such as lines of credit or installment loans

Repeated Use of Payday Loans is Driven by Same-day Renewals



Deposit Advance Users Incur More Overdraft/NSF Fees Than Eligible Non-Users

Total number of OD/NSF fees, for accounts with at least one fee



Graph shows mean, 25th percentile, median, and 75th percentile values for the number of overdraft/NSF fees among eligible non-users of deposit advance (blue) and among deposit advance users (red) who incurred at least one overdraft/NSF fee.

Institution Sample:

A number of depository institutions for 12 month period.

Account Sample:

Consumers included in the analysis had accounts that were either (1) eligible to take an advance during the first month of the study period or (2) eligible during subsequent months if they had been eligible sometime during the quarter prior to the beginning of the study period.

An equal number of accounts satisfying criteria (1) or (2) was randomly selected for each institution.

Findings Suggest Potential Hypotheses for Consumer Behavior and Welfare

1. Evidence for repeated use of payday driven by same-day renewals may be consistent with:
 - Consumers rationally using loans to amortize expenses or in anticipation of income over longer periods
 - Consumers over-estimating their repayment ability, failing to budget for repayment, or exhibiting present-biased preferences
2. Evidence of greater overdraft/NSF fees among deposit advance users than non-users may be consistent with:
 - Frequent-overdraft consumers using deposit advance to avoid even more overdraft fees
 - Overdrafts causing deposit advance use to bring negative balances positive
 - Deposit advance repayments contributing to overdrafts because consumer budgets do not accommodate repayment in addition to other expenses

Payday Methodological Contribution: The Right Way to Sample Depends on Asking the Right Question

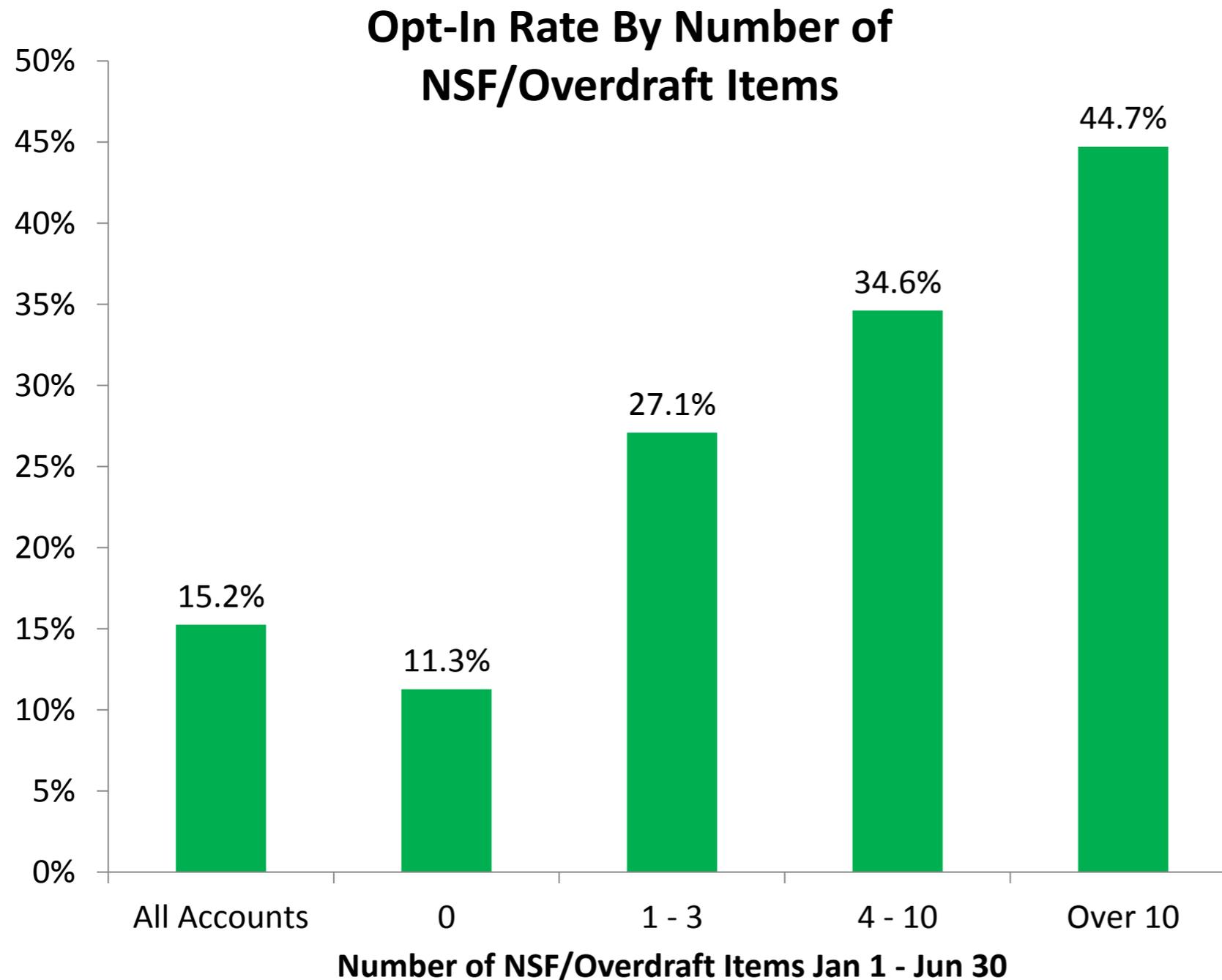
1. How would we ideally measure loan usage among payday customers?
 - Entire history of usage, for the entire population of customers who have ever used the product
2. Potential sampling methods for 1-year snapshot of loan portfolios
 - All consumers who took loans in the year
 - Underestimates use due to consumers entering the sample in the middle of the year and whose borrowing spells overlap the beginning of the sample.
 - “Fresh” consumers who did not use loans for a given number of days (e.g. 30 days)
 - Potentially underestimates use due to selection on light users. Eliminates over 90% of loans in the sample.
 - White paper method: all consumers who took loans in the first 30 days
 - Underestimates use due to consumers whose borrowing spells overlap the beginning of the sample. Potentially over-estimates use due to selection on heavier users.
 - We chose this method as the best available option for balancing simplicity, transparency, and competing sources of bias.
3. Ongoing work: sampling refinements for policy-relevant research
 - Stratifying on pay period
 - Stratifying on state regulatory regime

Brief Look

CFPB Study of Overdraft Programs: A White Paper of Initial Data Findings

June 2013

Heavy Overdraft Users Were More Likely to Opt In Following Regulation E Implementation in 2010



Regulation E Details:

The Federal Reserve Board amended Reg E in 2009 prohibiting institutions from charging for overdraft coverage on ATM and POS transactions unless a consumer has opted-in. Requirement came into effect on 7/1/10 for new customers and 8/15/10 for existing customers.

Sample Details:

Checking accounts at study institutions that offered overdraft coverage for ATM/POS transactions in 2010.

Study institutions provide a significant portion of US checking accounts.