Payday Loan Choices and Consequences
Data: Merge payday loan applicant and credit history data

- PDL applicant data from one major lender
  - Focus on first-ever application
  - Applications span 2001-2004

- Match applicants to their credit records
  - FRBNY/Equifax Consumer Credit Panel
  - Snapshot every quarter, 1999:1 – 2010:1
  - Match rate ~98%;
  - At time of application, ~97% have credit score and ~86% have ≥ 1 account
Research Questions

- **Who uses payday loans and why?** (e.g. Elliehausen and Lawrence 2001; Pew 2012)

- **Are payday loans beneficial? harmful?** (e.g. Morse 2011; Zinman 2010; Melzer 2011; Skiba and Tobacman 2011)
## Circumstances at time of PDL application

<table>
<thead>
<tr>
<th></th>
<th>PDL Applicants (N=38,220)</th>
<th>Gen Pop (2002:4) (N=103,766)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median number of open accounts</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Median debt balance</td>
<td>5977</td>
<td>9120</td>
</tr>
<tr>
<td>Median share of accounts not current</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>Share with at least one credit card</td>
<td>59%</td>
<td>75%</td>
</tr>
<tr>
<td>Median cardholder balance (all cards)</td>
<td>$1,340</td>
<td>$1,586</td>
</tr>
<tr>
<td>Median cardholder limit (all cards)</td>
<td>$1,154</td>
<td>$11,000</td>
</tr>
<tr>
<td>Cardholders with delinquent card account</td>
<td>69%</td>
<td>16%</td>
</tr>
<tr>
<td>Share with an auto loan</td>
<td>39%</td>
<td>28%</td>
</tr>
<tr>
<td>Median auto balance</td>
<td>$11,121</td>
<td>$12,456</td>
</tr>
<tr>
<td>Borrowers with delinquent auto account</td>
<td>35%</td>
<td>9%</td>
</tr>
<tr>
<td>Median number of inquiries in past 12 months</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Median number of new accounts in past 12 months</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Median Equifax credit score (range: 280-850)</td>
<td>517</td>
<td>702</td>
</tr>
</tbody>
</table>

Source: FRBNY/Equifax Consumer Credit Panel
PDL applicants clearly in bad financial shape

- Major cash flow shortfall
- Searching for more credit
- Result of a recent financial shock? ....
No... applicants appear to be in bad shape even many years ago

Source: FRBNY/Equifax Consumer Credit Panel
Payday applicants’ low credit scores are unusually persistent

- Applicants in 2002:2 vs. random sample of consumers with the same scores at time of application

Source: FRBNY/Equifax Consumer Credit Panel
Does getting a payday loan help/hurt credit scores?

- Teletrack score determines payday loan approval
- Compare applicants just above/below approval threshold
- Note: payday loans don’t *directly* affect credit scores
Credit scores of approved vs. denied applicants over time

Source: FRBNY/Equifax Consumer Credit Panel
Heterogeneous effects?

- Effect of getting a payday loan for those in the top/bottom quartile of the applicant credit score distribution

Source: FRBNY/Equifax Consumer Credit Panel
Issue: we only observe applications at one lender

- Just-rejected applicants are far less likely to apply again; may be hesitant to apply elsewhere too

- Similar results in places with lack of alternative PDL companies

- Bhutta (2012) compares “likely” PDL borrowers in states that allow loans vs. states that ban loans
  - Thus far, no evidence that access affects credit scores or score dynamics
Conclusions

- PDLs used as last resort
  - Credit card lines are exhausted
  - Intense search for cheaper credit is unsuccessful
  - Extremely high delinquency rate

- PDL applicants persistently in financial distress
  - Do PDLs mainly attract those who have trouble committing to a budget?

- No evidence that payday loans affect credit scores