



# PAYDAY LOANS: TAKING THE PAY OUT OF PAYDAY

## TECHNICAL NOTES

### Demographic Characteristics of Californians

The CBP's payday lending chartbook includes four charts that report demographic characteristics of Californians by age, household income, educational attainment, and race/ethnicity. Data for age, household income, and educational attainment are from the US Census Bureau's 2007 American Community Survey (ACS). Data for race/ethnicity are based on a CBP analysis of 2007 ACS Public Use Microdata Sample File (PUMS) data.

### Comparing the Cost of Credit

The payday lending chartbook includes a table that compares the cost of:

- A \$500 installment loan with a nine-month repayment period,
- A \$240 revolving credit purchase with a nine-month repayment period, and
- Ten consecutive \$240 balloon payment loans with a 14-day repayment period.

The installment loan examples are set at \$500 because that is the smallest such loan that two of the selected institutions will make. Revolving credit and balloon payment examples are set at \$240 because that is the largest amount common to all five examples.

### Installment Loan Examples

All three examples reflect loans that do not require collateral. The CBP used Excel to calculate the interest for the Golden 1 Credit Union and BBVA Bancomer USA examples.

- **Golden 1 Credit Union Starter Loan.** This example reflects the highest Starter Loan APR – 16.25 percent – advertised on Golden 1's website on September 25, 2008.<sup>1</sup> Starter Loan amounts range from \$250 to \$1,500, or up to \$2,500 with a guarantor or co-applicant.

- **BBVA Bancomer USA Bank Personal Loan.** This example reflects the highest APR – 36 percent – advertised in a BBVA Bancomer USA brochure for loans offered through the Federal Deposit Insurance Corporation’s (FDIC) Small-Dollar Loan Pilot Program. Loan amounts range from \$500 to \$2,500.
- **Progress Financial Corporation Consumer Finance Loan.** The interest and fee in this example are based on amounts that may be charged for consumer loans under the California Finance Lenders Law. Progress Financial calculated the total finance charge and the APR for the example. Progress Financial’s installment loan amounts range from \$500 to \$5,000.

## Revolving Credit Purchase Examples

The CBP calculated the total finance charge for each example and used APRWIN, a software program available from the Office of the Comptroller of the Currency, to calculate the APRs.<sup>2</sup>

- **No-Fee Credit Card for Consumers With a Limited Credit History.** This example is based on the Capital One Standard Platinum Credit Card, which is advertised as a card “for people with a limited credit history.”<sup>3</sup> The example assumes the advertised APR for purchases (19.8 percent).<sup>4</sup> The example also assumes a required minimum payment equal to 3 percent of the balance or \$10 – whichever is greater – and that the consumer pays an additional \$20 per month for eight consecutive months in order to pay off the balance in nine months. Finally, the example assumes that the consumer makes no additional purchases during the nine-month repayment period.
- **Moderate-Fee Credit Card for Consumers With Bad Credit.** This example is based on the Orchard Bank MasterCard, which is advertised as a card “that fits your financial situation, no matter what your credit rating.”<sup>5</sup> The example assumes the highest advertised APR for purchases (15.99 percent), the highest advertised processing fee (\$49), and the highest advertised annual fee (\$79).<sup>6</sup> The example also assumes a credit limit of \$400; a required minimum payment equal to 3 percent of the balance or \$10, whichever is greater; and that the consumer pays an additional \$35 per month for eight consecutive months in order to pay off the balance in nine months. Finally, the example assumes that the consumer makes no additional purchases during the nine-month repayment period.

## Balloon Payment Loan Examples

All three examples reflect loans that do not require collateral.<sup>7</sup> The CBP calculated the APR for each example using a formula for single-advance, single-payment transactions.

- **Golden 1 Credit Union LifeLine Advance.** A LifeLine Advance consists of two parts: an immediate cash advance (up to \$300), and an additional 15 percent of the cash advance that is deposited into a restricted savings account (the “Savings Advance”). The entire amount is automatically repaid within 35 days from a customer’s next direct deposit; however, the advance may be repaid much sooner depending on the timing of the deposit. Borrowers may not receive a subsequent advance until at least seven days after repaying the prior advance. In addition, borrowers may access the funds in the restricted savings account once the balance reaches \$300. The \$240 loan shown in the table reflects an immediate cash advance of \$208.70 and a Savings Advance of \$31.30. Golden 1 charges a 15 percent APR and a one-time, \$15 application fee. The APR shown in the table is higher than 15 percent because the CBP calculated a “true” APR by spreading the cost of the \$15 fee across the 10 consecutive loans assumed in the table. However, borrowers who use the LifeLine Advance product beyond one year would incur a “true” APR of 15 percent, because the \$15 fee is not charged annually.

- **Wells Fargo Direct Deposit Advance.** This product consists of a line of credit of up to \$500 that can be taken as a cash advance at a charge of \$2 per \$20 advanced. The advance is automatically repaid within 35 days from the customer's next electronic deposit of \$100 or more, and may be repaid much sooner, depending on the timing of the deposit. Advances must be in \$20 increments, and customers may take advances as often as they like up to their available credit limit. Wells Fargo gradually reduces customers' credit limit to zero if they take out advances for more than 12 consecutive months.

## Legislative District Maps

The CBP obtained a list of the names and addresses of payday lenders – companies that provide short-term, high-cost loans – operating in California from the Department of Corporations.<sup>8</sup> The number of payday lenders in the state totaled 2,416 as of February 13, 2008. The CBP deleted from the database 17 payday lenders with out-of-state addresses as well as two duplicate cases, and corrected obvious typographical errors in the data for the other 2,397 lenders. In order to map the payday lenders, the CBP determined the latitude and longitude of each address using a web-based geocoding tool.<sup>9</sup>

The CBP downloaded California legislative district boundaries from the state Assembly and Senate websites, and Census tract boundaries from the US Census Bureau.<sup>10</sup> The CBP mapped the income level of Census tracts using data from the 2000 Decennial Census.<sup>11</sup> Very low-income tracts are those with a median household income of less than half of the county's median household income. Low-income tracts are those with a median household income greater than or equal to 50 percent, but less than 80 percent, of the county's median household income. Moderate-income tracts are those with a median household income greater than or equal to 80 percent, but less than 120 percent, of the county's median household income. Finally, high-income tracts are those with a median household income of 120 percent or more of the county's median household income.<sup>12</sup>

## Acknowledgments

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## Endnotes

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<sup>1</sup> See <https://www.golden1.com/ProductsServices/Loans/Consumer/Default.aspx>.

<sup>2</sup> This program is available at <http://www.occ.treas.gov/aprwin.htm>. APRWIN is designed to calculate APRs for installment loans. However, APRWIN can be used to calculate APRs for revolving credit purchases if it is assumed that the consumer gradually pays off the balance – similar to an installment loan – rather than making the minimum payment each month.

<sup>3</sup> Information about this credit card is available at <http://www.capitalone.com>.

<sup>4</sup> The purchase APR is the rate advertised on the Capital One website on September 19, 2008.

<sup>5</sup> Information about this credit card is available at [http://www.landing.orchardbank.com/media/disclosure?&cmd\\_lpage=&indicator=OB025&media=02PS043AAA0807040990XHHHH](http://www.landing.orchardbank.com/media/disclosure?&cmd_lpage=&indicator=OB025&media=02PS043AAA0807040990XHHHH).

<sup>6</sup> Rates and fees reflect those included on Orchard Bank's website on September 18, 2008.

<sup>7</sup> Payday loans are not discussed in the technical notes because the CBP's payday lending chartbook explains how this product works.

<sup>8</sup> The Legislature transferred the licensing and regulatory authority over the state's payday lenders to the Department of Corporations (DOC) from the Department of Justice effective December 31, 2004. The DOC maintains and updates the database of the state's payday lenders on an ongoing basis.

<sup>9</sup> See <http://www.batchgeocode.com/> for more information. The vast majority of the time, this tool accurately assigns latitude-longitude coordinates even when street addresses are misspelled or zip codes include typographical errors. However, if an exact address cannot be located because of typographical errors, this tool assigns latitude-longitude coordinates that correspond to the center of the city included in the address. Because the CBP was unable to review each payday lender's address for accuracy, there is a small chance that some payday lenders are mapped in the incorrect location within a city.

<sup>10</sup> See <http://www.assembly.ca.gov/committee/c7/asmfinal/> and <http://www.sen.ca.gov/ftp/SEN/senplan/senate.htm> for legislative district boundaries and <http://www.census.gov/geo/www/maps/> for Census tract boundaries.

<sup>11</sup> These were the most recent data available at the Census tract level.

<sup>12</sup> The CBP based these cutoffs on the income limits used by the US Housing and Urban Development to determine families' eligibility for housing assistance programs. See *Fiscal Year 2008 HUD Income Limits: Briefing Material* (US Department of Housing and Urban Development: January 18, 2008), downloaded from <http://www.huduser.org/datasets/il/il08/IncomeLimitsBriefingMaterial.pdf> on April 18, 2008.