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Hearing on

An Examination of the Availability of Credit for Consumers

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Good morning Chairman Bachus, Ranking Member Frank and distinguished members of the subcommittee. I am Kimberly Manturuk from the Center for Community Capital at the University of North Carolina at Chapel Hill. I am honored to have the opportunity to share some thoughts and research on credit options available to underbanked American households. This hearing comes at a time when families of all income levels are struggling with financial insecurity and need all the help they can get in rebuilding their financial lives. For over a decade, the Center for Community Capital has conducted research and analysis into the transformative power of capital on the economic health of households and communities in the U.S. Our in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively.

I will draw particularly on several recent studies our center has conducted. Two of these were commissioned by the NC Commissioner of banks, as North Carolina has been at the forefront of promoting a financial services environment where both lender and consumer can prosper. Our first study evaluated the credit needs of North Carolina working families after payday lending was de-authorized in the state. The second study examined the costs and benefits of consumer installment lending, once the primary source of credit for working families in the US. This study was commissioned to explore how the state's longstanding consumer finance law could best balance the profitability of the lenders with the needs of consumers. A third body of our research examines the overall financial attitudes and preferences of low income consumers from the standpoint of savings, debt and money management.

In my remarks, I will summarize the findings of this body of research on credit options available to lower-income households. I will also discuss several emerging or innovative credit products that meet consumer demand for credit in affordable and sustainable ways. On the basis of the study findings, I will present policy recommendations for improving financial conditions for underbanked households. Attached to this written testimony is the complete text of one of our studies on this topic.

First, I will highlight our top findings and policy implications:

1. We find that most lower-income families have multiple options available when facing an immediate financial shortfall. Very few families rely on a single form of credit.
2. Families express a clear preference for lower-cost, sustainable options when seeking credit. However, these options can be inconvenient or time-consuming to access. In our view, policymakers should consider ways to encourage lenders, particularly non-depository institutions, to better leverage technology to increase consumer access to low-cost credit options.
3. Several emerging developments in the consumer credit landscape highlight how credit products can be structured to meet consumer demand for affordable credit while remaining profitable for lenders.

Research on Credit Options for Underbanked Households

I will start by providing an overview of the landscape of small-dollar consumer credit in North Carolina before presenting the findings from our Center's research in this area. In 1997, the North Carolina General Assembly exempted loans under $600 from the North Carolina Consumer Finance Act which capped the interest rate on such loans at 36%. This resulted in significant expansion of the small-dollar consumer credit industry in North Carolina. They majority of these loans were made by payday lenders who made loans around $300 for a two-week time period. In 2000, lenders in North Carolina made a total of 3.5 million loans to just over 413,000 customers[1].

In 2001, the North Carolina legislature allowed the small-dollar loan exemption to expire, effectively ending the availability of payday loans in the state. Some lenders continued to operate through partnerships with out of state banks, but by 2006 all remaining lenders entered in to agreements with the state Attorney General's office and ceased operating in the state[2].

Managing Financial Shortfalls

In 2007, the North Carolina Office of the Commissioner of Banks asked researchers at the Center for Community Capital to evaluate the impact that ending payday lending in the state had on the credit options available to lower-income and traditionally underbanked residents[3]. We sought to determine whether households had sufficient options to deal with financial shortfalls or income disruptions, and how those options compared to payday loans. To accomplish these objectives, we conducted two types of analysis. First, we conducted a survey of 400 lower-income North Carolinians about financial shortfalls their households faced, and how they managed these shortfalls when they occurred. We conducted this survey in the three metropolitan areas of North Carolina that previously had the highest concentration of payday loan companies. Second, we conducted two focus groups of former payday borrowers to understand their experiences with payday lending, and the impact payday de-authorization had on their ability to manage financial shortfalls.

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[1] North Carolina Commissioner of Banks (NCCOB). 2000. *Annual report of check cashing businesses licensed under article 22 of chapter 53 of the North Carolina general statutes fact sheet*. Raleigh, NC: NCCOB.

[2] North Carolina Attorney General (NC A.G.) Press Release. March 1, 2006. *Payday Lending on the Way Out in North Carolina: AG Cooper says major payday lenders agree to stop loans.*

[3] Full text of the report available at http://www.ccc.unc.edu/abstracts/1107_NorthCarolina.php.

The majority of my comments today will focus on findings from a sub-sample of respondents who reported having experienced a financial shortfall, and therefore possibly a need for consumer credit, in the prior three years. Three-fourths of the people we surveyed said they had used multiple options to handle their most recent financial shortfall. Most people used their savings, paid an expense late, or borrowed from friends or family members, among other things. Among people who used credit to handle the shortfall, mainstream products such as credit cards and bank loans were used more commonly than fringe products such as pawn shop loans or auto title loans. The use of multiple options suggests an elaborate level of management, where consumers are layering in resources in some order of preference.

We used reasonable assumptions of cost to categorize the alternatives as "no or low cost" (borrowing from friends and family, using savings, borrowing from retirement, receiving charity, taking an employer loan, taking a bank loan), "moderate cost" (using a credit card, taking a finance company loans), and "high cost" (bounced check, pawn shop loan, payday loan, auto title loan, tax advance loan). We did not include the unknown and highly variable options, which includes bankruptcy, debt negotiation, and not paying or paying late. Regardless of how many options used, the most commonly used options were no- or low-cost, especially if one considers that 40% of no- or late-pay events also carried no financial cost. The exception was those who relied on four or more options to meet their financial need. For this group, high-cost options out-numbered moderate-cost options driven by a relative increase in bounced checks and decrease in credit card use.

Based on these findings, we conclude that lower-income households are aware of multiple credit options when facing a financial shortfall. Furthermore, people demonstrate a general preference for lower-cost credit products. However, people often rely on multiple sources of funds when faced with a financial shortfall which suggests that none of the available options are fully meeting consumer needs.

Fairness and Satisfaction Scores

We asked study participants to rate the fairness of each credit product they had used in the prior three years to handle a financial shortfall. We also asked them to rate how satisfied they were with the product. Both scores were on a scale from one to five. Bank loans received the highest fairness score and scored among the most satisfying. The highest satisfaction score went to finance company loans, and the lowest to pawnshops. This is consistent with a study by MarketSearch[4] in which respondents also gave finance companies the highest satisfaction ranking and pawnshops the lowest among several "alternative financial services." While we can only conjecture as to why, it is worth noting that finance company loans, most loans against retirement savings, and certain bank loans are the only amortizing, closed-end options on the list. This suggests consumer demand for credit products that include a clear path for repayment. The products with the lowest satisfaction scores were open-ended products such as credit cards, pawn shop loans, and payday loans.

Focus Group Research

In the course of our research, we also conducted two focus groups in Charlotte, NC. For both groups, we recruited former and current payday loan customers. Our objective was to find out what their credit

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[4] MarketSearch Corporation. 2007. *North Carolina Office of the Commissioner of Banks consumer banking and finance study*.

needs were and what types of products met their needs. All participants were attracted to payday loans for the same reason: The loans were private, fast, and above all, easy to obtain. People cited the short application process, no credit check, and the guaranteed acceptance. When asked whether they would have been able to get a payday loan if there had been a credit check, they generally thought not.

Participants also expressed a need for small-dollar credit. Many participants said they doubted that a bank or finance company would be willing to lend them only a couple hundred dollars. Along similar lines, people also expressed reservations that they would be welcomed at a bank and felt that bank employees looked down on lower-income customers.

However, there was overwhelming agreement that payday lending as it had existed in North Carolina was not meeting these consumers' credit needs. People felt that, in order to meet their needs, they wanted credit products that offered a lower interest rate and a longer repayment schedule with installment payments. The former payday loan customers we spoke to, including those who wanted to retain the option, wanted a lower APR and longer, amortizing repayment terms as well as limits on renewals and amounts borrowed. Some of these changes would fundamentally alter the nature and economics of payday loans. Industry "best practices"[5] do not begin to approach the requirements our focus group participants wanted.

Emerging Developments in Consumer Credit

The most widely-used credit product across all households is a credit card. As of 2009, 63% of North Carolina residents had used a credit card within the prior two years[6]. In spite of their widespread use, many customers report being dissatisfied with credit cards because the interest is compounding and it is not clear how much the customer must pay each month to retire the debt. On the other hand, banks and credit unions offer credit products with fixed terms and a clear repayment schedule. However, underbanked consumers often do not qualify for such loans. When looking at loans by credit score quintile, for example, only 6% of loans made to people in the lowest quintile came from a bank or credit union[7]. The result is that many underbanked consumers turn to alternative financial services to meet their credit needs. However, it is clear from our research at the Center that many of these so-called fringe credit options available to underbanked households such as payday loans or pawn loans do not meet the needs of most consumers.

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[5] The trade association, the Community Financial Services Association of America (CFSA), requires its members to abide by a set of best practices. These can be found on their website, www.cfsa.net/industry_best_practices.html. As of October 1, 2007, the list included: full disclosure including fees and APRs, compliance with the law, truthful advertising, encouraging consumer responsibility, limiting rollovers to lesser of 4 or the state limit, a one-day right of recision, using legal collection practices, not threatening or pursuing criminal action against customers for nonpayment, self-policing, supporting balanced legislation, offering extended repayment plans to customers who are unable to repay under their original contract, a special best practices for loans to active duty military customers, offering internet loans only in states where licensed and in compliance with that state's laws unless those laws are federally preempted, and display of the membership seal.

[6] The Consumer Finance Act: Report and Recommendations to the 2011 General Assembly, available at http://www.nccob.gov/Public/docs/Financial%20Institutions/Consumer%20Finance/NCCOBReport_Web.pdf

[7] Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit, Board of Governors of the Federal Reserve System, August 2007. Available at http://www.federalreserve.gov/boarddocs/rptcongress/creditscore/default.htm

There are some emerging products in the small-dollar consumer credit space, however, which offer reasonable terms and conditions while retaining profitability for lenders. I'd like to conclude my testimony by highlighting a few of these products.

FlexWage[8] works with employers to give workers access to a payroll card with a linked salary-advance feature, an alternative to the traditional payday loan. Through its WageBank product, the company makes available wages that have been earned but not yet paid. Customers are charged a flat convenience fee for the "predisbursement" of earned wages. There is no loan, and nothing to repay. The funds are distributed on a Visa-branded prepaid card to the employee.

For consumers who need to borrow more than their already-earned salary, Workers Choice USA[9] allows employees to borrow up to 50% of their monthly salary at a competitive interest rate. The lender remains profitable because there are very low underwriting costs associated with these loans since most of the borrower's information has been previously verified by the employer. Repayment is done via payroll deduction and there is no cost to the employer to offer these loans. Our research indicates that there is customer demand for employer-based lending of this type.

In 2001, the North Carolina State Employee's Credit Union (SECU) introduced a 12% APR product called the Salary Advance Loan (SALO). With more than 1.3 million members, SECU is the nation's second largest credit union[10]. Typical SALO borrowers earn less than $25,000 per year and have low account balances and low credit scores. Renewal rates are high, with two-thirds of SALO customers taking out a SALO every month, so SECU requires the borrower to deposit 5% of every new SALO into a savings account. Over the past ten years, SECU has made over five million loans and lent a total of over two billion dollars. They have had an average annual charge-off, or bad debt expense, of just 0.19%; and $8 million of accumulated savings account balances. SECU calculates it is saving members $33.6 million a year in payday loan fees[11].

Our research also provides evidence that low income households need better tools for smoothing income and positioning themselves to deal with financial ups and downs through saving. However, underbanked families generally lack access to affordable savings products to prepare for rainy days; standard bank savings accounts typically cost more in monthly fees than modest balances can earn in interest. Nor do they often have access to employer-based retirement savings – especially those with matching employer contributions, and to the many savings-related tax benefits that flow to more affluent households. Yet our research and the work of others affirms that low income families have a high desire to save and, when given the right tools and institutions, will do so.

Over the past two years, we have evaluated $aveNYC, a program in New York City designed to help lower-income families save part of their tax refund. Through the course of this research, we found that 90% of lower-income households said saving money was important to them as a way to prepare for emergencies. However, 80% said unexpected expenses made it difficult to save and 87% said all their

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[8] Details about the FlexWage product can be found on their website at http://www.flexwage.com/.
[9] Details about WorkersChoice USA can be found on their website at http://www.workerschoiceusa.com/overview.asp
[10] National Credit Union Administration (NCUA) *2007 Directory of Federally Insured Credit Unions* (http://www.ncua.gov/data/directory/2007/CUDirectory07.pdf).
[11] Stegman 2007 and State Employees Credit Union (SECU). 2006. Press Release. *SECU's Alternative Program Saves Salary Advance Members $2.8 million each month*. February 22, 2006.

money went towards paying expenses. In spite of these barriers, almost 90% of people who signed up for the savings program were able to save for a full year or more, and many reported feeling more confident and secure in their financial situation because they had money saved[12].

In conclusion, our research indicates that there is a strong demand for small-dollar consumer credit that is ill-served by existing products such as payday loans, credit cards, or bank loans. Consumers want credit that is affordable, repayable, and close-ended. This promise is found in the Federal Deposit Insurance Corporation's (FDIC) Affordable Small-Dollar Loan Products Guidelines issued in June 2007, which calls for FDIC-supervised financial institutions to promote consumer credit products with an APR not to exceed 36% and amortizing payments[13]. The guidance also recommends underwriting for ability to repay, incorporating a savings component into the product, working with other organizations, and providing an avenue for financial education. We encourage lawmakers to promote policies which encourage these types of loans, as well as continue to encourage technological innovation in the development of consumer credit products.

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[12] Details about the $aveNYC program can be found at http://www.nyc.gov/html/ofe/html/poverty/save.shtml.
[13] Federal Deposit Insurance Corporation (FDIC). 2007. *Affordable small-dollar loan products final guidelines*. FIL-50-2007. June 19. http://www.fdic.gov/news/news/financial/2007/fil07050.html.

North Carolina Consumers after Payday Lending:

Attitudes and Experiences with Credit Options

November 2007

Prepared for the North Carolina Commissioner of Banks

Center *for* Community Capital

Research and analysis on the transformative power of capital

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The Center for Community Capital at the University of North Carolina at Chapel Hill is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States.

The Center's in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively.

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Executive Summary

The UNC Center for Community Capital undertook this study at the request of the North Carolina Office of the Commissioner of Banks to assess the household credit market since the closure of payday lending stores in North Carolina in 2006.

Researchers were asked to determine:

- What effect has the end of storefront payday lending had on low- and middle-income households?
- Do residents have adequate options to deal with financial hardships?
- What options are most commonly used, and how do they compare to payday loans?
- Are North Carolina residents worse off or better off without payday lending?

The Center conducted two phases of consumer research:

1. A survey of 400 low- and middle- income North Carolinians about financial shortfalls their households faced, and how they managed these shortfalls when they occurred.
2. Focus groups of former payday borrowers to understand their experiences with payday lending, and the impact payday de-authorization had on their ability to manage financial shortfalls.

Researchers concluded 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.

More than twice as many former payday borrowers reported that the absence of payday lending has had a positive rather than negative effect on their household. The ban on payday lending has made no difference to most, and helped more households than it has harmed.

Payday borrowers gave first-hand accounts of how payday loans are easy to get into but a struggle to get out of. These borrowers universally agreed that the cost of payday loans was excessive.

Nearly nine out of ten households surveyed think that payday lending is a bad thing. This overwhelming negative view of the product did not vary significantly for households that had experienced a financial shortfall.

Phase I: Consumer Survey

The goal of the consumer survey was to learn how low- and middle-income households manage financial shortfalls, particularly now that storefront payday lending is not available. Proponents of payday lending have argued that without access to payday loans, low- and moderate-income households would struggle in the face of financial crises or turn to more onerous options. We wanted to explore householders' actual experiences. What resources do they use in the event of financial shortfalls? Were they obtaining payday loans via the Internet, crossing state lines perhaps, or using more costly alternatives?

Sample Selection and Survey Methodology

The Center's objective was to survey people who may have been most likely to consider obtaining a payday loan prior to closure of payday loan stores. In North Carolina, payday borrowers generally had a household income below $50,000.[1] To qualify for a payday loan, they also had to have a checking account and be employed. We limited our sample to households making no more than $45,000 per year, with a regular source of income and a checking account in the past three years, and where the primary wage earner was not a full-time student.

We contacted households in three urban areas—Charlotte, Raleigh, and Fayetteville—that had among the highest number of payday lending stores when the practice was allowed. Charlotte, North Carolina's largest city, is close to the border of South Carolina, where payday lending is still legal. Raleigh, the state capital, is more centrally located in the state. Fayetteville, in eastern North Carolina, is home to the Fort Bragg military base and had a high level of payday loan stores per capita before the ban.[2] Previous data indicates there is a significant, positive relationship between the number of payday stores in one's neighborhood and the likelihood of taking out a payday loan.[3] Therefore, we targeted our calls to zip codes where there had been the most payday lending stores.

The survey was conducted in the spring of 2007 using random-digit dialing to call phone numbers within the three target areas, in English only, giving us a random cluster sample of lower-income, English-speaking, urban residents of North Carolina who have (or recently had) a bank account. At the beginning of the 10 to 15-minute survey, we told people we were conducting a survey about how people use credit and manage expenses; we did not use incentives. The cooperation rate was a low 7.79%, primarily because we were unable to contact anyone at many of the numbers called.[4] The refusal rate was 38.21%; the majority of those declined before we gave them any information about the survey, so we have no basis to believe bias was introduced by refusals. Our overall contact rate was 46.86%, and we completed 401 interviews.[5]

Survey Findings

We differentiated the interviewees between those who had a recent financial crisis and those who had not. The first group, 159 respondents, reported they were unable to meet household expenses or had a financial need that they could not pay with their regular household income. The second group, 240 respondents, reported not having had a financial crisis in the previous three years that they could not handle with their regular income.

Table 1 below presents descriptive statistics on these groups. Though random cluster sampling should assure us of a representative sample, when compared to all households earning less than $45,000, our sample includes fewer White and Hispanic households and more Black households, probably attributable to the neighborhood focus and English-only survey. Most significantly, our sample includes substantially fewer married households than expected. Likely due to the study being conducted via telephone during a short period of time, our sample includes more widowed respondents than expected since they are more likely to be retired and easier to contact quickly by telephone. To ensure that the distribution of marital status within our data set did not compromise the representativeness of our findings, we weighted the sample to mirror the overall population attributes for marital status and found almost identical responses for the data presented in Table 2.[6] For more details on this analysis, see the endnote (6). The distribution pattern is an artifact of the survey delivery method and is unrelated to our sample selection criteria. Moreover, it did not affect the findings related to awareness and attitudes about payday lending.

Table 1: Descriptive Statistics

	All respondents (N=401)		Had financial crisis (N=159)		No recent financial crisis (N=240)	
	Freq	Percent [1]	Freq	Percent [1]	Freq	Percent [1]
Male	132	32.9%	52	32.7%	80	33.3%
Female	269	67.0%	107	67.3%	160	66.7%
Own home	281	70.6%	92	57.9%	188	78.3%
Rent home	106	26.6%	60	37.7%	46	19.2%
No children at home	335	84.0%	116	72.9%	217	90.4%
1 or more children	64	16.0%	42	26.4%	22	9.6%
1 Adult in household	231	58.0%	87	54.7%	143	59.6%
2 Adults in household	146	36.7%	59	37.1%	86	35.8%
3 + Adults in household	21	5.2%	11	6.9%	10	4.2%
Receive any government income	127	31.7%	35	22.0%	92	38.3%
Income Less than $10,000	43	12.0%	18	11.3%	25	10.4%
Income $10,000 to under $20,000	75	21.0%	40	25.2%	34	14.2%
Income $20,000 to under $30,000	109	30.5%	45	28.3%	64	26.7%
Income $30,000 to under $45,000	130	36.4%	45	28.3%	84	35.0%
Single, never married	119	30.0%	55	34.6%	64	26.7%
Married or living with a partner	104	26.3%	43	27.0%	60	25.0%
Divorced or separated	69	17.4%	36	22.6%	33	13.8%
Widowed	104	26.3%	23	14.5%	80	33.3%
White, Non-Hispanic	225	57.1%	75	47.2%	149	62.1%
Black, Non-Hispanic	151	38.3%	76	47.8%	74	30.8%
Hispanic	5	1.3%	0	0.00%	5	2.1%
Asian	3	0.8%	2	1.26%	1	0.4%
Other Race	10	2.5%	5	3.14%	5	2.1%
Has a credit card	293	73.1%	97	61.0%	195	81.3%
Gone over credit card limit	29	9.2%	22	19.6%	6	3.0%
Denied credit	50	12.6%	37	23.6%	13	5.5%
No savings account	83	21.0%	46	29.1%	36	15.3%
<2 months expenses in savings	106	34.4%	66	60.0%	40	20.2%

[1] Within-category percents do not sum to 100 because some people elected not to answer all questions

There are some significant differences between the two groups.[7] People who had experienced a financial crisis in the prior three years were more likely to:

- Rent their home
- Not have a credit card
- Have gone over the credit limit if they had a credit card
- Have been denied credit or not received as much credit as requested
- Not have a bank or credit union savings account
- Have less than two months of living expenses in savings
- Be divorced

Payday Lending is Not Missed

We asked about the termination of payday lending in the state (see Table 2). Most respondents—three out of five—were not even aware that payday lending is no longer allowed in the state. The exception was former payday borrowers of whom 60% were aware of North Carolina's ban on payday lending.[8]

The vast majority of households surveyed—more than three out of four—said the elimination of payday lending had no effect on their household. This percentage declined only slightly for those families that experienced financial distress (71%) or who had been payday borrowers in the past (68%).

The overwhelming majority of households—almost nine out of ten—said payday lending was a "bad thing." [9] This strong negative rating held true for households that had experienced a financial hardship or had borrowed from a payday lender in the past.

Respondents who felt they were better off without payday lending well out-numbered those who thought they were better off with it. For the full sample, twice as many respondents said the absence of payday lending has had a positive effect on their household than said it has had a negative effect. The 159 respondents who actually experienced a recent financial shortfall—arguably those most likely to consider a payday loan and miss its availability—had responses similar to the overall survey population. Notably, the ratio of positively-affected households to negatively-affected households was highest in this group—more than 3-to-1. Likewise, former payday loan borrowers generally felt the absence of payday lending to be a good thing, rather than a bad thing. (While a sample size of 23 former payday loan customers is insufficient to draw conclusions of statistical significance, it is notable that the numbers follow a pattern similar to the full sample and to the sub-sample of those who had experienced a financial shortfall.) In short, the responses suggest that former payday customers do not, on the whole, have a different view of payday lending than other respondents to the survey.

Table 2: Payday Lending Attitudes and Experiences

	Full Sample		Financial Shortfall		Former Customers	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
Aware that payday lending is not allowed in North Carolina	155	39.6%	66	42.0%	14	60.9%
Not Aware	236	60.4%	91	58.0%	9	39.1%
	N=391		N=157		N=23	
Think payday lending was *A Bad thing*	286	88.3%	114	87.0%	17	73.9%
A Good thing	38	11.7%	17	13.0%	6	26.1%
	N=324		N=131		N=23	
Prohibiting payday lending has *no effect* on my household	287	77.2%	107	71.8%	15	68.2%
Positive effect	58	15.6%	32	21.5%	5	22.7%
Negative effect	27	7.3%	10	6.7%	2	9.1%
	N=372		N=149		N=22	

See endnote (6) for results using weighted samples.

Households are hardest hit by shocks to income and expense

The findings presented in the remainder of this section apply only to the subsample of 159 participants who reported experiencing at least one financial shortfall in the past three years (unweighted).[6] Of these, 142 were able to identify the factors that contributed to the **most recent time** they had a shortfall (see Table 3). For most (60%), the financial crisis resulted from a combination of factors rather than from one single event. The single most common cause was an illness or some other medical expense, followed by transportation expense. Conceivably, these top two causes have a compound effect of both increasing household expense and decreasing income (if illness or transportation impedes ability to work). Tied for third place was loss of income and home repairs.

Table 3: Reasons Given for Most Recent Financial Shortfall

Reason	Frequency	Percent [1]
Illness, disability or some kind of medical expense	70	49%
Car repair or other transportation-related costs	53	37%
Home repairs	42	30%
A loss of income due to a job loss or cutback	42	30%
A major household appliance purchase	18	13%
Tuition or other school-related expenses	12	8%
Regular expenses exceeding income	11	7%
Other income or expense shocks[2]	8	5%
Other[2]	4	3%

[1] Percents do not sum to 100 because respondents could select multiple options

[2] “Other income and expense shocks” include such events as death or divorce, apartment fire, loss of child support, need to pay property taxes. “Other” includes spending on vacation travel, entertainment-type purchases, gambling, and friends.

People Use Multiple Options to Handle Shortfalls

We asked these 159 respondents whether they had used any of a series of options during periods of financial shortfall. To learn more about specific behaviors, we also asked them to reflect on the *most recent* financial crisis in particular.

Our research revealed important information about how people handle financial emergencies. The most common option, over the last three years and most recently, was to pay the expense late or not to pay (see Table 4). Of those who obtained funds to pay the expense, most relied on credit cards, savings, or friends or family members. Bank loans and bank overdrafts were other frequent options.

Most people used more than one strategy. The 159 respondents used more than 500 options in the last three years and just over 300 options in their latest shortfall alone. About a quarter of respondents said they used only one or none of the options over the previous three years, indicating that around three-fourths of those surveyed are familiar with a range of credit options.

Eight percent used payday loans in the prior three years. Storefront payday lending ended in North Carolina roughly one year prior to our survey. Though some lenders offer Internet payday loans in this state, these are subject to North Carolina law as well, regardless of the lender's location.[10]

Table 4: Number of respondents who used each option in previous three years

	For all shortfalls in past three years		During most recent shortfall specifically	
Option	Freq.	Percent who used [1]	Freq.	Percent who used[1]
Did not pay/paid the expense late	82	52%	68	43%
Used money from a savings account	70	44%	53	33%
Obtained money from friends/family	67	42%	47	30%
Used a credit card/cash advance	62	39%	33	21%
Took out a bank loan/line of credit	44	28%	19	12%
Bounced checks/used overdrafts	36	23%	16	10%
Borrowed from insurance/retirement	26	16%	14	9%
Received money from church/charity	21	13%	12	8%
Obtained a pawnshop loan	17	11%	9	6%
Loan from finance company	15	9%	5	3%
Sought bankruptcy protection	15	9%	6	4%
Received a payday loan	13	8%	6	4%
Received tax refund advance	10	6%	5	3%
Borrowed from employer	9	6%	4	3%
Obtained loan from auto title lender	9	6%	1	1%
Entered debt negotiation	9	6%	3	2%

[1] Percents do not sum to 100 because respondents could select multiple options

These findings are roughly consistent with a survey of the general population in March and April of 2007.[11] Among those 500 households surveyed, 8% reported using a finance company, 7% taking out a tax refund anticipation loan (RAL), 4% borrowing from a payday lender, and 3% pawning an item in the prior two years.

The most frequent strategy survey respondents used was to skip paying an expense or to pay it late, but it was rarely the only strategy. Of the 68 people who skipped a payment or paid late, only 9 said that was the only thing they did. The remaining 59 people used a median of three options. The use of multiple options suggests an elaborate level of management, where consumers are layering in resources in some order of preference.

Table 5 shows the distribution of options people used to address their most recent financial shortfall. In the Options rows, the numbers are the number of people selecting that option. For example, of the 32 people who used 3 options the last time they had a financial shortfall, 25 paid an expense late or skipped paying it.

Table 5: Options used during most recent financial crisis

# Options Used	1		2		3		4	
# of People	44		35		32		20	
Total options used	44		70		96		>80	
Options:	# times used	Percent of options used	# times used	Percent of options used	# times used	Percent of options used	# times used	Percent of options used
Pay late/not pay	9	20%	16	46%	25	78%	18	90%
Family/ friends	8	18%	14	40%	11	34%	14	70%
Savings	8	18%	13	37%	22	69%	10	50%
Credit Card	5	11%	10	29%	11	34%	7	35%
Bank Loan	5	11%	6	17%	6	19%	2	10%
Bounced Checks	1	2%	2	6%	5	16%	8	40%
Charity	2	5%	2	6%	3	9%	5	25%
Retirement	3	7%	3	9%	3	9%	5	25%
Payday Loan	2	5%	1	3%	-	-	3	15%
Finance Company	1	2%	1	3%	-	-	3	15%
Pawn Shop	-	-	1	3%	3	9%	5	25%
Bankrupt	-	-	-	-	4	13%	2	10%
Auto Title Loan	-	-	-	-	1	3%		0%
Tax Advance	-	-	-	-	1	3%	4	20%
Debt Negotiation	-	-	1	3%	1	3%	1	5%
Employer Loan	-	-	-	-	-	-	4	20%

Note: Percentages represent the number of people in each column who selected a given option

More than half of those who used multiple options used their own savings as one option (45 out of 87). Only those using 3 or more options turned to bankruptcy, and only those using 4 or more chose employer loans. Payday loans were not among the most common choices.

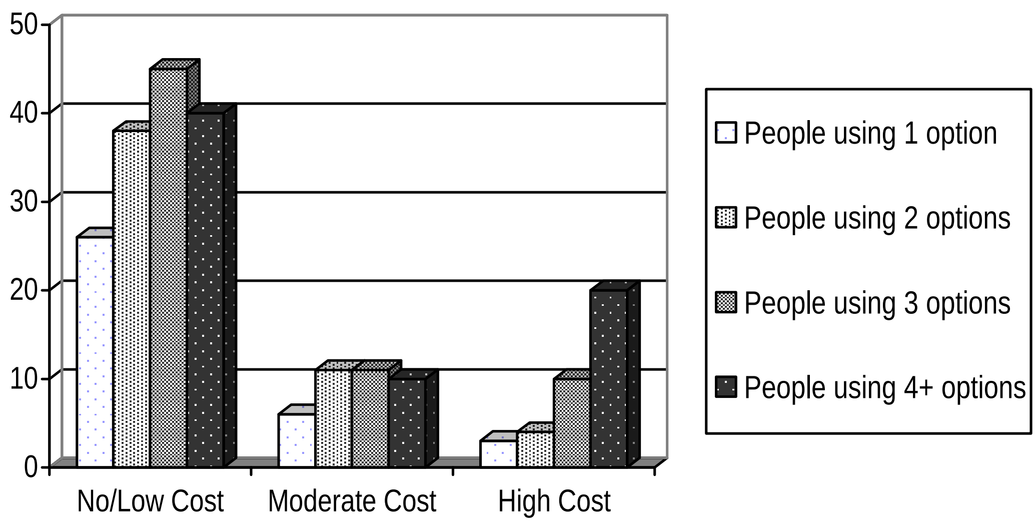
Cost Is a Factor in Selecting Options

We used reasonable assumptions of cost to categorize the alternatives as "no or low cost" (friends and family,[12] savings, retirement, charity, employer loan, bank loan), "moderate cost" (credit card, finance company loans), and "high cost" (bounced check, pawn, payday, auto title, tax advance). We did not include the unknown and highly variable options, which includes bankruptcy, debt negotiation, and not paying or paying late.

The cost of not paying or paying late was too variable to categorize. Fifty-nine of the no- or late-payers were willing to talk about their experiences of paying bills late. About 40% of these said they incurred no cost, but rather negotiated the payment over time, simply paid late, received phone calls, or had no consequences at all. Ten percent had utilities disconnected, went without a prescription medication, or had a damaged credit rating. The remaining half incurred late fees and charges, including eight respondents who said their bill was turned over to a collection agency or that they faced repossession or bankruptcy.

After separating responders by the number of options they used, we analyzed whether any group was more likely to select higher-cost options (see Chart 1). For all groups, the most commonly used options were no- or low-cost, especially if one considers that 40% of no- or late-pay events also carried no financial cost. The exception was those who tapped many sources, where high-cost options out-numbered moderate-cost options (driven by a relative increase in bounced checks and decrease in credit card use.

Chart 1: Number of options used in each cost category, by number of options respondent used in most recent financial crisis *(excluding no-/late-pay, bankruptcy and debt negotiation)*



Most people need more than $300

Table 6 shows the amounts people borrowed, by option. We used $300 as the dividing line, since this was the maximum allowable payday loan in North Carolina when the practice was authorized. Overall, the most popular amounts to borrow from a single source were from $100 to $299 and from $1,000 to $2,999.[13]

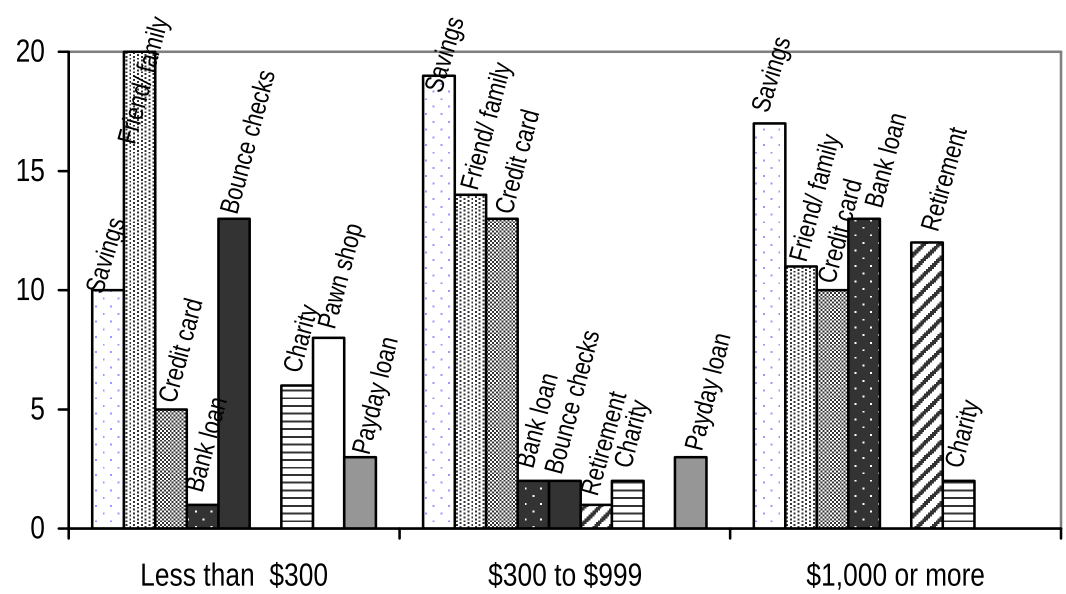
After not paying, the most common borrowing option people tapped was taking money from savings, which occurred regardless of amount of funds needed. The next most common option was to borrow from friends and family, who tended to provide somewhat smaller amounts though could still be generous. Responders across the board used credit cards but most often in the $300 to $500 range, while bank loans were the most popular resource in the high-dollar categories. Bounced checks and pawnshops were almost exclusively limited to small amounts. While only six people reported obtaining a payday loan to cover their most recent shortfall, half borrowed above $300. Of those who obtained a loan from a finance company, four out of five borrowed over $1,000. Likewise, three out of five who received a tax advance loan borrowed over $1,000, probably driven by the total amount of their refund. Pawn shops and employer loans were used exclusively below $300 while retirement and finance companies were never used for less than $300.

Table 6: Amounts Borrowed, by Source

	Less than $100	$100 to $299	$300 to $499	$500 to $999	$1,000 to $2,999	$3,000 to $9,999	$10,000 or More	Total
Savings	2	8	11	8	10	5	2	46
Friend/ family	7	13	9	5	9	2		45
Credit card	2	3	8	5	3	4	3	28
Bank loan	-	1	2	-	4	7	2	16
Bounce checks	5	8	2	-	-	-	-	15
Retirement	-	-	-	1	7	3	2	13
Charity	2	4	1	1		1	1	10
Pawn shop	5	3	-	-	-	-	-	8
Payday loan		3	2	1	-	-	-	6
Finance company	-	-	-	1	3	1	-	5
Tax advance	-	-	1	1	3	-	-	5
Employer loan	1	2	-	1	-	-	-	4
Auto title	-	-	-	1	-	-	-	1
Total	24	45	36	25	39	23	10	202

Chart 2 illustrates the nine most common options used by size (including the top five for each size category). When borrowing less than $300, the top five options are friends or family members, bounce checks, savings, pawning items, and charity. For loans between $300 and $999, people mostly rely on savings, friends and family, and credit cards. For amounts over $1,000, the top five options include those same three sources plus bank loans and retirement assets.

Chart 2: Amount Borrowed During Most Recent Financial Shortfall, by source



While people commonly borrowed less than $300, most people obtained funds from multiple sources. Only 15 of the 159 people polled used just one small-dollar option; 12 more used multiple options each of which was less than $300; while we do not know the cumulative amount obtained, ***at most***, only a quarter of the people could have needed only $300. (For this purpose, we treated no- or late-pay as a small amount). The three-quarters who we know needed more than $300 were evenly divided between those using a single over-$300 option, those using two or more over-$300 sources, and those mixing small and large amounts.

People prefer finance companies and bank loans; credit cards must be endured

We asked respondents who had used a particular option during their most recent financial shortfall two questions:

1) How fair and reasonable were the terms?
2) How satisfied were they with the option?

Table 9 presents the fairness score and satisfaction score for various credit options where the respondent turned to an institution and obtained assistance at a cost.[14] Scores range from 5 (very fair or satisfied) to 1 (very unfair or dissatisfied). These scores are the mean values for each option.

Bank loans received the highest fairness score and scored among the most satisfying. The highest satisfaction score went to finance company loans, and the lowest to pawnshops. In the MarketSearch study mentioned earlier, respondents also gave finance companies the highest satisfaction ranking and pawnshops the lowest among several "alternative financial services." While we can only conjecture as to why, it is worth noting that finance company loans, most loans against retirement savings, and certain bank loans are the only amortizing, closed-end options on the list.

We also asked people how likely they were to use various options in the future if they needed to borrow $300. The last column in Table 9 presents the percentage of people who said it was "somewhat likely" or "very likely" they would use a particular option in the future. The alternative response was "not likely." This question was asked of the full sample of 401 respondents.

Table 9: Fairness and Satisfaction Scores

	N	Fairness Score	Satisfaction Score	Satisfied-fair gap	Likely to use in the future
Take out a bank loan/line of credit	19	3.79	3.72	-0.07	39%
Borrow from employer	4	3.75	3.50	-0.25	4%
Enter debt negotiation	3	3.67	3.33	-0.34	15%
Borrow from insurance/retirement	14	3.57	3.64	0.07	16%
Bounce checks/use overdrafts	16	3.50	3.37	-0.13	8%
Loan from finance company	5	3.40	3.80	0.40	14%
Seek bankruptcy protection	6	3.17	3.33	0.16	9%
Obtain a pawnshop loan	9	3.14	2.56	-0.58	7%
Receive an early tax refund advance	5	3.00	3.20	0.20	Not asked
Receive a payday loan	6	2.83	3.33	0.50	4%
Use a credit card/cash advance	33	2.82	2.75	-0.07	29%

Although there was some correlation between fairness and satisfaction, satisfaction scores differed from fairness scores for several options. The "satisfied-fair gap" measures this difference. A large positive figure suggests that borrowers derived satisfaction over and above their perception of fairness; For example, finance companies had the highest satisfaction score but a middle-ground fairness score and payday loans had the highest such gap, with a satisfaction score well above its low fairness score. Conversely, a large negative number suggests customers were dissatisfied for reasons beyond their sense of (un)fairness; thus, people who obtained pawnshop loans did not think the terms were particularly unfair but were less satisfied than all other respondent groups.

There tended to be less difference between the satisfaction and fairness scores of the most frequently used options—bank loans, borrowing against retirement, bounced checks, and credit cards. Notably, the most-used option, credit cards, had poor scores on both measures. Respondents saw credit cards as less fair than pawnshops, overdrafts, or bankruptcy—in short, everything but auto title lenders—and neck and neck with payday lenders. On the satisfaction scale, credit cards ranked below auto title lenders and payday lenders and above only pawnshops. Despite these scores, respondents cited credit cards as the second most likely source they would use to borrow $300 in the future.

Our survey found that the overwhelming majority of low- and moderate-income families do not miss payday lending, and that most families use multiple avenues to handle financial hardships. Generally speaking, we found that households more frequently choose lower-cost options to deal with hardships and preferred term loans from banks and finance companies to credit cards and other sources of credit.

Phase II: Focus Groups–A Closer Look at Payday Borrowers

We also wanted to learn more about the experiences of people who had, at some point in the past, turned to a payday lender to make ends meet. We wanted to know more about the circumstances leading to their decision to take out a payday loan, their experiences as a borrower, their reaction to the shuttering of payday lending stores, and how they view their options to manage financial shortfalls.

Prior Research

Payday borrowers represent an estimated 5% of the United States population (Stegman 2007). They typically are from lower- to middle-income households and are more likely to be younger, female, divorced, or separated. Borrowers are also more likely to be high school educated but less likely to have graduated from college. Minorities are over-represented, even after controlling for a number of socioeconomic factors. By definition, payday loan borrowers are banked but often carry small balances.[15]

"What most borrowers have in common is significant credit constraints, including poor and impaired credit histories."[16] Payday borrowers are about four times more likely to have filed for bankruptcy[17] but there is some evidence that payday borrowing may contribute to bankruptcy.[18]

Payday borrowers are more likely to spend a greater share of their income on consumer debt payments, to revolve credit card balances, be at or near credit limits, and have been turned down for credit or been offered less than the amount requested than the general population.[19] While close to 25% have used a pawnshop, virtually none report considering a pawnshop as an alternative to their most recent loan.[20]

Although in general payday loan borrowers are experienced users of credit, there is mixed evidence as to how well they grasp the terms of payday debt. Generally, survey respondents knew the dollar fee per $100 borrowed but were much less clear on the APR. In one study, 96% of respondents could report the finance charge per $100 borrowed, but only 16% could report an APR, and 60% of those were probably wrong, including 41% who reported an APR below 30%.[21]

Industry-funded surveys report that three-quarters of respondents say they were satisfied with the experience.[22] Users report most satisfaction with the application process and the ability to refinance or renew and most dissatisfaction with cost. Far and away, the single most important reason for using a payday loan was speed and ease. Only 9% said they had no other alternative and only 1% cited greater privacy. Advertisement has the biggest influence on choosing the first payday loan, ahead of referral.[23]

Focus Group Participants

We conducted two focus groups of 10 people each, both held in Charlotte, North Carolina. The participants were all ages and included young, single people, married people with children, divorced parents, and grandparents. Sixty percent of the participants were white, 40% were black, and about 60% were women. Jobs included technician, security guard, and clerical, warehouse, and manufacturing workers. All except three participants, who said their unemployment was temporary, were working full-time. All participants were former or current payday loan customers. Some had taken their last payday loan more than two years previously, prior to payday loans becoming legally unavailable in North Carolina. However, some participants had taken out recent loans, either in South Carolina or over the Internet. Two participants reported taking out a payday loan within the previous month, and one of these was still outstanding.

We divided the participants into two groups: infrequent users of payday loans (five or fewer loans over the previous five years) and frequent users (more than five loans). In North Carolina, when payday lending was authorized, around half of all payday customers took out five or fewer loans, but they generated only 15% of the total loan volume.[24] Customers who took out six or more loans provided the majority of loan volume (85%). There was some blurring of the distinction between our two focus groups, because some participants reported few loans but actually rolled them over a number of times. In their minds each constituted a single, separate loan, although these were actually a series of repeat transactions. In fact, very few participants reported paying off their loan at its first due date. Between the infrequent and frequent payday borrowers, we found some stark differences in attitudes and experiences but some common sentiments.

Focus Group Findings

The opinions we present from these focus groups represent the consensus or majority opinions expressed by participants. Whenever significant variation exists, we present the range of opinions and beliefs expressed. Italicized phrases and remarks in quotations are direct quotes.

A few points are consistent across the spectrum of participants:

- All agreed they had paid what they considered to be an excessively high price for the loan.
- In spite of many reported difficulties, all but one person did pay off the loan.
- They universally called for a more viable credit option for borrowing a small amount of money.

General Views on Payday Lending

The motivations and experiences of infrequent payday loan customers vary significantly compared to frequent users. For example, we started the discussion with a general question, “When I say ‘payday loan’ what do you think of?” Responses from infrequent borrowers included:

- “Quick way to get money”
- “Money for emergencies”
- “Extra money between paychecks”

More frequent borrowers had very different answers. The first person to speak answered, “Rape…you are down, desperate, need money, and so you go to borrow, and you keep doing it over and over and over again.” Other responses included:

- “Addiction”
- “You go in to more debt”
- “When it’s due, when you have to repay it…then you take out another”

Why People Go To Payday Lenders

The majority of focus group participants reported that they initially took out a payday loan because they experienced a financial shock, either an unexpected loss of income or extra expense (we call this “setback” driven). These setbacks included car repairs, job loss, reduced work hours, medical bills, annual car insurance payments, or unexpected expenses incurred by a child.

Four of the twenty participants were what we term “lifestyle borrowers;” they used payday loans for non-essential expenses, such as gambling, vacations, or expensive restaurant meals. In general, lifestyle borrowers took out more payday loans more frequently than setback borrowers; all were in the frequent user category.

Occasional borrowers used payday loans to pay for unexpected costs, such as car repairs or medical bills, while many frequent borrowers used payday loans to pay necessary but expected expenses such as housing. Some frequent borrowers viewed payday loans as a kind of supplemental income.

As one participant put it: *"I knew I'd screwed up after I got out; I blame myself."* Overwhelmingly, participants did not blame the lender or the loan but rather themselves for their situation. Most participants were glad they were no longer payday loan borrowers, that they had "learned a lesson," and that they were making efforts to avoid taking another payday loan.

Awareness of Payday Loan Terms

As expected, knowledge about payday loan terms and conditions varied greatly. Everyone agreed on the basic steps of obtaining a loan and the requirement to pay it back in a few weeks (see Appendix). Most also knew that they could roll-over or renew a loan for two additional weeks by paying the fee again. But many participants did not know how to compare the costs and terms of a payday loan to other credit products.

Among infrequent users, understanding varied widely. Several said they did not understand the interest rate, or that they only realized the cost of the loan after they got home. One said that after reflecting on the loan, she felt "like I sold my soul to the devil." On the other hand, several other infrequent borrowers said they understood the interest rate at the time of the loan and accepted the terms. Some participants felt that payday loans were less expensive than pawnshop loans, while others felt pawnshops were the better deal.

The more frequent users had a better understanding of the costs associated with payday loans. Several said they had read the fine print and knew that the APR was in the 400% range. Their attitude was they needed the money. The interest rate, fees, and repayment terms were just features they had to accept rather than features to consider when making a decision. One participant captured what many voiced: "Your mind, it is set; I need the money now…you don't think about the afterwards." Another said, "It is when you have to pay it, that's when you think about it."

Easy to Get In...

"It was quick and easy...real easy."
All participants were attracted to payday loans for the same reason: The loans were private, fast, and above all, easy to obtain. People cited the short application process, no credit check, and the guaranteed acceptance. When asked whether they would have been able to get a payday loan if there had been a credit check, they generally thought not.

"The paperwork was simple. They didn't ask a lot of questions."
Many people also said they appreciated the discretion of a payday loan. One person said that with a payday loan, "there is no family drama;" another said it enabled him to "hide my head." This was a common theme—payday loans could be obtained without family members or bankers finding out; however, participants also reported that the payday loan companies contacted their employers before making the loan. Others said that payday loan companies did not report to credit bureaus, so taking a loan would not affect their credit.

"I didn't have to go through much to get it. I mean, I was in and out of there in about thirty, thirty-five minutes."
Participants said they preferred payday loans because they were faster to get than other loans. For one person, the payday loan shop was "right down the street." A few who got their loans

over the phone or the Internet said the money was in their checking account within one to 24 hours. Some participants said their payday loan company offered them another loan without requiring another application.

"Small amounts"
Many were attracted by the fact that they could borrow small amounts. They felt that lenders such as banks or finance companies would not be willing to loan them only a few hundred dollars.

"The guy I did my business with at that one place, he did not look like your typical lounge lizard."
Finally, several participants mentioned that payday lending shop employees were friendly and personable. This did not necessarily influence their decision to take out a payday loan, but it made them feel more comfortable about doing so. They noted the cleanliness of the stores and the fact that employees remembered their names. Payday loan employees were "non-judgmental," many participants said, while bank employees looked down on low-income people.

*"They always offered me more." "If you need money in the first place and they say, 'Well, here's what you **really** can do', quite naturally your eyes see that."*
Most people borrowed more than they had initially intended to borrow. Many participants told how they ended up getting a larger loan because payday loan employees told them they could. For example, according to one participant, an employee might say, 'Just in case something comes up behind that, you might need more.' One woman said, "You get a little extra," and another added, "To blow."

"I was like 'what? I can do that again? Really? Oh, okay, let me take it back out.'"
Some focus group participants said the loan representative made loans available to previous customers even if they didn't ask for one. One woman said she got e-mails from the Internet loan shop she used letting her know she could get another loan; others got phone calls. Some customers also were offered a small incentive for making referrals.

"Nice people…yea, as long as you came back and paid it off after two weeks and then took out your next one. They're happy you're not one of the ones they have to chase down… I'd always be back so they always liked me."

…But Hard to Get Out

"I even get them calling me asking 'would you like to extend your loan?' and my answer was always 'why yes, I would!'"
Participants were quick to point out that payday features they liked were outweighed by negatives, and sometimes the positives turned into negatives: "It's *too* easy." Several explained that payday loans' easy access became a problem when they started taking out loans on a regular basis. One man said, "Every two weeks I have to run down and get another [loan] before they close. It became a part of my life, until I realized I was paying $45 every two weeks. Then it started to come to me."

"I get happy, but then I realize I'm probably perpetuating the problem…Then reality sets in… I've put myself in another bind again."
Most customers also said that the payday loan delayed rather than resolved the financial problem that led them to take out the loan, or resolved it in favor of another problem. While many reported feeling extreme relief, almost euphoria, upon receiving the loan, they also said reality set in as payday neared. Frequent customers especially said that two weeks later, when the loan was due, their financial situation had not changed and they did not have the money to cover the loan. At first they thought of a payday loan as income or extra money, but later they realized that rather than adding to their income they had just "killed one bill with another." Almost all agreed it was easy to get trapped in a payday loan.

"It is really easy. You just go down and give them another $30 and you have another two weeks to pay it back."
This was a typical response to the question, "Did you find it easy to pay off your loan?" In fact, participants' comments implied that it is very easy to *not* repay a payday loan and instead pay another fee and delay payment for two weeks. They told of lenders giving them grace periods or "holding their check" past the due date to give them time to renew.

"It became a habit."
Focus group participants generally felt that payday loans have some appealing features but that these are outweighed by high fees and a short repayment period. Frequent borrowers said when they took out their initial loan they believed they could pay it back within two weeks, but most rolled over that initial loan several times. Some took as long as a year to finally pay it off.

"I don't know anybody who knew how to work it right, to use it for the main purpose it is set up to be."
Only two of the twenty participants said the payday loan had truly resolved their problem. One man said payday loans improved his situation because he used the money to continue taking out his girlfriend without her knowing he spent much of his income on gambling. The other said the loan's onerous terms had taught him a lesson and led him to fundamentally change his financial management.

Paying off

"I started calculating. I'll never get out of it. If you're already struggling, you'll never come out of it."
One frequent borrower explained, "If you borrow $300 and pay back $45, and you're going in there two times a month, at the end of the year that's $1,180 in interest and you still owe $300. That's what woke me up—$1,180. You could use that for something a lot more important."

"You see yourself in a hole."
Participants said they saw payday loans as a "quick fix." One said it become "more of a burden than a convenience." Four frequent borrowers got money from other sources to pay off their payday loans, including pawnshops, friends and family, and a bank overdraft that was subsequently converted to an installment loan.

"I would come down a level each time I'd go until I paid it all."

When pressed, most said it had been difficult to pay back their loans. Several people said that once they realized how much the cycle cost them, they paid off by “easing out,” taking consecutively smaller loans. Others took part-time jobs or cut back on spending.

“The interest rate is already outrageous.”
Customers felt strongly that the cost was excessive. All except one participant reported paying off every payday loan they took, and they did not see that they posed such a risk as to warrant the fees they were charged, particularly when they had a long track record of paying on time. One contrasted the price of a payday loan to the cost of cashing a check and felt the difference was not justified. Participants found several aspects of payday loans burdensome: They wanted lower interest rate caps and longer repayment schedules with installment payments. Many said they would prefer being able to receive a loan from their employer.

End of Payday Lending

“Thank you Jesus! Yes! Now I can't do it anymore!”
We asked participants if they were aware that payday lending is no longer allowed in North Carolina, and most were. When asked if this was a hardship, both groups had an immediate and strong common reaction: “No, no, no; I think that’s a *good* thing!” Another woman said, “They're there basically to rob people that need money...they're the devil!” Most participants were glad they no longer had the temptation.

However, when asked more abstractly whether “people” should have the right to take a payday loan, all but two agreed that they should. This apparent contradiction highlights the conflict between people’s desire to be protected from what they view as unfair business practices, and their deep sense of independence and accountability. One man voiced this faint praise: “You’re an adult. You signed the contract. They put their terms there. I think it’s shady that they allow it to be that high. They’re preying on people on hard times… But they should be allowed to have a business.”

Participants reported using several different credit alternatives, though no single alternative was widely used. Seven used overdrafts, a few patronized pawnshops, and two took out auto title loans. One resorted to “EZ lease,” in which, she explained, she provided the lender with post-dated checks and serial numbers on several appliances in exchange for cash at a steep finance charge, on terms that earned the comment, “There are worse things.” Two lifestyle borrowers used Internet payday lenders. For the most part, those using South Carolina payday lenders had always used South Carolina lenders.

Others had developed lower-cost strategies. “It aggravated me that I was stupid enough to not ask someone in the family to lend me the money,” one said. And another has learned how to negotiate with bill collectors instead of taking on more new bills.

Some were managing without debt, by changing their spending habits, taking on another job or more hours, or simply doing without. “I’d rather stay home,” one person said. One person had used payday loans to smooth cash flow in her insurance billing business, because her clients, who were doctors, were often slow to pay. She now requires them to pay on time.

Many participants appealed for small-dollar credit options that could ease, rather than increase, financial strain in difficult times. Their attitudes about regulation displayed a lack of clarity about what was and wasn't regulated but also some faith in the capacity of appropriate regulation to protect them. These 20 current and former payday borrowers have much the same views as those expressed by respondents in a much broader survey of North Carolinians' perceptions of financial services: "Findings also identify uncertainty and mixed opinions relative to the state's banking regulations …however, findings identify clear support for regulations and opportunities to strengthen them even more."[25]

Focus Group Conclusion

Experts in behavioral economics argue that situational factors, such as daunting complexity, conveniences or minor obstacles, influence of peers overriding expert advice, can lead us all to make sub-optimal decisions. Because financially constrained individuals have less room for error, poor financial choices—even if driven by apparently modest factors—can have make-or-break consequences.[26] The Consumer Credit Research Foundation found that "simplifications" are an important part of the appeal of payday loans,[27] and our focus group participants echoed that point. The themes of speed, ease, and convenience resound throughout the research and our focus groups, which may partly explain why payday lending appeals to certain consumers, and why, at the same time, it is not sorely missed.

Conclusion

Our research introduces the experiences and opinions of low- and moderate-income North Carolinians and former payday loan users into the debate over consumer protection in the credit market. Most surveyed households consider themselves better off or unaffected by the closing of payday loan stores in North Carolina. The demand for consumer credit remains, but households currently handle financial hardships in a variety of ways. Low- and middle-income households experience financial shortfalls largely because of circumstances beyond their control and typically borrow more than $300 to pay their debts. By and large, they are willing to contribute from their own assets and work with service providers, and they manage and repay a range of debt sources. Thus, in our analysis, the policy decision to ban payday lending was effective because it was a net benefit to households and does not appear to have materially curtailed the availability of credit for these households.

In focus groups, former payday borrowers reported receiving payday loans quickly, easily, and with little review of their ability to repay. Few were able to pay off the easy-to-obtain loans in the timeframe they had expected. Frequent users--those who generated the preponderance of payday transactions--were more likely to abuse the product and borrow repeatedly. Payday loan customers, even those who want to retain the option, wanted a lower APR and longer, amortizing repayment terms, as well as limits on renewals and amounts borrowed. Some of these changes would fundamentally alter the nature and economics of payday loans. Industry "best practices"[28] do not begin to approach the requirements our focus group participants want.

Addressing the Demand for Small and Affordable Consumer Loans

The North Carolina State Employee's Credit Union (SECU) introduced a 12% APR product called the Salary Advance Loan (SALO) in January 2001. With more than 1.3 million members, SECU is the nation's second largest credit union.[29] Typical SALO borrowers earn less than $25,000 per year and have low account balances and low credit scores. Renewal rates are high, with two-thirds of SALO customers taking out a SALO every month, so SECU requires the borrower to deposit 5% of every new SALO into a savings account. In the first five years, SECU reported more than a million loans to more than 50,000 customers; an average annual charge-off, or bad debt expense, of just 0.27%; and $8 million of accumulated savings account balances. SECU calculates it is saving members $33.6 million a year in payday loan fees.[30]

One researcher points out that "depository institutions are able to profitably offer payday loan alternatives…whether they have the will to do so remains to be seen."[31] In our survey, 12% of households experiencing a shortfall took out bank loans, which they ranked as the most fair and second most satisfying source of credit. On the other hand, 10% of households used overdraft loans or bounce protection. Several focus group participants used overdraft loans and viewed the fairness of the charges negatively, particularly when they overdrew their accounts by small amounts: "You're just minus fifty cents, they pop you for twenty-five dollars." Thus, bank products offer both a promise and a potential shortcoming.

This promise is found in the Federal Deposit Insurance Corporation's (FDIC) Affordable Small-Dollar Loan Products Guidelines issued in June 2007, which calls for FDIC-supervised financial institutions to promote an alternative debt product that features affordable rates (with an APR not to exceed 36%) and amortizing payments. The guidelines stress that "excessive renewals of a closed-end product, or the prolonged failure to reduce the outstanding balance on an open-end loan, are signs that the product is not meeting the borrower's credit needs." The guidance also recommends underwriting for ability to repay, incorporating a savings component into the product, working with other organizations, and providing an avenue for financial education. Institutions that pursue such practices can qualify for Community Reinvestment Act credit.[32]

Another bank product, the ubiquitous credit card, was strongly disliked. Respondents in our survey used credit cards more than any other interest-bearing debt product, but the only service rated less satisfying than credit cards was pawnshop and the only one considered less fair was the auto title loan. Similarly, focus group participants were afraid of being misled by credit card companies. These findings are consistent with recent developments: While Congress considers credit card reform legislation,[33] many financially distressed homeowners are falling behind in mortgage payments while keeping their credit cards in good standing.[34] Because the technology, flexibility, and cost structure of the credit card business holds the potential to offer a simple, fair, and repayable debt product, it is particularly regrettable that credit cards received such low marks for satisfaction and fairness.

Finance companies appear to be picking up some business formerly served by payday lenders. Although only a few financially distressed survey respondents named finance companies as a source of credit, finance companies outranked all other options in terms of satisfaction. A tiered rate system allows North Carolina finance companies to charger higher interest rates on the first $600 to $1,000 loaned. Loans under $600 are capped at a maximum of 36%.[35] Payday lenders say they cannot be profitable at that level, but as part of an overall business model that includes larger loans this appears to generate a reasonable return for finance companies. In 2006, North Carolina's 597 finance company offices made 32,586 loans under $600, representing 7% of their borrowers. The average balance was $481. The number of loans under $600 made by finance companies has grown each year since 2002 and is up 37% in four years.[36]

This research suggests that North Carolina households do not miss payday lending and have an array of other strategies to manage financial shortfalls. However, demand remains for alternative sources of small, affordable consumer loans. Our research suggests that payday lending did not fulfill this demand, as few people miss it now that it's gone and most of those affected by the ban consider themselves better off now. What the focus groups want is a product with a lower rate, longer repayment schedule, and installment payments—all core features in the FDIC's Affordable Small Dollar Loan Guidelines. The Office of the North Carolina Commissioner of Banks and others should continue efforts to encourage such products.

Payday Lending Overview

Today's payday lending is a modern version of a practice once known as "salary lending," which dates from the 1800s. By 1907, at least 20% of Americans owed money to salary lenders, with many trapped in what was called "chain debt." Eventually, the excesses of the high-cost credit industry led to the term "loan shark," passage of bankruptcy laws, the emergence of credit unions, and the passage of small loan laws by individual states.[1]

North Carolina's experiment with modern payday lending began in 1997, when lawmakers exempted the practice from the state's small loan usury rules. Except for the period from October 1997 through August 2001, North Carolina's Consumer Finance Act limits the APR on loans under $600 to 36%.[2]

A payday loan is a small, short-term loan on the order of $300 for two weeks made in exchange for a postdated check or withdrawal authorization for the cash received plus fees.[3,4] A composite of loans made in North Carolina in 2000 illustrates a "typical" transaction: The median $244 loan had a median fee of $36 and the majority of loans were due within 8 to 14 days, resulting in a median annual percentage rate (APR) of 419%.[5] A shorter term raises the APR.

According to the industry's trade association, the payday lending industry makes $40 billion in transactions a year.[6] At $15 per $100 borrowed, that amounts to some $6 billion in fees paid by borrowers.[7] While payday loans are available over the Internet, most payday lending is conducted through storefronts, either in stand-alone payday lending stores or in related businesses, such as check cashers and pawnshops. Two years ago, there were more payday lending and check cashing locations nationwide than McDonalds, Burger Kings, Wal-Marts, JC Penneys, Targets, and Sears combined.[8] As more states allowed payday lending, the business evolved from private, local operators to a more organized industry, with a number of large chains controlling a growing share of the market.

Obtaining a payday loan is quick and easy. Payday lenders generally do not check credit reports, and the money is made available almost immediately. But paying off the loan in a fortnight can prove more challenging. Numerous studies show that most borrowers have problems repaying the loans and that re-borrowings (or "roll-overs") are common.[9] The Center for Responsible Lending, a consumer advocacy

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[1] Peterson, Christopher L. 2004. *Taming the sharks. Towards a cure for the high-cost credit market.* Akron, OH: The University of Akron Press.
[2] N.C.G.S. § 53–15. North Carolina Consumer Finance Act. Raleigh, NC: North Carolina General Assembly.
[3] Other terms for payday lending include "deferred deposit" or "deferred presentment" loan.
[4] See Consumer Federation of America http://www.paydayloaninfo.org/index.cfm for additional details.
[5] Stegman, Michael A and Robert Faris. 2003. Payday Lending: A business model that encourages chronic borrowing. *Economic Development Quarterly* 17(1): 8-32. Sage Publications.
[6] Community Financial Services Association of America (CFSA) http://www.cfsa.net/about_payday_advance.html); Accessed September 28, 2007.
[7] While limits vary from state to state, with some states having no limit on payday lending fees charged, fifteen dollars per $100 is a "typical fee" according to King, Uriah, Leslie Parrish and Ozlem Tanik. 2006. *Financial Quicksand: PDL sinks borrowers in debt with $4.2 b in predatory fees every year*. Durham, NC: The Center for Responsible Lending.
[8] Karger, Howard. 2005. *Short changed, Life and debt in the fringe economy*. San Francisco, CA: Berrett-Koehler Publishing.
[9] It is common practice for borrowers unable to extinguish the debt with regular cash flow to push off repayment. These borrowers may simply extend the loan, or do a "back to back" by paying off the old loan and getting another

group, calculates that just 1% of payday loans go to people who take out one loan a year and pay it back on schedule, while 60% go to borrowers who take out more than 12 loans a year; nationwide, the average payday borrower pays $793 to borrow $325.[10] Despite the fact that North Carolina law set out to prevent roll-overs, [11] in 2000, the average North Carolina payday borrower got more than eight loans (from the same store). In that same year, 18% of customers used the same lender more than once per month, and 7% took 20 or more loans from the same lender in the course of a year. [12]

When a borrower does not pay off or extend the payday loan, the lender withdraws funds from the borrower's bank account. If bank funds do not cover the withdrawal, the borrower faces probable bounced check charges along with negative bank history reports, often the very things the borrower was trying to avoid by going to the payday lender in the first place. In 2000, 6% of checks written by North Carolinians to secure payday loans were returned (NSF), but lenders recovered 69% of these amounts and collected more than $2 million in additional fees for NSF checks. Net charge offs were less than 2% of loans advanced.

In 2000, the peak year for which records were kept, the payday loan industry in North Carolina made 3.5 million loans to 413,214 customers, or almost 7% of the state's adult population, assuming that each customer only used one store.[13] But many borrowers go to multiple lenders simultaneously to borrow above statutory limits, or use one payday lender to pay off another. One nationwide survey found that almost half of respondents had used at least two different payday lenders in the prior year, and that 35% of those paid off one lender with an advance from another.[14] If this pattern held in North Carolina, the total number of customers overstates the true customer base by at least 50%.

Ultimately, North Carolina became the first state to close down a once legal payday lending industry. The state allowed the law that authorized payday lending to sunset in 2001. Some payday lending chains continued to operate under partnerships with out-of-state banks, arguing that this arrangement exempted them from North Carolina laws. The North Carolina Attorney General prosecuted one of these chains, Advance America, and the North Carolina Commissioner of Banks ruled against Advance America's continued payday lending in the state. On March 1, 2006, the remaining chains entered consent agreements with the Attorney General, and all stores operated by out-of-state chains were eliminated.[15] Internet payday lending in the state is also subject to North Carolina law, even if the offer comes from outside the state.[16]

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immediately or very soon, sometimes after a legally mandated "cooling off" period. State laws vary with regard to these practices. See Stegman and Faris 2003 for review of studies of payday loan usage.

[10] King, Parrish and Tanik 2006.

[11] An act to regulate check cashing businesses, S.L. 1997-391 Senate Bill 312, General Assembly of North Carolina. (1997).

[12] North Carolina Commissioner of Banks (NCCOB). 2000. *Annual report of check cashing businesses licensed under article 22 of chapter 53 of the North Carolina general statutes fact sheet*. Raleigh, NC: NCCOB. In 2000 in North Carolina, there were 3,469,917 loans made to 413,214 customers for an average of 8.4 loans per customer per store.

[13] Ibid.

[14] Elliehausen, Gregory and Edward C. Lawrence. 2001. *Payday advance credit in America: An analysis of customer demand.* Washington, D.C.: Credit Research Center, McDonough School of Business, Georgetown University.

[15] North Carolina Attorney General (NC A.G.) Press Release. March 1, 2006. *Payday Lending on the Way Out in North Carolina: AG Cooper says major payday lenders agree to stop loans.*

[16] Fox, Jean Ann and Anna Petrini. 2004. *Internet Payday Lending: How High Priced Lenders Use the Internet to Mire Borrowers in Debt and Evade State Consumer Protections*. Washington, D.C.: Consumer Federation of America.

Endnotes

[1] IO Data Corporation. 2002. *North Carolina payday advance customer study: Public report*. Salt Lake City, UT. Prepared for Community Financial Services of America.
[2] One population well represented in North Carolina and receiving special attention from payday lenders, consumer advocates, and policy makers is military families. The state houses five military bases, all in eastern North Carolina, and has the third-largest active military population in the country (Press Release from office of Representative G.K. Butterfield, January 26, 2007 http://www.house.gov/list/press/nc01_butterfield/01262005butterfield onarmedservices.html. Accessed July 5, 2007). In 2006, the Department of Defense reported that payday lenders targeted military personnel because of their youth, inexperience with money management, low savings, steady income, and independence, in addition to the military culture's emphasis on "financial responsibility." The report further found that predatory consumer loans undermine troop morale and readiness and called for policies to protect military families (U.S. Department of Defense. 2006. *Report on predatory lending practices directed at members of the armed forces and their dependents*.). In response, Congress capped rates on consumer loans to military families at 36%, effectively prohibiting payday lending (Welch, William M. 2006. Law caps interest on 'payday advances' to service members. *USA Today.com*, October 1, http://www.usatoday.com/news/ washington /2006-10-17-paydayloans_x.htm. Accessed September 25, 2007), and the Department of Defense issued its final rule on August 31, 2007 (see 32 CFR Part 232 Limitations on Terms of Consumer Credit Extended to Service Members and Dependents; Final Rule http://a257.g.akamaitech.net/ 7/257/2422/ 01jan20071800 edocket.access.gpo.gov/2007/07-4264.htm).
[3] Stegman, Michael A and Robert Faris. 2003. Payday lending: A business model that encourages chronic borrowing. *Economic Development Quarterly* 17 (1):8-32.
[4] We used standard AAPOR formulas, which are available from the authors upon request.
[5] The Center acknowledges Clark and Chase Research of Charlotte, North Carolina, which conducted the survey data collection and facilitated the focus groups.
[6] We compared our sample and the subsample of 159 borrowers having a financial shortfall with overall demographic characteristics for households earning below $45,000 a year in the three MSA's using Integrated Public Use Microdata Series (IPUMS) data for 2006:

	IPUMS 3 MSAs	Full Sample	Shortfall Subsample
Married	45%	26%	27%
Separated/divorced	13%	17%	23%
Widowed	6%	26%	15%
Single	36%	30%	34%
HH w/ children	28%	16%	26%
No children	72%	84%	73%
Own home	69%	71%	58%
Rent home	31%	27%	38%
White	68%	57%	46%
Black	23%	38%	48%

To assess the possibility of bias resulting from the under-representation of married households, the sample was re-weighted to mirror the overall population (this also increased the weight of households with children). We then measured the results for the data shown in Table 2 (awareness of end of payday lending and attitudes toward payday lending) and obtained virtually identical awareness and attitudinal measures using the weighted sample as we did for the unweighted sample with married respondents weighted at 1.73, separated/divorced at .73, widowed at .23, and single at 1.2:

	Full Sample		Shortfall Subsample	
	Unweighted	Weighted	Unweighted	Weighted
Aware payday lending is not allowed	40%	41%	42%	42%
Not Aware	60%	59%	58%	58%
A Good thing	12%	12%	13%	12%
Think payday lending was *A Bad Thing*	88%	88%	87%	88%
Prohibiting payday lending had *no effect* on household	77%	78%	72%	72%
Positive effect	16%	16%	21%	22%
Negative effect	7%	7%	7%	6%

We conclude that the marital status distribution of our sample did not affect the responses to these critical questions.

[7] Chi-square tests significant at the p<.05 level
[8] A sample size of 23 former payday loan customers is insufficient to draw conclusions of statistical significance. However, from a descriptive standpoint it is notable that the numbers follow a pattern similar to the full sample and to the sub-sample of those who had experienced a financial shortfall.
[9] The survey simply asked, "When they were allowed, do you think payday lenders were a good thing or a bad thing?," without qualifying in any way what was meant by good or bad. Respondents were also given the option of "neither," "not sure," or "refused." These were not counted here because we could not know whether they didn't understand the question, had no opinion, or had an opinion that was "unsure."
[10] Fox, Jean Ann, and Anna Petrini. 2004. *Internet payday lending: How high priced lenders use the Internet to mire borrowers in debt and evade state consumer protections*. Washington, D.C.: Consumer Federation of America.
[11] MarketSearch Corporation. 2007. *North Carolina Office of the Commissioner of Banks consumer banking and finance study*. This survey was conducted by MarketSearch for the North Carolina Commissioner of Banks to gage consumer perceptions of financial services and the role of the Office of the Commissioner of Banks.
[12] All the people who received money from friends or family members reported that the money was either a no-interest loan or a gift.
[13] This does not include the 68 people who reported that they did not pay an expense or paid it late, although those people essentially borrowed from the service provider or company to which they owed money. We did not collect data as to the total amounts that went unpaid. In thirteen cases, people were not sure of amounts borrowed and in three, they refused to say.
[14] Options such as using savings or receiving money from family/friends are not represented in the table.
[15] See Stegman, Michael A. 2007. Payday lending. *Journal of Economic Perspectives* 21(1):169-190 for a review of research findings.
[16] Stegman and Faris 2003, 9
[17] Stegman 2007
[18] Skiba, Paige Marta, and Jeremy Tobacman. 2007. Measuring the individual-level effects of access to credit: evidence from payday loans. Working paper.
[19] Elliehausen, Gregory, and Edward C. Lawrence. 2001. *Payday advance credit in America: An analysis of customer demand*. Washington D.C.: Credit Research Center, McDonough School of Business, Georgetown University.
[20] In Skiba and Tobacman's 2007 analysis of 145,000 applicants for payday loans from a Texas payday/pawn shop chain over a four year period, a quarter of all the payday applicants also used the lender's pawn services, but once an applicant obtained the first payday loan, the likelihood of using the pawn services fell by almost half, while those who were denied were more likely to pawn. Those who pawned did so with some repetitiveness, but not as much as the payday borrowers and for far smaller amounts (4.5 times at an average of $88 versus 8.8 times for the payday customers). More than half of all pawn loans ended in default. But those who received payday loans were more likely to declare bankruptcy within two years of receiving their first payday loan. Although there is some anecdotal evidence that payday lending has cut into the pawnshop business, research to date suggests that there is limited overlap between pawn customers and payday borrowers. The Texas study 25% overlap likely captured the "upper bounds," since the enterprise provided both products under one roof. Elliehausen and Lawrence (2001) found that 23% had pawned in the previous five years, but that less than 1% had considered pawning before obtaining their most recent advance. Likewise, virtually none of the North Carolina payday borrowers surveyed by Io Corporation even considered using a pawn shop, and fewer than 3% considered a car title loan.

[21] In Elliehausen and Lawrence (2001), 78% of respondents reported receiving APR information, and only 20.1% of those could report what APR was disclosed.
[22] The share of customers who said they were satisfied in various surveys is 75% (Elliehausen and Lawrence 2001), 75% (IO Data Corporation 2002), and 77% (Cypress Research Group. 2004. *Payday advance customer satisfaction survey*. Shaker Heights, OH. http://www.cfsa.net/customer_demand.html. Accessed July 3, 2007).
[23] Cypress Research Group 2004, Elliehausen and Lawrence 2001, Io Data Corporation 2002.
[24] North Carolina Commissioner of Banks (NCCOB). 2000. *Annual report of check cashing businesses licensed under article 22 of chapter 53 of the North Carolina general statutes fact sheet*. Raleigh, NC: NCCOB.
[25] MarketSearch 2007, 11
[26] Bertrand, Marianne, Sendhil Mullainathan and Eldar Sharif. 2006. Behavioral economics and marketing in aid of decision making among the poor. *American Marketing Association*. 25(1): 8-23.
[27] Brown, William O., Jr., David W. Findlay, Thomas E. Lehman, Michael T. Maloney, James W. Meehan Jr. 2004. *Payday lending: A practical overview of a growing component of America's economy*. Consumer Credit Research Foundation, 2 Available at http://www.cfsa.net/downloads/payday_lending.pdf.
[28] The trade association, the Community Financial Services Association of America (CFSA), requires its members to abide by a set of best practices. These can be found on their website, www.cfsa.net/industry_best_practices.html. As of October 1, 2007, the list included: full disclosure including fees and APRs, compliance with the law, truthful advertising, encouraging consumer responsibility, limiting rollovers to lesser of 4 or the state limit, a one-day right of recision, using legal collection practices, not threatening or pursuing criminal action against customers for non-payment, self-policing, supporting balanced legislation, offering extended repayment plans to customers who are unable to repay under their original contract, a special best practices for loans to active duty military customers, offering internet loans only in states where licensed and in compliance with that state's laws unless those laws are federally preempted, and display of the membership seal.
[29] National Credit Union Administration (NCUA) *2007 Directory of Federally Insured Credit Unions* (http://www.ncua.gov/data/directory/2007/CUDirectory07.pdf).
[30] Stegman 2007 and State Employees Credit Union (SECU). 2006. Press Release. *SECU's Alternative Program Saves Salary Advance Members $2.8 million each month*. February 22, 2006.
[31] Bair, Sheila. 2005. *Low-Cost payday loans: Opportunities and obstacles*. Baltimore, MD: Annie E. Casey Foundation. June, 3.
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[33] Kaper, Stacy. 2007. An unlikely supporter of credit card reform. *American Banker* 172 (160):1-3. Maloney fleshes out card agenda. *American Banker* 172(150):19.
[34] Associated Press. 2007. Debt-laden homeowners save plastic first. September 12, 2007. http://ap.google.com/article/ALeqM5hve_-EFatN9j8qKbLTB80zgyeQwQ. Accessed September 17, 2007.
[35] N.C.G.S. § 53–15. North Carolina Consumer Finance Act. Raleigh, NC: North Carolina General Assembly.
[36] The figures used to calculate the growth since 2002 were provided by the Office of the North Carolina Commissioner of Banks. Figures are adjusted by removing all loans of one company that was effectively operating as a payday lender and went out of business in 2006. This one entity drove small loan volume up disproportionately and overstated the actual growth of small-dollar lending by consumer finance companies.

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Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Kimberly R. Manturuk	Center for Community Capital
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
See attached CV for listing of all grants	
7. Signature: Kimberly R. Manturuk	

Please attach a copy of this form to your written testimony.

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EDUCATION

2008	Ph.D. Sociology, University of North Carolina at Chapel Hill
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PROFESSIONAL EMPLOYMENT

Current Positions

2009- Research Associate, Center for Community Capital, University of North Carolina at Chapel Hill

2008- Distance Learning Specialist, Friday Center for Continuing Education, University of North Carolina at Chapel Hill

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2011 Visiting Assistant Professor, Duke University, Department of Sociology

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2006-2010 Instructor, Department of Sociology, University of North Carolina at Chapel Hill

2006-2008 Graduate Research Assistant, Center for Community Capital, University of North Carolina at Chapel Hill

2002-2005 Teaching Assistant, Department of Sociology, University of North Carolina at Chapel Hill

PRIMARY RESEARCH AREAS

Social policy; urban poverty and homeownership; housing policy; consumer finance

GRANTS, AWARDS, DISTINCTIONS

2011 “CFSI – Piggymojo”, grant to examine impulse savings among lower-income families in New York City, Center for Financial Services Innovation. ($32,000, Lead PI with co-investigator Jessica Dorrance)

2011 “Community Advanage Panel Study VIII: A Longitudinal Study of Low-and Moderate-Income Homeowners and Renters”, For Foundation ($1,560,000, co-investigator with Janneke Ratcliffe, Mark Lindblad, Sarah Riley, Jessica Dorrance, and Allsion Freeman; Lead PI Roberto Quercia)

2010 “Supplement Facilitating Savings for Low-Income Workers”, Ford Foundation ($312,000, co-investigator with Jessica Dorrance and Clinton Key; PI Michal Grinstein-Weiss and Lead PI Janneke Ratcliffe)

2010 “Evaluation of the Community Advantage Program VII”, Ford Foundation ($1,980,000, co-investigator with Janneke Ratcliffe, Mark Lindblad, Sarah Riley, Jessica Dorrance, and Allsion Freeman; Lead PI Roberto Quercia)

2009 “Does Homeownership Affect Relationship Stability: Evidence from an Event History Analysis”, National Center for Marriage Research, US Department of Health and Human Services ($20,000, co-PI with Michal Grinstein-Weiss)

2009 “Evaluation of the Community Advantage Program VI”, Ford Foundation ($1,400,000 co-investigator with Janneke Ratcliffe, Mark Lindblad, Michal Grinstein-Weiss, Sarah Riley, Jessica Dorrance, and Allsion Freeman; Lead PI Roberto Quercia)

2008 NIH Travel Grant to present research at the 2008 Add Health User Conference

2008 Impact Award, UNC-CH Graduate School

2005 Foreign Language Area Studies Fellowship (declined), US Department of Education

1990 National Merit Scholarship, Indiana University

RESEARCH PUBLICATIONS

Journal Articles

Grinstein-Weiss, Michal, Yeong H. Yeo, Johanna K.P. Greeson, Kim Manturuk, Clinton Key, and Mathieu Despard “Social Capital and Homeownership in Low-to-Moderate-Income Neighborhoods”, *Social Work Research*, forthcoming

Grinstein-Weiss, Michal, Pajarita Charles, Shenyang Guo, Kim Manturuk, and Clinton Key. “The Effect of Marital Status on Homeownership among Low-Income Households”, *Social Service Review*, forthcoming September 2011.

Manturuk, Kim, Mark Lindblad, and Roberto Quercia. 2010. “Friends and Neighbors: Homeownership as a Source of Social Capital”, *Journal of Urban Affairs*, 32:471-488.

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Prasad, Monica, Andrew J. Perrin, Kieran Bezila, Steve G. Hoffman, Kate Kindleberger, Kim Manturuk, and Ashleigh Smith Powers. 2009. “’There Must be a Reason’: Osama, Saddam, and Inferred Justification”, *Sociological Inquiry*, 79:142-162.

Papers Under Review

Manturuk, Kim, Sarah Riley, and Janneke Ratcliffe. “Perception and Reality during the Crisis: Homeownership, Low-Income Households, and Financial Stress” (revise and resubmit, under review)

Manturuk, Kim. “Urban Homeownership and Mental Health: Mediating Effects of Perceived Sense of Control and Community Trust” (revise and resubmit, under review)

Manturuk, Kim, Mark Lindblad, and Roberto Quercia. “Homeownership and Civic Engagement in Low-Income Urban Neighborhoods: A Longitudinal Analysis” (under review)

Grinstein-Weiss, Michal, Kim Manturuk, Shenyang Guo, Pajarita Charles, and Clinton Key. “The Impact of Homeownership on Marriage and Divorce: Evidence from Propensity Score Matching with Event History Analysis” (under review)

Lindblad, Mark, Roberto G. Quercia, Sarah F. Riley, Melissa B. Jacoby, Tianji Cai, Ling Wang, and Kim Manturuk. “Coping with Adversity: Personal Bankruptcy Decisions of Lower-Income Homeowners Before and After Bankruptcy Reform” (under review)

Additional Publications

“North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options” report released through the North Carolina Office of the Commissioner of Banks, 2007

- Reported covered by The New York Times, Triangle (North Carolina) Business Journal, Winston-Salem (North Carolina) News, Center for Responsible Lending, Columbus (Indiana) Republic, AP Newswire, North Carolina Public Radio, The Motley Fool Report

"Heads Above Water: Gender, Class, and Family in the Grand Forks Flood (book review, 2005)" *Social Forces* 84(2):1307-1308.

RESEARCH PRESENTATIONS

Invited Presentations

2011	Invited panelist "Methodological Issues in Health Disparities Research" at the Social Determinants of Health Disparities conference at Duke University
2011	"Perception and Reality during the Financial Crisis: Homeownership, Low-Income Households, and Financial Stress" Invited presentation at *The Changing Landscape of Community Development* research conference sponsored by the Community Affairs Offices of the Federal Reserve System
2010	Presented testimony to the Colorado State Legislature on payday lending
2010	"The Social Lives of Homeowners and Renters" Talk given at the Center for Urban and Regional Studies, University of North Carolina at Chapel Hill
2009	"Social Impacts of Homeownership: Evidence from the Community Advantage Program" Talk given at the 3rd annual North Carolina Asset Development Conference
2008	Presented testimony to the New Hampshire Senate Finance Committee on payday lending
2008	"Evaluating Causality in the Relationship between Homeownership and Social Capital" Talk given at the University of North Carolina at Chapel Hill Sociology Colloquia Series
2008	Presented testimony to the Ohio State Senate on payday lending
2008	"Homeownership and Wealth Inequality: The Role of Residential Segregation" Talk given at St. Augustine's College
2008	"Situational Factors in Behavioral Economics: The Case of Payday Lending" Talk given with Roberto Quercia at the UNC Office of Economic Development, Distinguished Luncheon Series
2008	Invited guest for a National Public Radio story on payday lending
2007	"Contextual Factors Moderating the Relationship Between Homeownership and Voting" Talk given at 4th Annual Ford Foundation Research Summit

Conference Presentations

2011 “Linking Social Disorganization, Urban Homeownership, and Mental Health”, Accepted for the American Sociological Association annual meeting, Las Vegas, NV.

2011 “Rose-Tinted Glasses of Homeownership: Financial Perceptions and Realities during the Great Recession”, Accepted for the American Sociological Association annual meeting, Las Vegas, NV.

2011 “Social and Economic Impacts of Homeownership for the Poor”, Accepted for the annual Policy Summit of the Community Development and Research Departments of the Federal Reserve Bank of Cleveland, Cleveland, OH.

2011 “The New Economic and Social Realities of Urban Homeownership”, Panel organizer and moderator at the Urban Affairs Association annual meeting, New Orleans, LA

2011 “Crime & Disorder in the Neighborhood: Collective Efficacy Mediates Homeownership” (with Mark Lindblad and Roberto Quercia) Presented at the Urban Affairs Association annual meeting, New Orleans, LA

2011 “Homeownership and Mental Health: Mediating Effects of Perceived Sense of Control and Community Trust” Presented at the Urban Affairs Association annual meeting, New Orleans, LA

2010 “Stress or Stability: The Psychological Impact of Homeownership during Recession” (with Roberto Quercia) Presented at the American Sociological Association annual meeting, Atlanta, GA

2010 “The Influence of Homeownership on Marriage and Divorce: A Propensity Score Analysis” (with Clinton Key) Presented at the American Sociological Association annual meeting, Atlanta, GA

2010 “Anchor or Lead Weight: Homeownership and Hardship during the Financial Crisis” (with Janneke Ratcliffe and Sarah Riley) Presented at the Boulder Summer Conference on Consumer Financial Decision Making, Boulder, CO.

2010 “Opening the Black Box: How and Why Homeownership Generates Positive Social Impacts” (with Mark Lindblad, Roberto Quercia, and Janneke Ratcliffe) Presented at the Urban Affairs Association annual meeting, Honolulu, HI

2009 “A Longitudinal Analysis of Working-class Homeownership and Civic Engagement” (with Mark Lindblad and Roberto Quercia) Presented at the American Sociological Association annual meeting, San Francisco, CA

2009 “The Influence of Strong and Weak Network Ties on Adolescent Dieting” Presented at the American Sociological Association annual meeting, San Francisco, CA

2009 Homeownership, Racial Diversity, and Neighboring: A Multi-Level Exploration of Sense-Of-Community and Collective Efficacy" (with Mark Lindblad, Sarah Riley, and Roberto Quercia) Presented at the Urban Affairs Association annual meeting, Chicago, IL

2009 "Evaluating Causality in the Relationship between Homeownership and Social Capital" (with Mark Lindblad and Roberto Quercia) Presented at the Urban Affairs Association annual meeting, Chicago, IL

2008 "Adolescent Dieting and the School Environment" Presented at the Add Health User Conference, Bethesda, MD

2008 "Contextual Factors Moderating the Relationship Between Homeownership and Voting Among Low-Income Households" Presented at the American Sociological Association annual meeting, Boston, MA

2008 "Always on a Diet: Dieting, Status, and Gender During the Transition to Adulthood" Presented at the American Sociological Association annual meeting, Boston, MA

2007 "Demographic Patterns in Weight Misperception and Misclassification" Presented at the Population Association of America annual meeting, New York City

2006 "Analysis of Distance Education Use in Rural Schools" (with William Hannum, Jonathan Banks, John Barber, Thomas Farmer, Dylan Robertson, and Walter Veal) presented at the Educational Research Association annual meeting, San Francisco, CA.

2005 "There Must be a Reason: Osama, Saddam, and Inferred Justification" (with Monica Prasad, Andrew Perrin, and Ashleigh Smith Powers) presented at the American Political Science Association annual meeting, Washington DC.

2005 "Working-Class Republicans and the Presidential Election of 2004: Does Class Still Count?" (with Monica Prasad, Andrew Perrin, Kieran Bezila, Kate Kindleberger, Steve Hoffman, and Ashleigh Powers) presented at the American Sociological Association annual meeting, Philadelphia, PA.

2005 "Motivated Reasoning and Information Management in the 2004 U.S. Election" (with Monica Prasad, Andrew Perrin, Ashleigh Smith Powers, Kieran Bezila, Kate Kindleberger, and Steve Hoffman) Presented at the International Society for Political Psychology annual meeting, Toronto, Canada.

2004 "Religion and Body Dissatisfaction among High School Girls" (with Lisa Pearce) Presented at the Society for the Scientific Study of Religion annual meeting, Kansas City, MO.

2004 "Nothing We Can't Handle: Family Composition Influences on Disaster Support Services" Presented at the American Sociological Association annual meeting, San

Francisco, CA.

2004 “Measuring the Psychological Contract” Presented at the American Sociological Association annual meeting, San Francisco, CA.

2003 “It’s Nothing Personal, Just Politics: Minimizing Social Risk in Political Candidate Endorsement Discourse” (with Andrew Perrin) Presented at the American Sociological Association annual meeting, Atlanta, GA.

2003 “Establishing Legitimacy: Discourse Surrounding Difficult Events” Presented at the Southern Sociological Society annual meeting, New Orleans, LA.

TEACHING EXPERIENCE

Courses Taught

2011	The Changing American Family
2006-2010	Sociology of Crime and Delinquency
2005	Measurement and Data Collection (teaching assistant, graduate course)
2003-2004	Statistics for Sociologists (teaching assistant, graduate course)
2003	Poverty and Public Policy (teaching assistant)
2002	Race and Ethnic Relations (teaching assistant)

Additional Teaching Activities

2008	Graduate Research Facilitator, undergraduate course on The Labor Force
2005-2006	Academic Tutor, UNC Athletic Department, Social Theory and Kiswahili

Pedagogical Development

2005	Seminar on Teaching Sociology, semester course on college teaching

SERVICE

- Sociology Department Colloquia Speaker Series, planning committee, 2008
- Graduate Student Representative, American Sociological Association Social Psychology section, 2006-2008
- Awards Committee, American Sociological Association Social Psychology section, 2007
- University of North Carolina at Chapel Hill Department of Sociology Graduate Student Association Co-President, 2003-2004.
- Reviewer: *American Journal of Sociology, Social Forces, American Sociological Review, Sociological Forum, Sociological Inquiry, Journal of Health and Social Behavior, The Communications Review, Social Psychology Quarterly, British Journal of Sociology, City and Community, Social Problems, Communication Monographs, Housing Policy Debate, Journal of*

Urban Affairs

PROFESSIONAL ASSOCIATIONS

American Sociological Association
- Economic Sociology section
- Community and Urban Sociology section
- Social Psychology section

Urban Affairs Association
American Real Estate and Urban Economics Association