

**The Demographics of California Payday
Lending:
A Zip Code Analysis of Storefront Locations**

Research Brief

California Department of Business Oversight

Summary

This research brief provides a zip code analysis of California payday loan storefronts. It examines family poverty and other demographic data in the zip codes where storefronts are located. The objective is to provide a fuller picture of the economic and ethnic characteristics of the areas where those businesses are concentrated.

The Department of Business Oversight (DBO) is in the process of developing payday lending regulatory changes. The changes ultimately may address the issue of consumers simultaneously taking out multiple payday loans, and call for establishing a common database to allow real-time tracking of transactions. To ensure a more informed regulatory process, the DBO considers it crucial to better understand the community demographics with respect to payday storefront locations. The relative financial vulnerability of populations surrounding payday storefronts is an important consideration in crafting the rules.

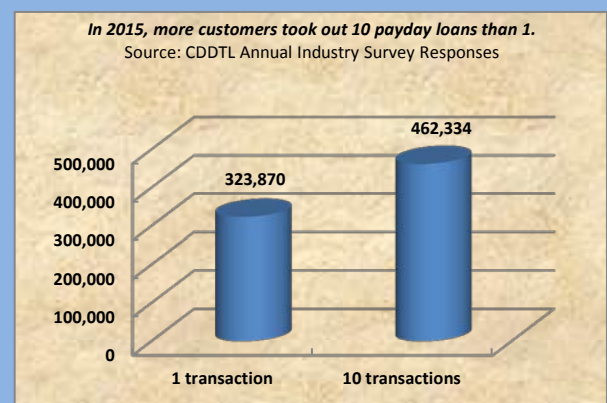
The data indicate California payday loan storefronts are concentrated in areas with higher family poverty rates than statewide ratios.

DBO Background

The DBO protects consumers and businesses that use financial services, and safeguards the health of the state's financial services market. The DBO supervises state-licensed banks, credit unions and money transmitters. It also regulates a variety of other financial service providers, including payday lenders, mortgage lenders and servicers, other consumer finance lenders, securities broker-dealers and investment advisers. Currently, the DBO licenses and regulates more than 360,000 individuals and entities that provide financial services in the world's sixth-largest economy.

The California Deferred Deposit Transaction Law: Overview

The DBO supervises payday lenders under the California Deferred Deposit Transaction Law (CDDTL).¹ In a deferred deposit transaction (payday loan), the consumer gives the payday lender a personal check for the amount of money requested.



¹ California Financial Code section 23000 et seq.

The payday lender provides the consumer the money, minus an agreed-upon fee. Under the CDDTL, the fee cannot exceed 15% of the face amount of the personal check, and the amount of the customer's personal check cannot exceed \$300.² The payday lender defers depositing the consumer's check for a specific period, which cannot exceed 31 days.³

The DBO's most recent CDDTL annual report (July 2016) showed the average annual percentage rate (APR) for deferred deposit transactions in 2015 was 366%.⁴ Separate data from the annual industry survey indicated that, among licensees who responded, the number of customers who obtained 10 transactions exceeded the number who obtained one – 462,334 compared to 323,870.⁵ Respondent licensees reported they collected \$84 million in fees on deferred deposit transactions they originated in 2015. Of that total, 63.7% – \$53.5 million – came from customers who made seven or more transactions during the year.⁶

About the Data

The DBO analyzed the location of licensed payday loan storefronts in relation to the U.S. Census Bureau's American Community Survey (ACS) data on family poverty and racial demographics.

Specifically, the DBO utilized the Census Bureau's S1702 table. This table provides the percentage and number of families in various demographic groups who lived in poverty over the prior 12 months. The DBO also used the DP05 table which provides demographic information of the population regardless of poverty status.

As of March 2016, the number of main office and branch locations with active CDDTL licenses totaled 1,948. Those storefronts were distributed among 627 zip codes.

For this analysis, the DBO used the five-year estimates from the Census Bureau's 2014 ACS, statewide and by zip code, and matched the data with payday loan storefront locations as of March 2016.

² Department of Business Oversight, *California Payday Loans: What Consumers Need to Know*, http://www.dbo.ca.gov/Licensees/Payday_Lenders/what_consumers_need_to_know.asp (as of October 31, 2016).

³ *Id.*

⁴ Department of Business Oversight, *Summary Report: California Deferred Deposit Transaction Law – Annual Report and Industry Survey*, (July 2016) <http://www.dbo.ca.gov/Licensees/Payday_Lenders/pdfs/2016%20CDDTL%20Annual%20Report%20and%20Industry%20Survey%20Consolidated%20Summary%20Report%20FINAL%2007-06-16.pdf> (as of October 31, 2016).

⁵ *Id.*

⁶ *Id.*

The DBO used family poverty rate instead of individual poverty rate because the individual rate includes children who theoretically do not take out payday loans. The Census Bureau defines family as "a householder and one or more other people related to the householder by birth, marriage, or adoption."

With respect to ethnic groups, the DBO looked at Latinos, blacks and whites.

Topline Findings

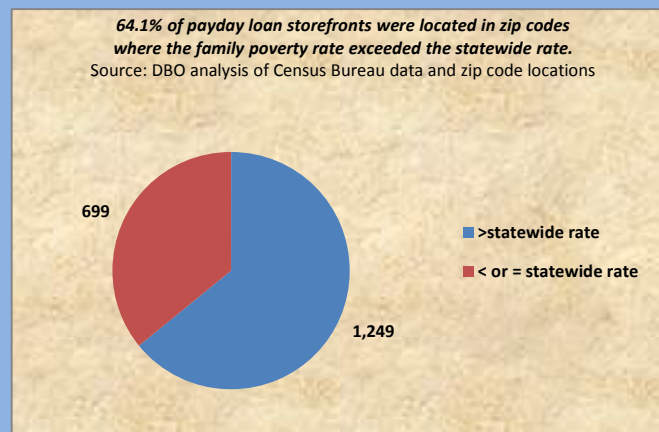
- More than half of the zip codes with payday loan storefronts had family poverty rates higher than the statewide rate.
- More than 60% of payday storefronts were located in zip codes with higher family poverty rates than the statewide rate.
- More than half of payday storefronts were located in zip codes where the poverty rate for families headed by single mothers averaged 40%, more than 12 percentage points higher than the statewide rate for that group.
- Almost half of payday storefronts were located in zip codes where the family poverty rate for blacks and Latinos exceeded the statewide rate for those groups.
- In zip codes where the average number of payday storefronts was twice the overall average, the percentage of blacks and Latinos exceeded their share of the total state population. The reverse was true for whites.

Analysis

Family Poverty: Overall

Statewide, 12.3% of California families in the 2014 ACS lived in poverty. The average percentage of families living in poverty in zip codes with payday lending storefronts was 14.4%, or 17.1% higher than the statewide rate. Of the 627 zip codes with payday lending storefronts, 321, or 51.2%, had family poverty rates higher than the statewide rate.

The 321 zip codes with family poverty rates higher than the statewide rate had 1,249 payday loan storefronts.



That accounted for 64.1 percent of the 1,948 storefronts located in all 627 zip codes.

The average number of payday loan storefronts in zip codes where the family poverty rate was higher than the statewide rate was 70.6% higher than zip codes where the family poverty rate was equal to or less than the statewide rate (3.89 versus 2.28).

For all 627 zip codes, the average number of payday lending storefronts per zip code was 3.1. In 86 of those zip codes, the average number of storefronts exceeded six, or roughly double the overall average.

Those 86 zip codes had an average family poverty rate of 17.9%, compared to the statewide rate of 12.3%. So the family poverty rate in those 86 zip codes was 45.5% higher than the statewide rate.

Family Poverty: Single Moms

The average poverty rate for families headed by single mothers in the 627 zip codes with payday loan storefronts was 27.9%. That matched the statewide rate. However, storefront operations were concentrated in zip codes where the family poverty rate for this demographic group was higher. Specifically:

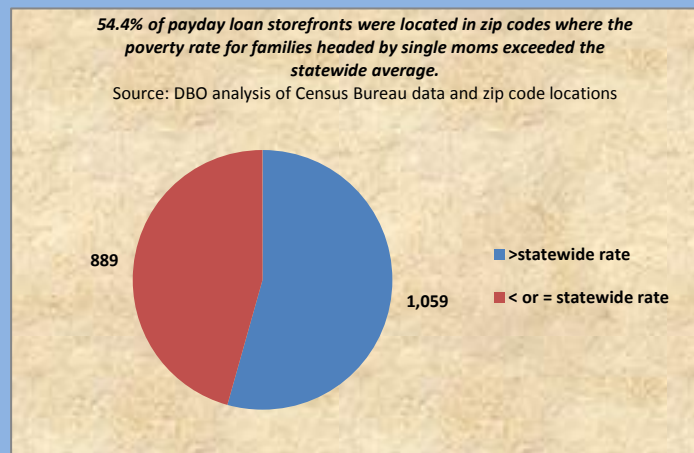
The poverty rate for families headed by single mothers was 28% or higher in 281 of the 627 zip codes with payday storefronts.

Those 281 zip codes – where the poverty rate for this demographic averaged 39.6% – had 1,059 storefronts, or 54.4% of the total for all 627 zip codes.

The average number of storefronts in the 281 zip codes was 46.7% higher than the average in zip codes where the family poverty rate for this demographic group

was equal to or less than the statewide rate of 27.9% (3.77 versus 2.57).

The average poverty rate for families headed by single mothers in zip codes with 6 or more payday storefronts (roughly double the overall average of three) was 33.1%. That was 18.6% higher than the statewide rate for this group.



Family Poverty: Blacks

The statewide poverty rate for black families was 20.3%. The average black family poverty rate in the 627 zip codes with payday storefronts was 20%.

The black family poverty rate exceeded the statewide rate of 20.3% in 251 zip codes with storefronts, and averaged 36.7% in those areas. Those 251 zip codes had 950 payday locations, or 48.8% of the total for all 627 zip codes.

The average number of storefronts in the 251 zip codes was 40% higher than the average in zip codes where the family poverty rate for this demographic was equal to or less than the statewide rate of 20.3% (3.78 versus 2.70).

The average black family poverty rate in zip codes with six or more payday storefronts was 24.4%. That was 20.2% higher than the statewide rate.

Family Poverty: Latinos

The statewide poverty rate for Latino families was 20.8%. The average Latino family poverty rate in the 627 zip codes with payday storefronts was 19.4%.

The Latino family poverty rate exceeded the statewide rate of 20.8% in 262 zip codes with storefronts, and averaged 29.2% in those areas. Those 262 zip codes had 948 payday locations, or 48.7% of the total for all 627 zip codes.

The average number of storefronts in the 262 zip codes was 32.1% higher than the average in zip codes where the family poverty rate for this demographic was equal to or less than the statewide rate of 20.8% (3.62 versus 2.74)

The average Latino family poverty rate in zip codes with 6 or more payday storefronts was 22.6%. That was 8.6% higher than the statewide rate.

Race and High Concentration of Payday Loan Storefronts

This section examines the racial characteristics of the 86 zip codes with six or more payday loan storefronts, which is roughly twice the overall average of 3.1 locations for all 627 zip codes.

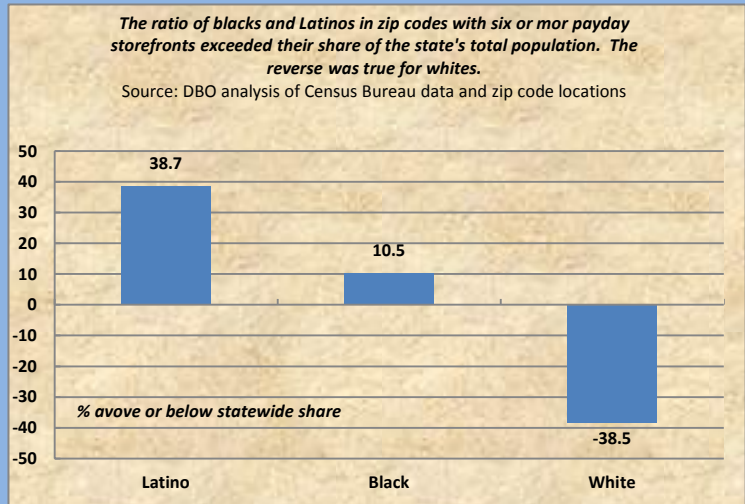
Black

Blacks comprised 5.7% of California's population. The average percentage of blacks in zip codes with six or more storefronts was 6.3%, a difference of 10.5%.

Latino

Latinos comprised 38.2% of the state's population. The average percentage of Latinos in zip codes with six or more storefronts was 53%. That was 38.7% higher than the statewide ratio.

Additionally, in more than half of the zip codes with six or more payday loan locations – 44 of 86 – Latinos comprised more than 50% of the population.



White

Whites comprised 39.2% of California's population. The average percentage of whites in zip codes with six or more storefronts was 28.3%. So, the percentage of whites in such zip codes was 38.5% less than the statewide share.