



2018

California Department of Business Oversight
Annual Report and Industry Survey

Operation of Payday Lenders Licensed Under the
California Deferred Deposit Transaction Law



California Department
of Business Oversight

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EXECUTIVE SUMMARY

The California Deferred Deposit Transaction Law (CDDTL), which took effect on January 1, 2003, shifted responsibility for licensing and regulating persons engaged in the business of deferred deposit transactions, better known as payday loans, from the Department of Justice to the Department of Business Oversight (DBO). Pursuant to statute, the DBO annually publishes a report containing information provided by CDDTL licensees.

In a payday loan transaction, the consumer gives the originator or lender a personal check for the amount of money the consumer wants. The lender gives the consumer the money, minus an agreed upon fee. The fee cannot exceed 15 percent of the face amount of the personal check. The lender then defers depositing the consumer's check for a specific period of time, which cannot exceed 31 days. The amount of the customer's personal check cannot exceed \$300.

The annual report and survey data contained in this report is unaudited and covers licensees' activities in calendar year 2018. The annual report also provides historical data going back to 2009.

Following are highlights from the 2018 annual report and industry survey:

- As of Dec. 31, 2018, the DBO supervised 182 payday loan licensees at 1,645 licensed locations. The number of licensed locations decreased 3.5 percent from 2017 and has declined 24.8 percent since 2009. (Of the 182 existing licensees, 175 submitted data in time for this report.)
- The number of payday loans made in 2018 decreased by nearly a half million or 4.6 percent from 2017, to 10.2 million. The dollar amount of payday loans also dropped, by almost \$123 million or nearly 4.2 percent, to about \$2.8 billion. The total dollar amount declined for the third consecutive year and is down 32.4 percent from a peak of \$4.17 billion in 2015.
- The total number of customers who obtained payday loans dropped 3.9 percent to a nine-year low of 1.62 million in 2018. This was the third consecutive year the total number of customers declined, a period in which the number of payday loan customers statewide declined by almost 263,000, or nearly 14 percent.
- The average number of transactions per customer decreased slightly from 6.36 in 2017 to 6.31 in 2018.
- The average dollar amount and average length of payday loans in 2018 remained at \$250 and 17 days, respectively, the same as 2017.
- The average annual percentage rate (APR) for payday loans declined from 377 percent in 2017 to 376 percent in 2018.
- In 2018, the number of customers who obtained 10 or more payday loans exceeded the number of those who obtained just one – 411,067 compared to 373,201.

- Subsequent payday loans by the same borrower accounted for 75.8 percent of the total number of payday loans in 2018 and 80.7 percent of the aggregate dollar amount.
- Of subsequent payday loans to the same borrower, 59.2 percent were made the same day the previous loan ended. Another 17.9 percent were made one to seven days after the previous loan.
- Half of all payday loan customers had average annual incomes of \$30,000 or less in 2018, and nearly a third had average annual incomes of \$20,000 or less.
- The number of payday loan customers referred by lead generators more than doubled, increasing 153 percent from 107,691 in 2017 to 272,753 last year. As such, the number of payday loan customers referred by lead generators has grown from 6 percent in 2017 to 17 percent last year.
- For respondent licensees, the use of cash to disburse funds to customers and receive payments from customers fell in 2018, while the use of electronic transfers (Automated Clearing House or ACH) grew. Measured in dollar amounts, cash disbursements declined to 76.8 percent of all disbursements from 78.4 percent in 2017, while ACH disbursements increased to 20.5 percent from 19.7 percent. In 2018, 60.7 percent of customers' payments were made with cash, down from 63.5 percent in 2017. Electronic transfers accounted for 21.5 percent of payments in 2018, compared to 18.1 percent in 2017.
- Borrowers' checks were returned unpaid in 6.32 percent of all payday loans in 2018, a rise from 6.15 percent in 2017. During the same period, the dollar amount of returned checks, as a percentage of the total dollar amount of all payday loans, increased to 6.31 percent from 6.07 percent.
- The number of charged off returned checks as a share of total payday loans decreased in 2018 to 2.6 percent from 3.2 percent in 2017, while the dollar amount of charged off returned checks, as a percentage of the total dollar amount of all payday loans in 2018, also dropped to 2.36 percent from 2.81 percent in 2017.
- Of \$420.5 million in fees collected on payday loans in 2018, 70.7 percent – \$297.3 million – came from customers who took out seven or more loans during the year.
- With respect to dispute resolution, 46.9 percent of respondent licensees have clauses in their written agreements requiring arbitration, and 30.9 percent have arbitration clauses that prohibit customers from joining class actions.

PART I: CONSOLIDATED ANNUAL REPORT

INTRODUCTION

In this report, the Department of Business Oversight (DBO) has compiled data submitted by licensed deferred deposit originators, better known as payday lenders, under the California Deferred Deposit Transaction Law (CDDTL). The licensees submitted the data pursuant to Financial Code section 23026.

Financial Code section 23026 states:

On or before March 15 of each year, beginning March 2006, each licensee shall file an annual report with the Commissioner pursuant to procedures that the Commissioner shall establish. Effective January 1, 2018, individual licensees' responses to the annual report will be made available to the public for inspection, except, upon request in the annual report to the Commissioner, the balance sheet contained in the annual report of a sole proprietor or any other non-publicly traded persons. The annual consolidated report shall be prepared by the Commissioner and made available to the public. For the previous calendar year, these reports shall include the following:

- (a) The total number and dollar amount of deferred deposit transactions made by the licensee.*
- (b) The total number of individual customers who entered into deferred deposit transactions.*
- (c) The minimum, maximum, and average amount of deferred deposit transactions.*
- (d) The average annual percentage rate of deferred deposits.*
- (e) The average number of days of deferred deposit transactions.*
- (f) The total number and dollar amount of returned checks.*
- (g) The total number and dollar amount of checks recovered.*
- (h) The total number and dollar amount of checks charged off.*

This report contains unaudited data provided by licensees for the calendar year ending December 31, 2018. The numbers are statistical in nature.

As of December 31, 2018, the DBO licensed 182 payday lenders. Of those, 175 filed required annual reports, and seven surrendered their licenses after January 1, 2019.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided, and percentages may not precisely reflect the absolute figures.

This report and prior years' reports can be found on the DBO's website at:
http://www.dbo.ca.gov/Licensees/Payday_Lenders/Publications.asp.

CDDTL Historical Data - Transactions

Table 1: Total Dollar Amount and Number of Transactions

Year	Total dollar amount of deferred deposit transactions	Total number of deferred deposit transactions	Total number of individual customers who obtained deferred deposit transactions (repeat customers counted once)
2018	\$2,817,530,720	10,240,894	1,622,969
2017	\$2,940,236,402	10,734,226	1,688,718
2016*	\$3,140,937,922	11,502,397	1,796,515
2015	\$4,170,267,951	12,261,885	1,885,934
2014	\$3,376,447,239	12,407,422	1,818,524
2013	\$3,165,667,707	12,163,832	1,779,471
2012	\$3,229,018,352	12,255,026	1,768,501
2011	\$3,276,629,497	12,427,810	1,738,219
2010	\$3,125,299,157	12,092,091	1,646,700
2009	\$3,088,358,316	11,784,798	1,567,188

* Variances from data published in the annual report due to late filings by licensees.

In 2018, the total dollar amount of transactions decreased by 4.2 percent from the previous year, while the total number of transactions declined 4.6 percent. Table 1 also reflects a 3.9 percent drop from 2017 in the number of payday loan customers. The average number of transactions per individual customer declined from 7.5 in 2009 to 6.3 in 2018.

CDDTL Historical Data - Transactions (continued)

Table 2: Transaction Analysis

Year	*Average dollar amount of deferred deposit transactions	**Average annual percentage rate (APR)	Average number of days of deferred deposit transactions
2018	\$250	376%	17
2017	\$250	377%	17
2016	\$251	372%	17
2015	\$237	366%	17
2014	\$235	361%	16
2013	\$260	408%	17
2012	\$260	411%	17
2011	\$263	411%	17
2010	\$258	414%	17
2009	\$262	414%	17

** Maximum transaction amount, per statute, is \$300.*

*** APR is calculated using the average method, in which all APRs reported are divided by the number of licensees.*

The average payday loan dollar amount remained at \$250 in 2018, the same as 2017. The average APR for payday loans decreased to 376 percent in 2018 from 377 percent in 2017.

CDDTL Historical Data - Returned Checks

Table 3: Returned Checks: Total Number and Dollar Amount

Year	Total number of returned checks in deferred deposit transactions	Total number of returned checks in deferred deposit transactions as percentage of total number of deferred deposit transactions	Total dollar amount of returned checks in deferred deposit transactions	Total dollar amount of returned checks in deferred deposit transactions as percentage of total dollar amount of deferred deposit transactions
2018	647,069	6.32%	\$177,785,694	6.31%
2017	660,351	6.15%	\$178,500,307	6.07%
2016*	773,368	6.72%	\$193,301,210	6.15%
2015	780,856	6.37%	\$212,767,330	5.10%
2014	725,170	5.84%	\$196,652,680	5.82%
2013	706,214	5.81%	\$191,816,906	6.06%
2012	674,648	5.51%	\$180,460,466	5.59%
2011	931,387	7.49%	\$246,769,462	7.53%
2010	931,735	7.71%	\$239,593,849	7.67%
2009	677,616	5.75%	\$178,369,234	5.78%

* Variances from data published in the annual report due to late filings by licensees.

- From 2017 to 2018, the number of returned checks in payday loan transactions decreased by 2 percent.

Table 4: Returned Checks Recovered

Year	Total number of returned checks recovered (includes partial recoveries) in deferred deposit transactions	Total number of returned checks in deferred deposit transactions recovered (includes partial recoveries) as percentage of total number of deferred deposit transactions	Total dollar amount of returned checks recovered (includes partial recoveries) in deferred deposit transactions	Total dollar amount of checks recovered (includes partial recoveries) in deferred deposit transactions as percentage of total dollar amount of deferred deposit transactions
2018	418,155	4.08%	\$90,553,602	3.21%
2017	421,561	3.93%	\$89,419,679	3.04%
2016*	421,371	3.66%	\$92,191,739	2.94%
2015	417,957	3.41%	\$96,878,435	2.32%
2014	399,973	3.22%	\$93,854,369	2.78%
2013	370,812	3.05%	\$88,276,576	2.79%
2012	389,312	3.18%	\$92,394,261	2.86%
2011	642,069	5.17%	\$160,480,858	4.90%
2010	674,470	5.58%	\$164,196,162	5.25%
2009	432,284	3.67%	\$98,998,954	3.21%

* Variances from data published in the annual report due to late filings by licensees.

- From 2017 to 2018, the total dollar amount of returned checks recovered increased 1.3 percent, to \$90.6 million.

CDDTL Historical Data - Returned Checks (Continued)

Table 5: Returned Checks Charged Off

Year	Total number of returned checks charged off (includes partial balances) in deferred deposit transactions	Total number of returned checks charged off (including partial balances) in deferred deposit transactions as percentage of total number of deferred deposit transactions	Total dollar amount of returned checks charged off (includes partial balances) in deferred deposit transactions	Total dollar amount of returned checks charged off (including partial balances) in deferred deposit transactions as percentage of total dollar amount of deferred deposit transactions
2018	265,034	2.59%	\$66,551,379	2.36%
2017	343,865	3.20%	\$82,592,712	2.81%
2016*	548,001	4.76%	\$143,439,201	4.57%
2015	380,925	3.11%	\$92,891,127	2.23%
2014	376,728	3.04%	\$99,586,657	2.95%
2013	336,780	2.77%	\$88,390,920	2.79%
2012	289,982	2.37%	\$73,647,144	2.28%
2011	285,555	2.30%	\$72,367,689	2.21%
2010	180,020	2.32%	\$70,937,735	2.27%
2009	280,233	2.38%	\$72,023,747	2.33%

* Variances from data published in the annual report due to late filings by licensees.

- From 2017 to 2018, the number of returned checks charged off fell by 22.9 percent, while the dollar amount of returned checks charged off declined by 19.4 percent.

CDDTL Historical Data - Licensing

The information in Table 6 and Table 7 reflects licensing activity for calendar years 2009 through 2018. The long form application refers to the first application for a CDDTL license. The short form application refers to a license for an additional business location. Applications are subject to abandonment if a deficiency is not corrected within 90 days of notification. Applications can be withdrawn at the request of the applicant.

Table 6: Licensed Locations

Year	Number
2018	1,645
2017	1,705
2016	1,854
2015	1,969
2014	2,014
2013	2,058
2012	2,100
2011	2,119
2010	2,144
2009	2,187

The information in Table 6 shows there has been a steady decline in the number of licensed locations. From 2009 to 2018, the number dropped by 542, or 24.8 percent.

Table 7: Applications Filed

Year	Long Form Applications Filed	Short Form Applications Filed	Total Applications Filed
2018	20	61	81
2017	8	20	28
2016	17	51	68
2015	19	29	48
2014	35	125	160
2013	38	67	105
2012	29	61	90
2011	32	48	80
2010	33	123	156
2009	53	47	100

PART II: CONSOLIDATED INDUSTRY SURVEY

INTRODUCTION

In January 2019, the DBO provided the *California Deferred Deposit Transaction Law – 2018 Industry Survey* to all licensed deferred deposit originators. The DBO conducts this industry survey pursuant to Financial Code section 23015.

The survey allows the Department to gather up-to-date information on transaction activities in order to assess the financial health and compliance practices of California’s licensed deferred deposit originators, as well as potential consumer risks. The industry survey collected information on licensees’ activities in calendar year 2018 related to the following:

- Volume of transactions per customer
- Customer ages and income
- Internet transactions
- Lead generators
- Disbursements to customers
- Payments from customers
- Collections
- Fees
- Subsequent transactions
- Customers receiving government assistance
- Dishonored checks
- Dispute arbitration
- Covered borrowers

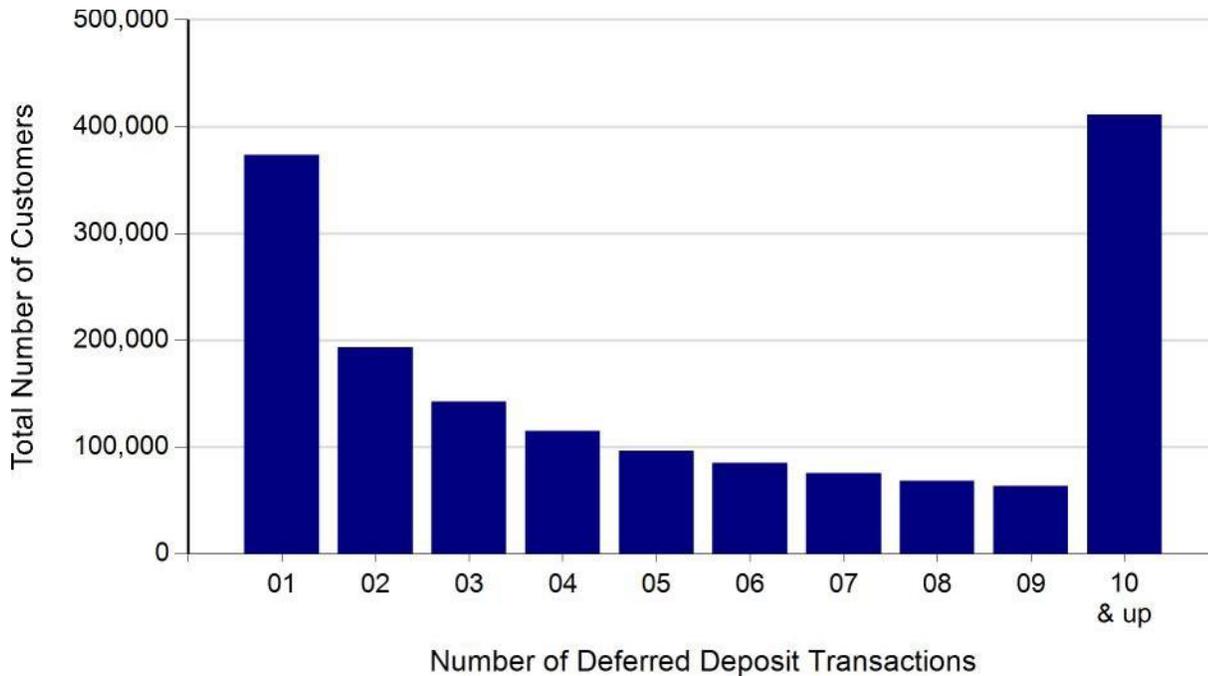
Some data included in this industry survey may not exactly match data in the annual report due to minor differences in the data reported by licensees (Part I of this report).

Deferred Deposit Transaction Volumes Per Customer

- Questions one through ten of the survey asked licensees to report the number of customers who obtained a specified number of transactions during 2018. Chart 1 provides the aggregated response data for each question.

Chart 1: Total Number of Customers by Number of Transactions

Source: Survey questions 1-10

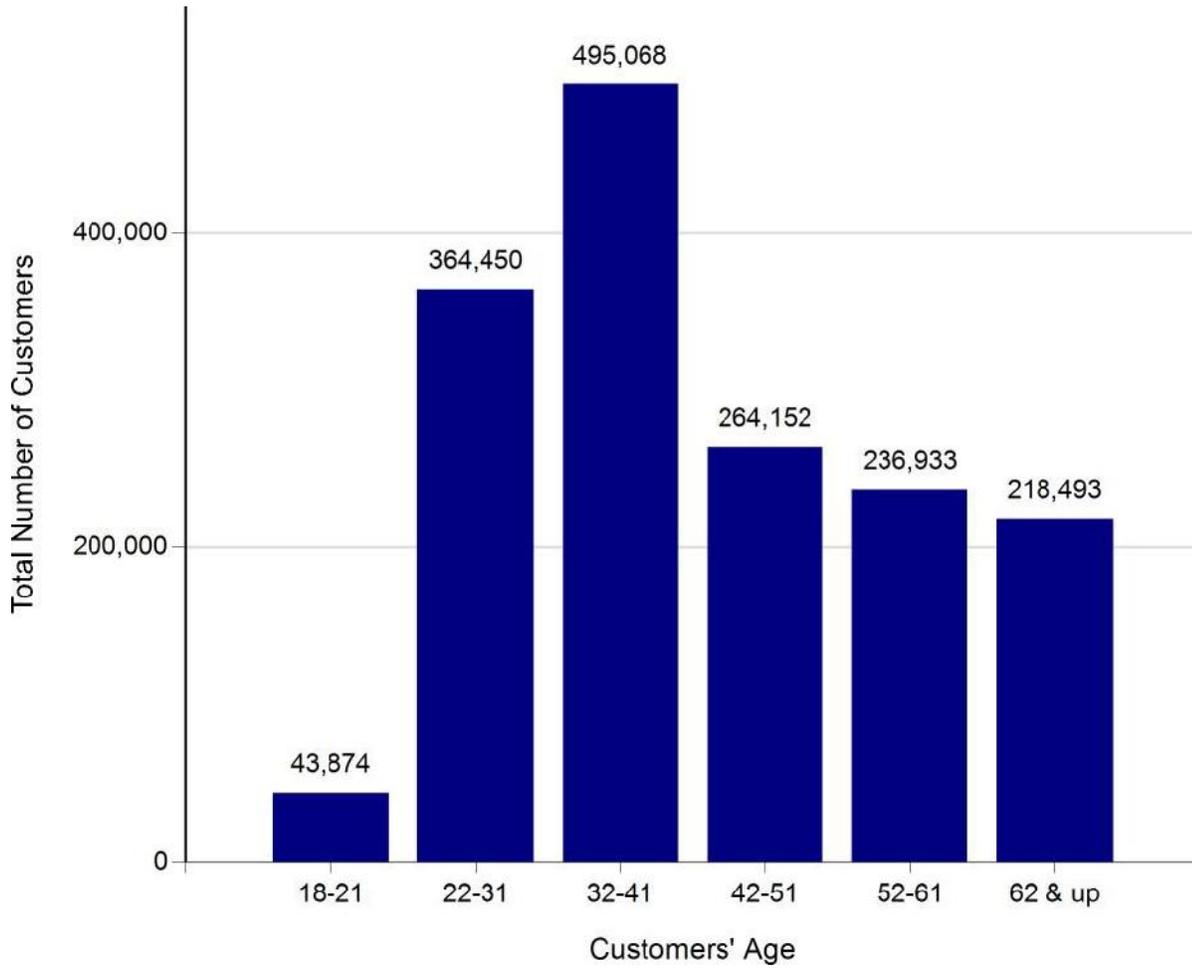


Question Number	1	2	3	4	5	6	7	8	9	10
Question Text	Obtained 1 deferred deposit transaction	Obtained 2 deferred deposit transactions	Obtained 3 deferred deposit transactions	Obtained 4 deferred deposit transactions	Obtained 5 deferred deposit transactions	Obtained 6 deferred deposit transactions	Obtained 7 deferred deposit transactions	Obtained 8 deferred deposit transactions	Obtained 9 deferred deposit transactions	Obtained 10 or more deferred deposit transactions
Totals	373,201	193,090	142,163	114,722	96,325	84,979	75,429	68,443	63,550	411,067

Customer Age

Chart 2: Number of Customers by Customers' Age

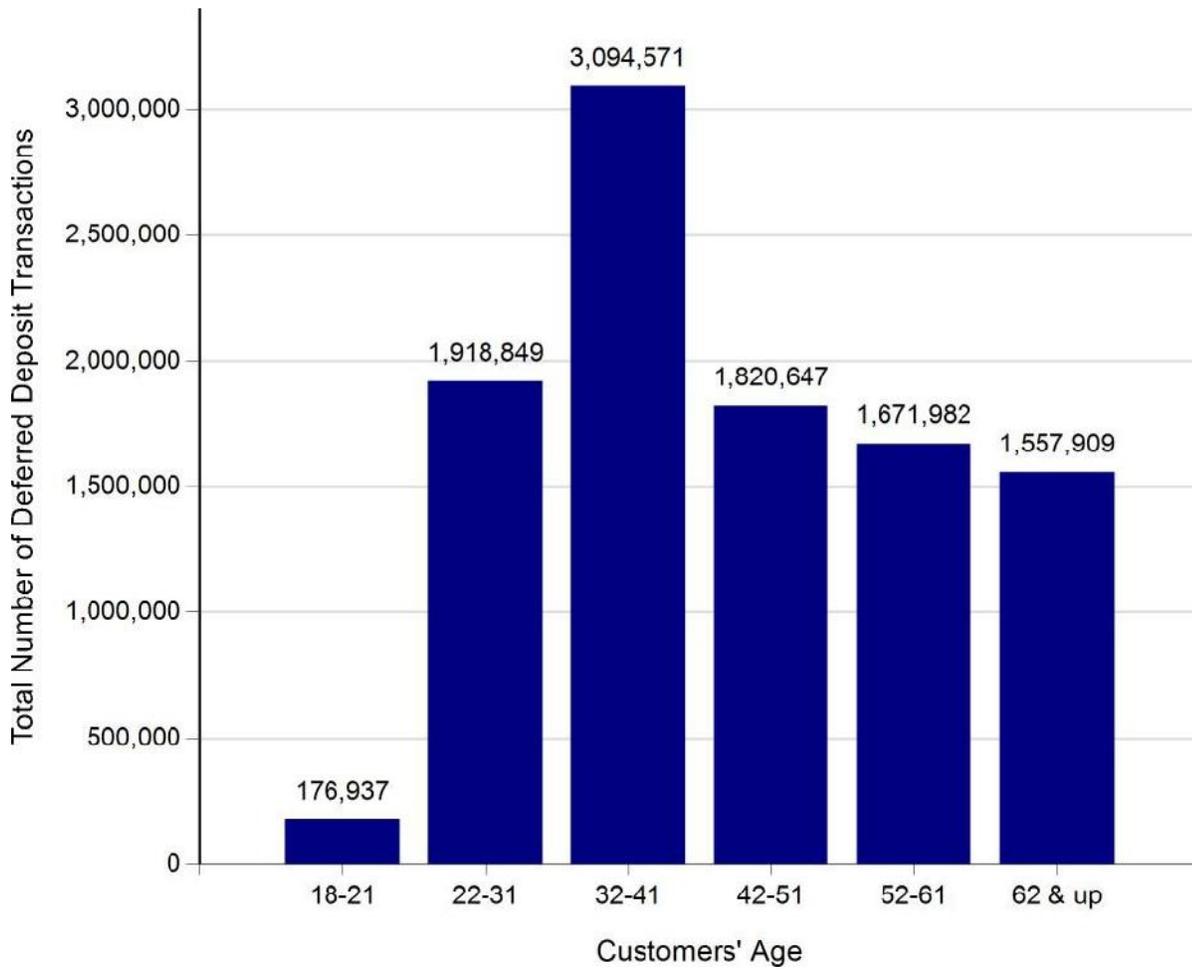
Source: Survey questions 12-17



Customer Age (continued)

Chart 3: Number of Transactions by Customers' Age

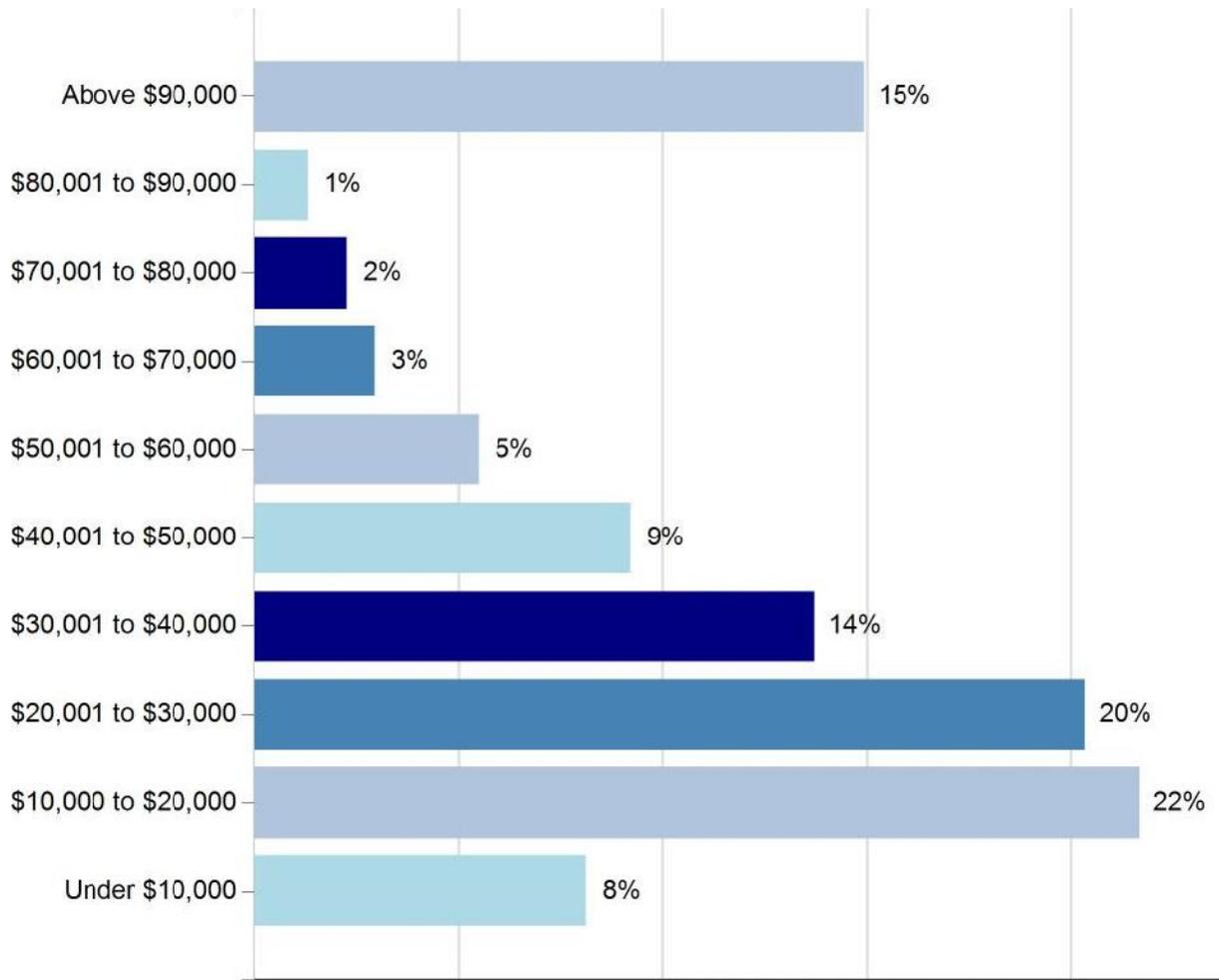
Source: Survey questions 19-24



Customer Income

Chart 4: Average Annual Income

Source: Survey questions 26-35



Internet Transactions

Chart 5: Percentage of Payday Lenders Conducting Transactions on the Internet

Source: Survey question 37

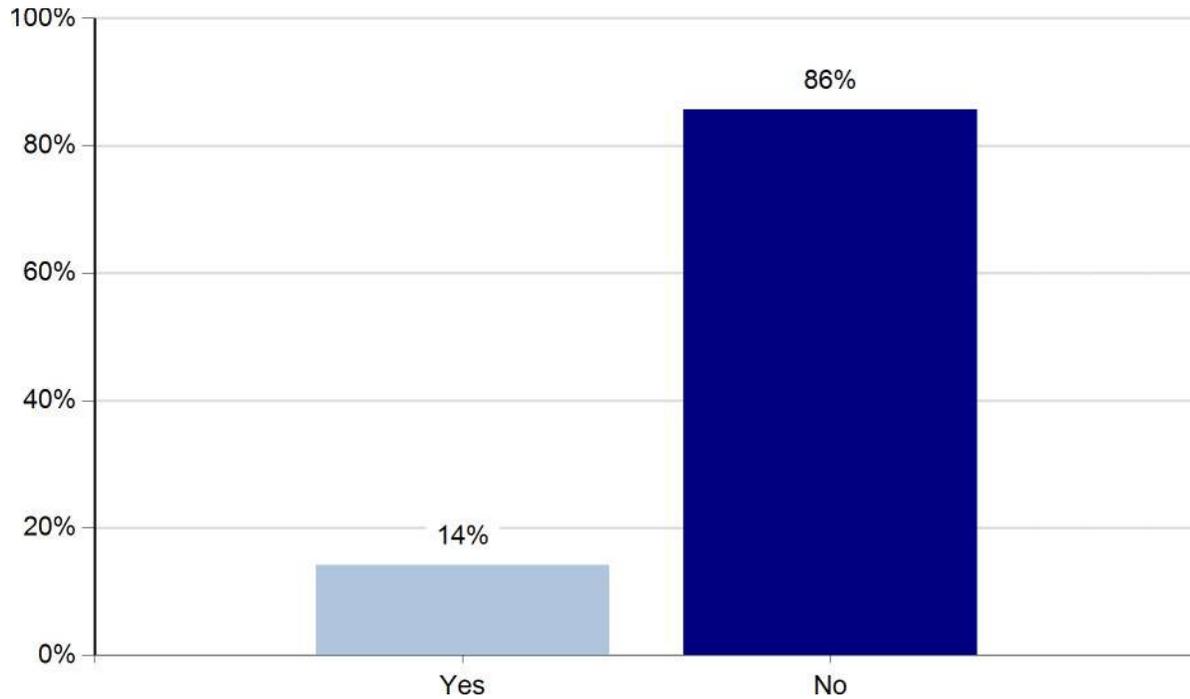


Table 8: Internet Transaction Volumes and Amounts

Source: Survey questions 38 – 40

	2018
Number of Customers	470,901
Number of Transactions	2,364,453
Transaction Amounts	\$633,791,166

Lead Generators

Chart 6: Number of Payday Lenders Using Lead Generators

Source: Survey question 41

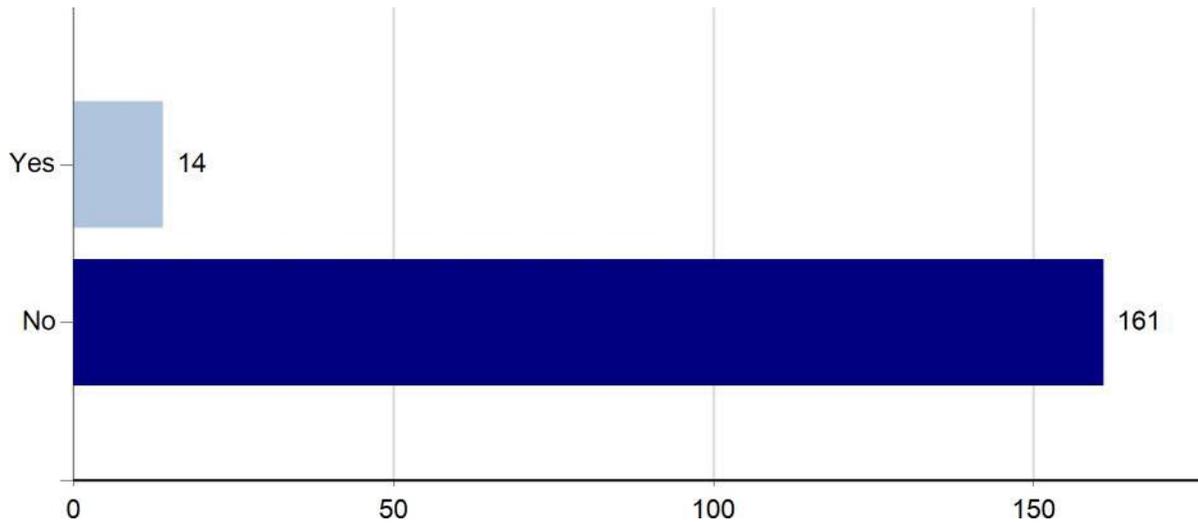


Table 9: Lead Generator Fees

Source: Survey questions 43 and 44

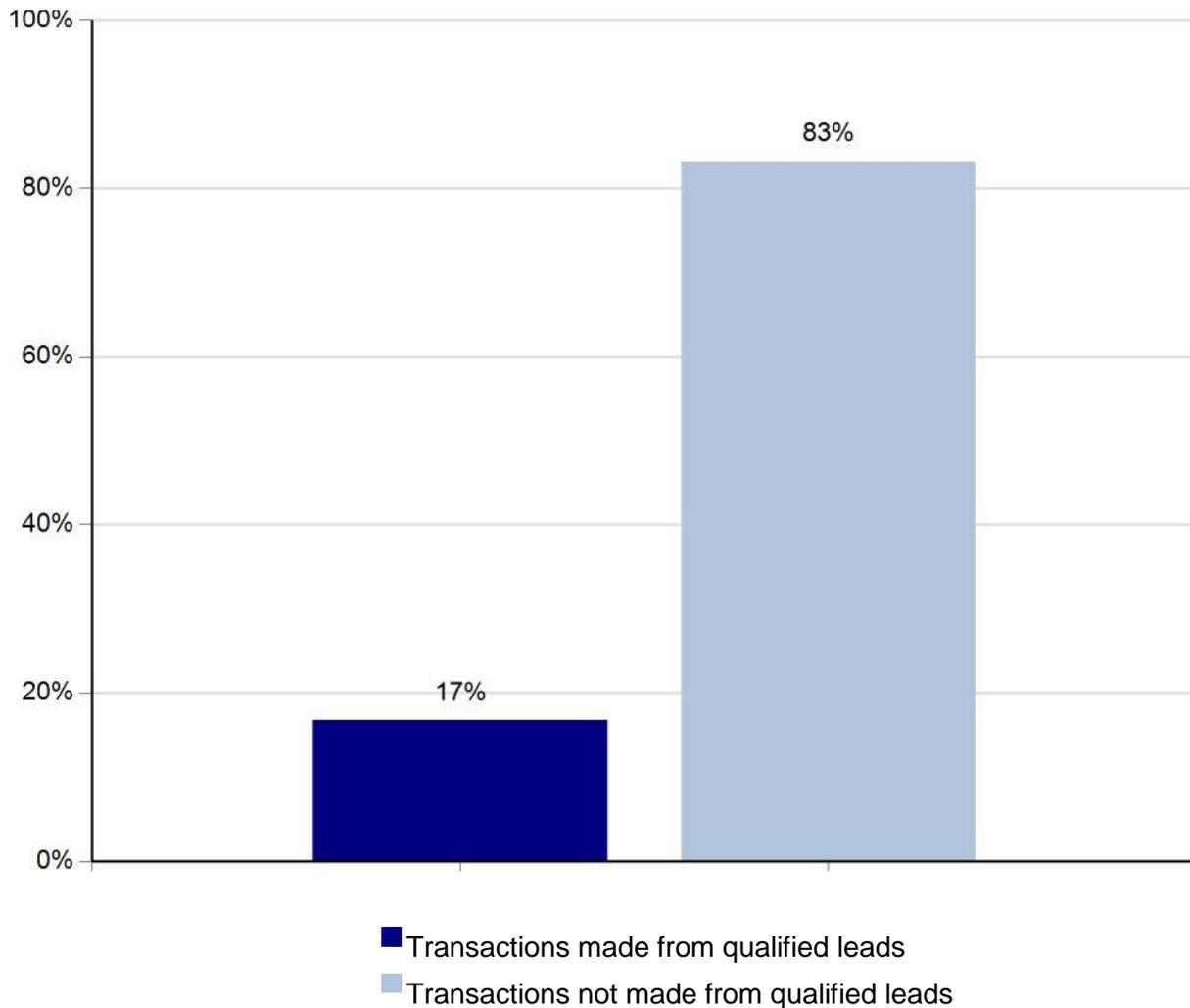
	2018
Fees Paid to Lead Generators	\$6,630,829
Number of Customers Who Made Deferred Deposit Transactions that Resulted from Lead	272,753

- The number of payday loan customers referred by lead generators more than doubled, increasing 153 percent from 107,691 in 2017 to 272,753 last year.

Lead Generators (continued)

Chart 7: Percentage of Qualified Leads Resulting in Transactions

Source: Survey question 43 & Annual Report question 3

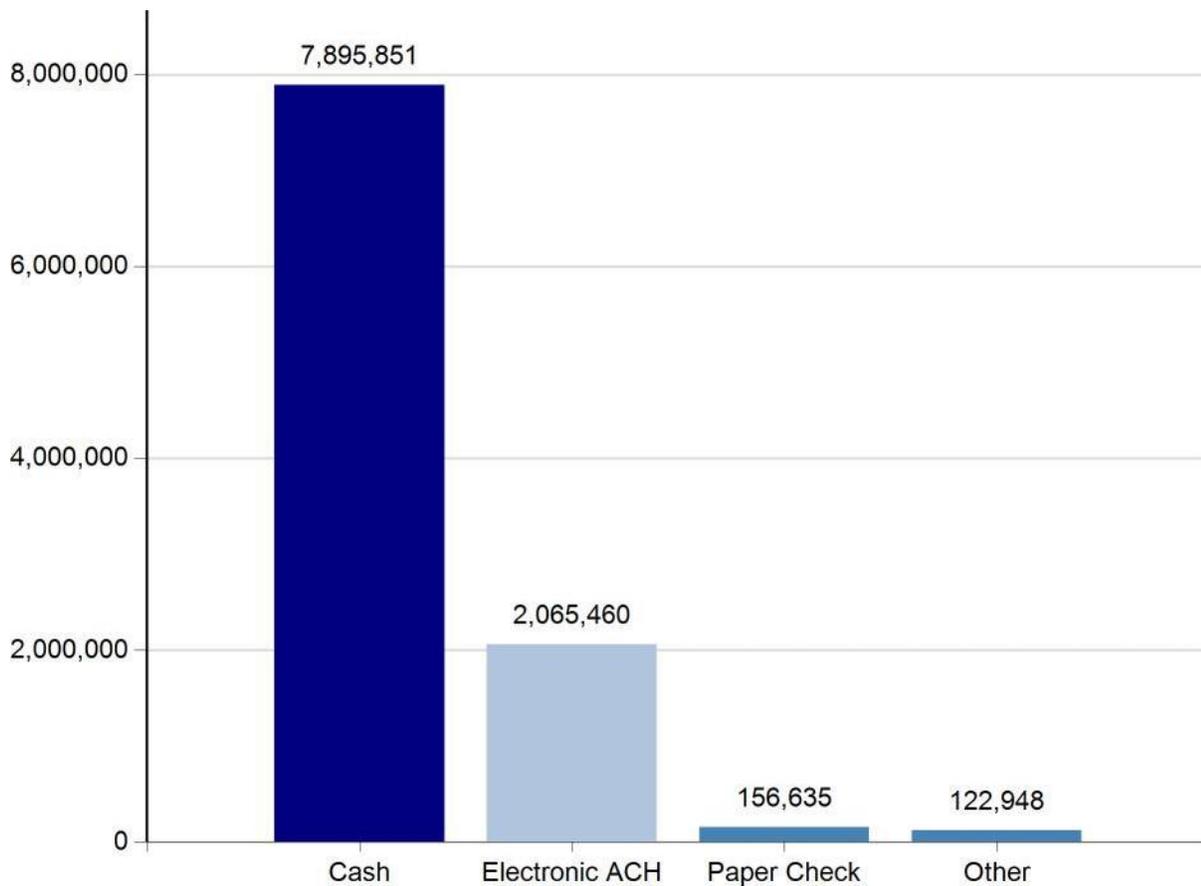


- Almost 17 percent of 1,622,969 customers, compared to 6 percent in 2017, who obtained payday loans were referred by lead generators.

Disbursements to Customers

Chart 8: Number of Disbursements to Customers

Source: Survey question 54

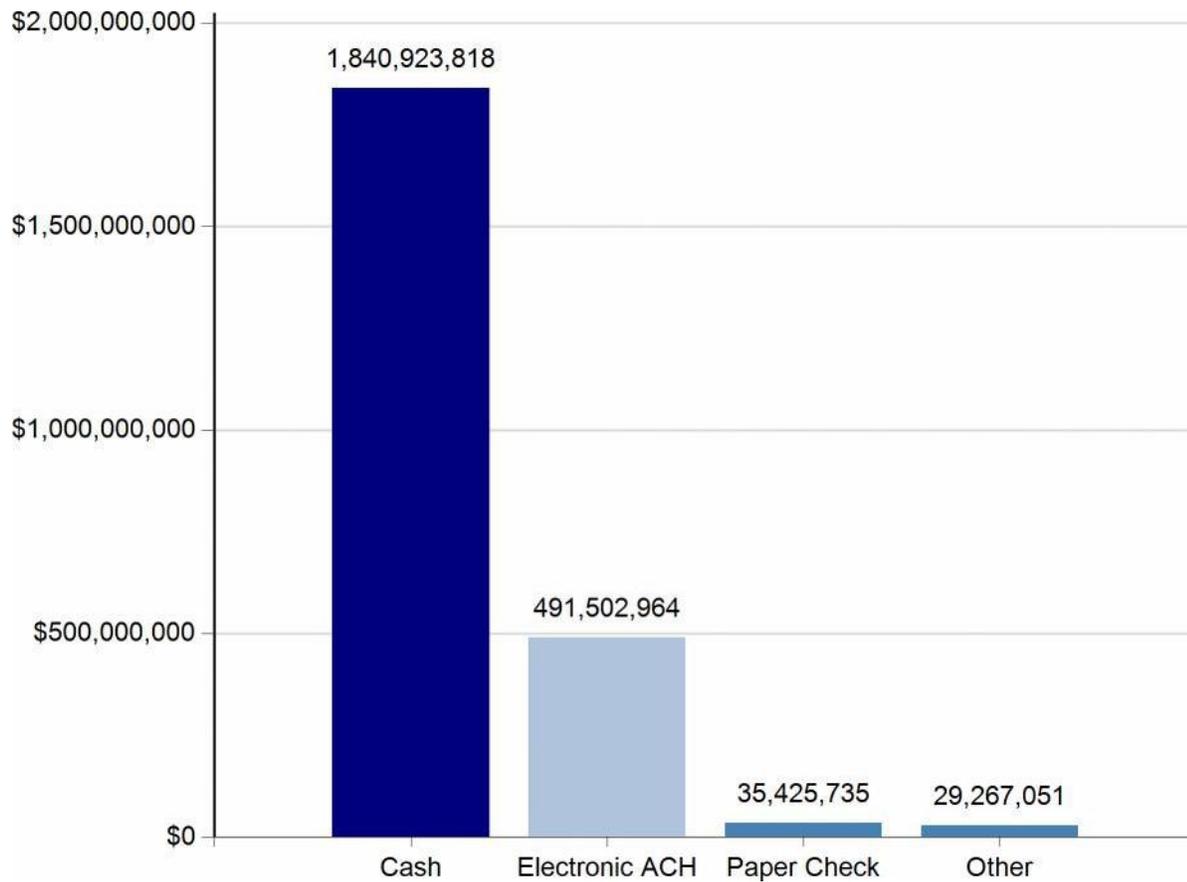


- Of the disbursements above, Cash represented 77.1 percent; Electronic ACH, 20.2 percent; Paper Check, 1.5 percent; and Other, 1.2 percent.

Disbursements to Customers (continued)

Chart 9: Dollar Amount of Disbursements to Customers

Source: Survey question 55

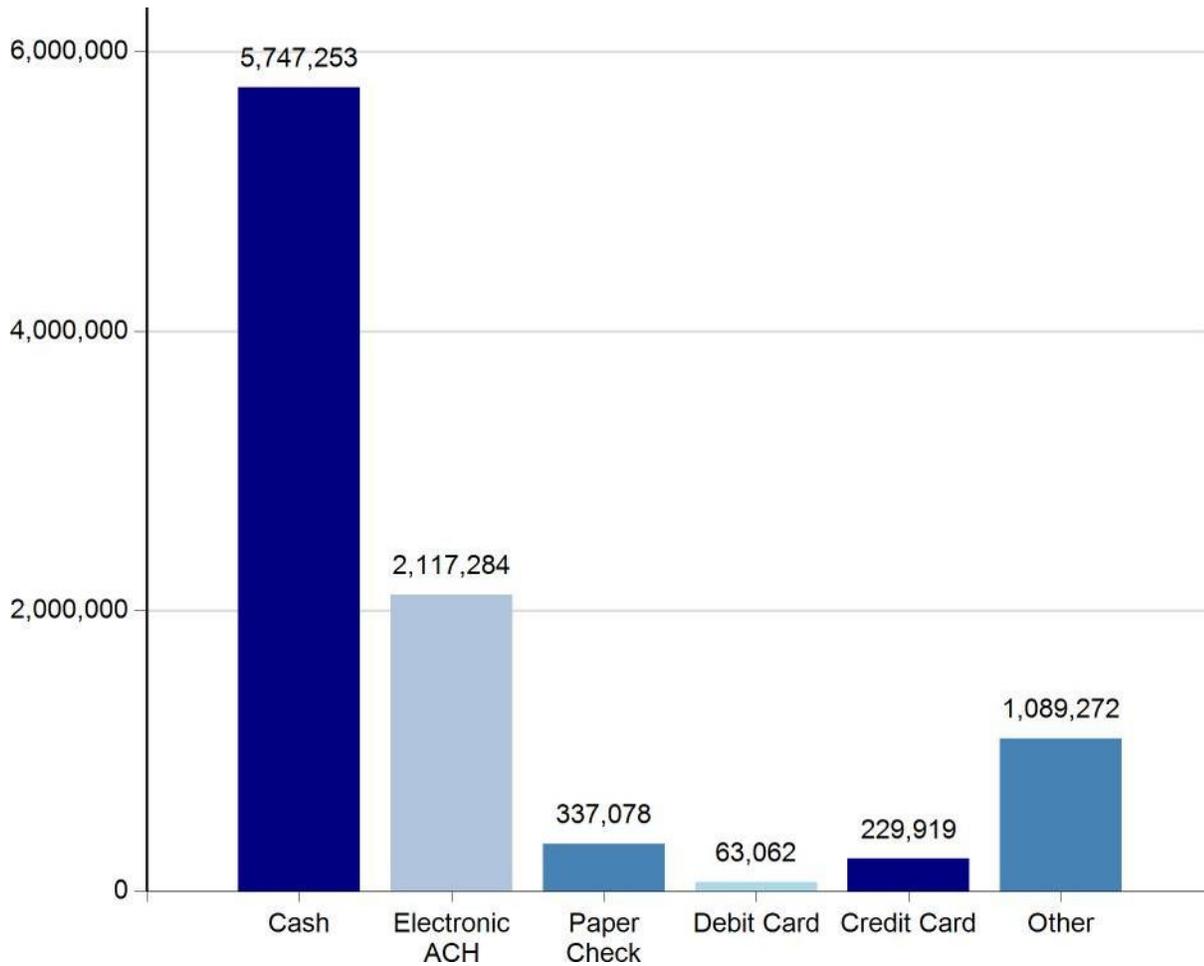


- Of the disbursements above, Cash represented 76.8 percent; Electronic ACH, 20.5 percent; Paper Check, 1.48 percent; and Other, 1.22 percent.
- The “other” category includes the following payment types as described by licensees: wire transfers, bank cards, debit cards, and Paypal.

Payments from Customers

Chart 10: Number of Payments from Customers

Source: Survey question 58

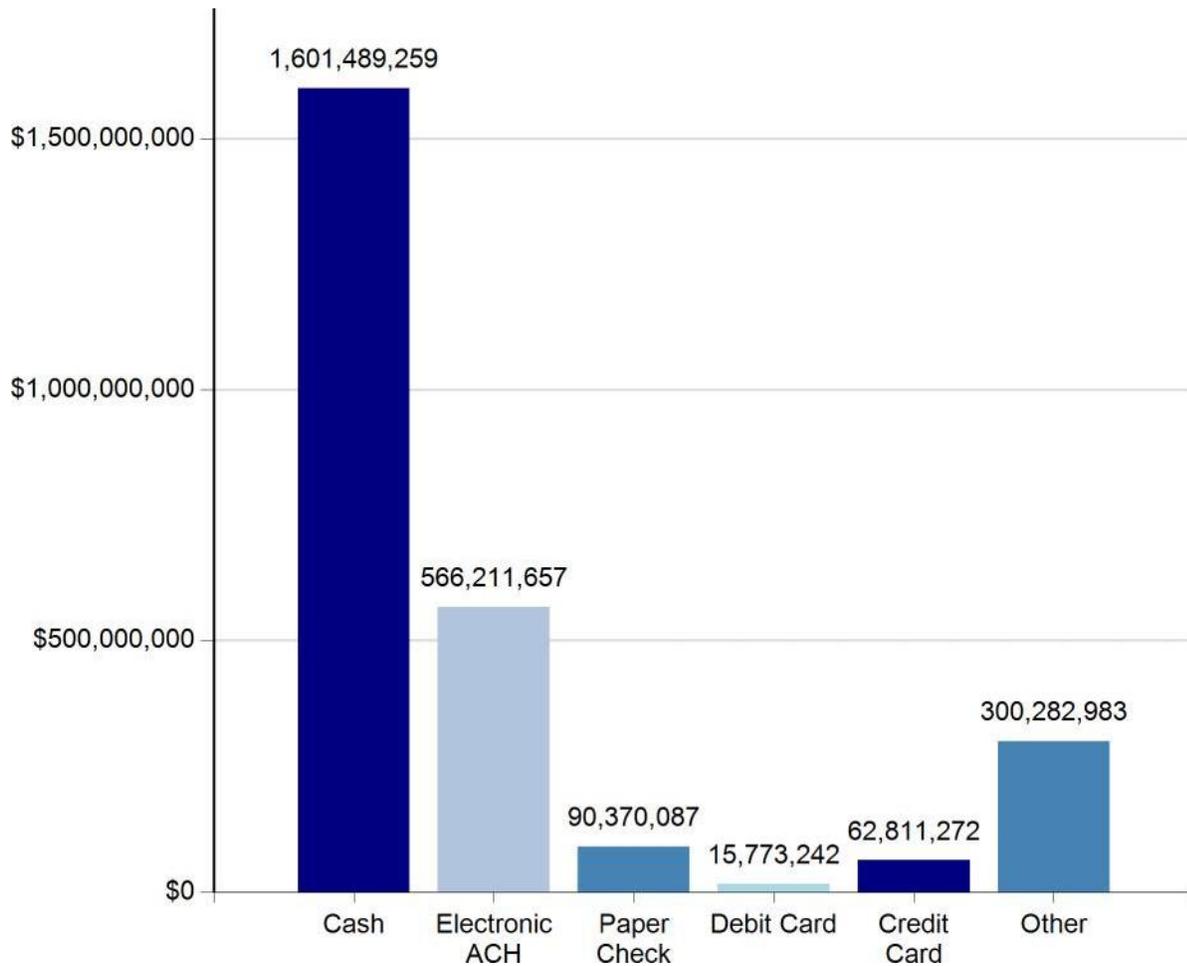


- Cash accounted for 60 percent of customer payments; Electronic ACH, 22.1 percent; Paper Check, 3.5 percent; Debit Card, 0.7 percent; Credit Card, 2.4 percent; and Other, 11.4 percent.

Payments from Customers (continued)

Chart 11: Amount of Payments from Customers

Source: Survey question 59



- Of the payments above, Cash represented 60.7 percent; Electronic ACH, 21.5 percent; Paper Check, 3.4 percent; Debit Card, 0.6 percent; Credit Card, 2.4 percent; and Other, 11.4 percent.

Payments from Customers (continued)

Chart 12: Percentage of Payday Lenders Offering Written Payment Plan

Source: Survey question 61

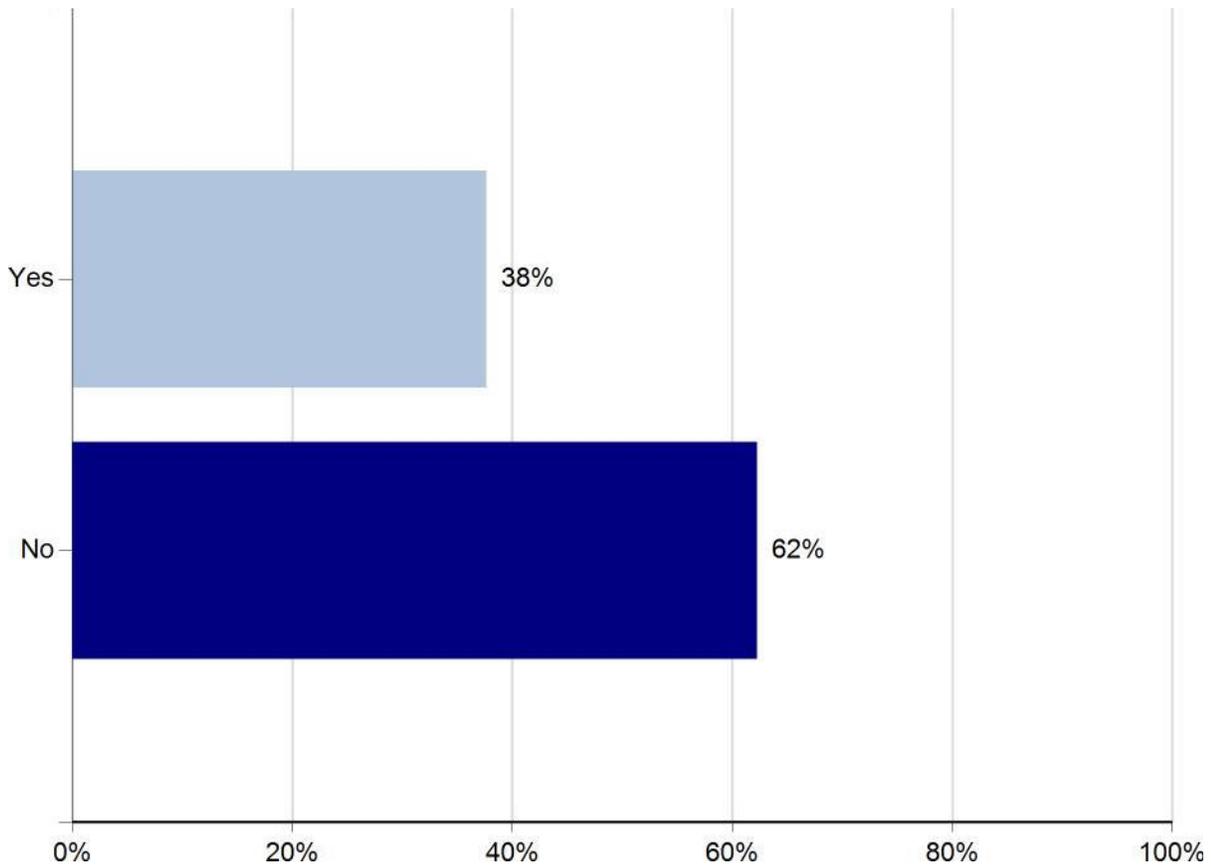


Table 10: Payment Plan Volumes for Repayment

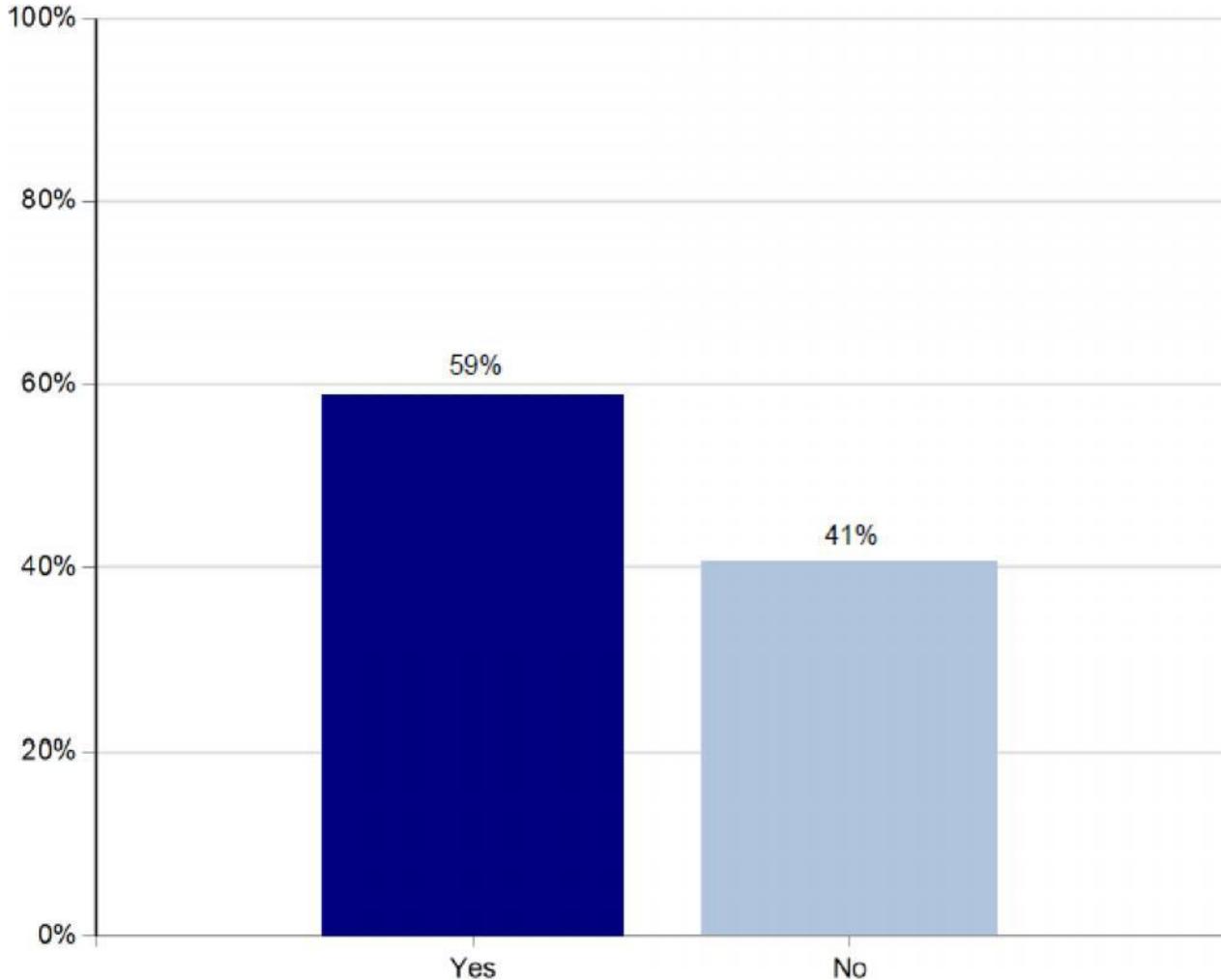
Source: Survey questions 61 - 64

	2018
Total Dollar Amount of Outstanding Payment Plans	\$29,153,453
Total Number of Outstanding Payment Plans	106,415

Collections

Chart 13: Percentage of Licensees with In-House Collections

Source: Survey question 66



- A total of 292,733 customers were not in a payment plan and paid in full as a result of in-house collection in 2018. Those customers accounted for 623,605 transactions. (Source: Survey questions 67 and 68)
- The total dollar amount of transactions in 2018 that were not in a payment plan and paid in full as a result of in-house collections was approximately \$162.5 million. (Source: Survey question 69)
- Collection agencies are required to have a local business license to operate and are not licensed by the DBO. Several laws regulate debt collection companies in California, including the Fair Debt Collection Practices Act, administered by the Federal Trade Commission, and California's Rosenthal Fair Debt Collection Practices Act (Civil Code 1788-1788.33), which is enforced by the California Attorney General.

Collections (continued)

Chart 14: Percentage of Licensees That Own Outside Collection Agency
Source: Survey question 70

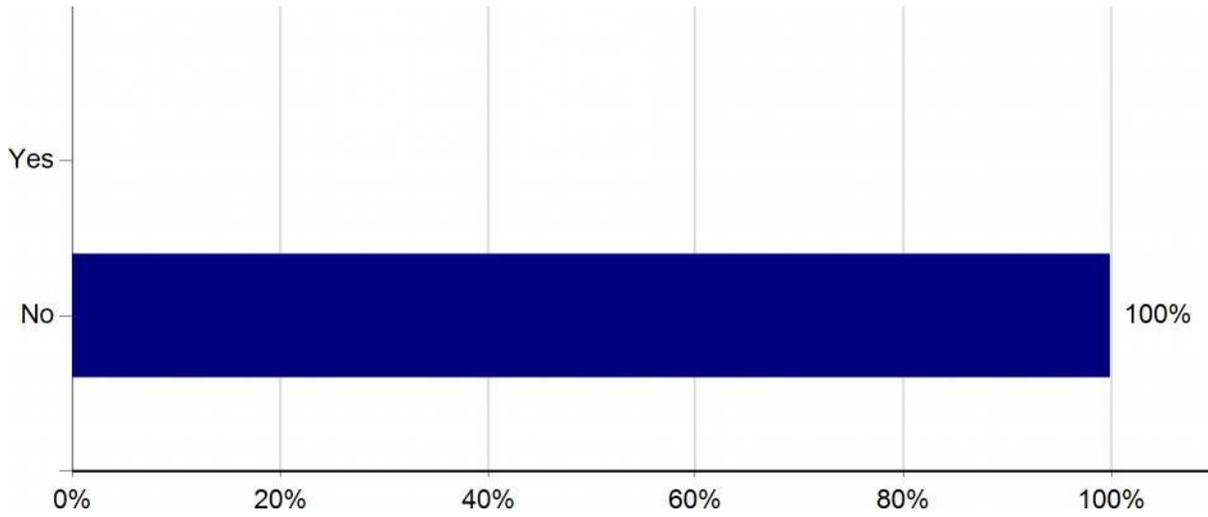
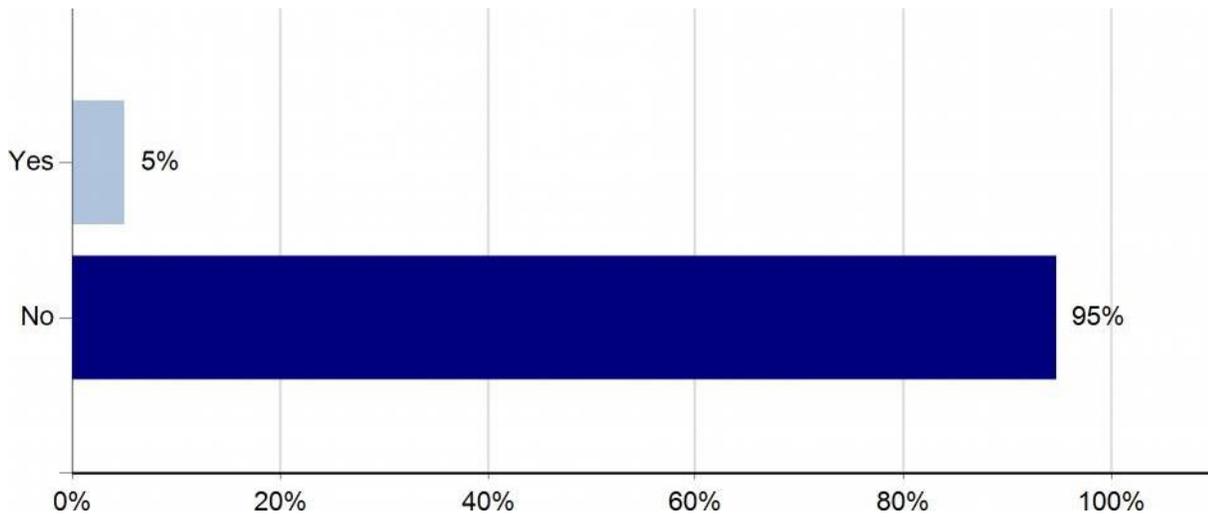


Chart 15: Percentage of Licensees Associated with Outside Collection Agency
Source: Survey question 71

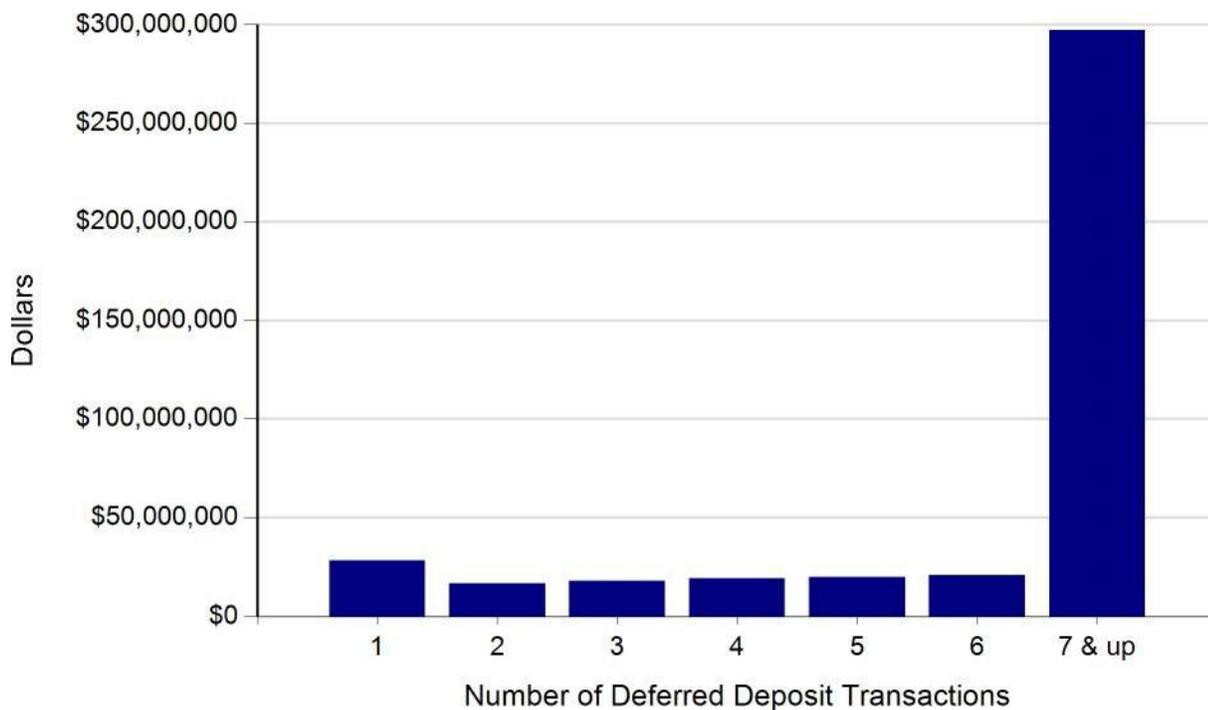


Fees

Respondent licensees collected \$420.5 million in fees on payday loans originated in 2018. Of that total, 71 percent – \$297.3 million – came from customers who made seven or more transactions during the year.

Chart 16: Deferred Deposit Transaction Fees per Financial Code section 23036(a)

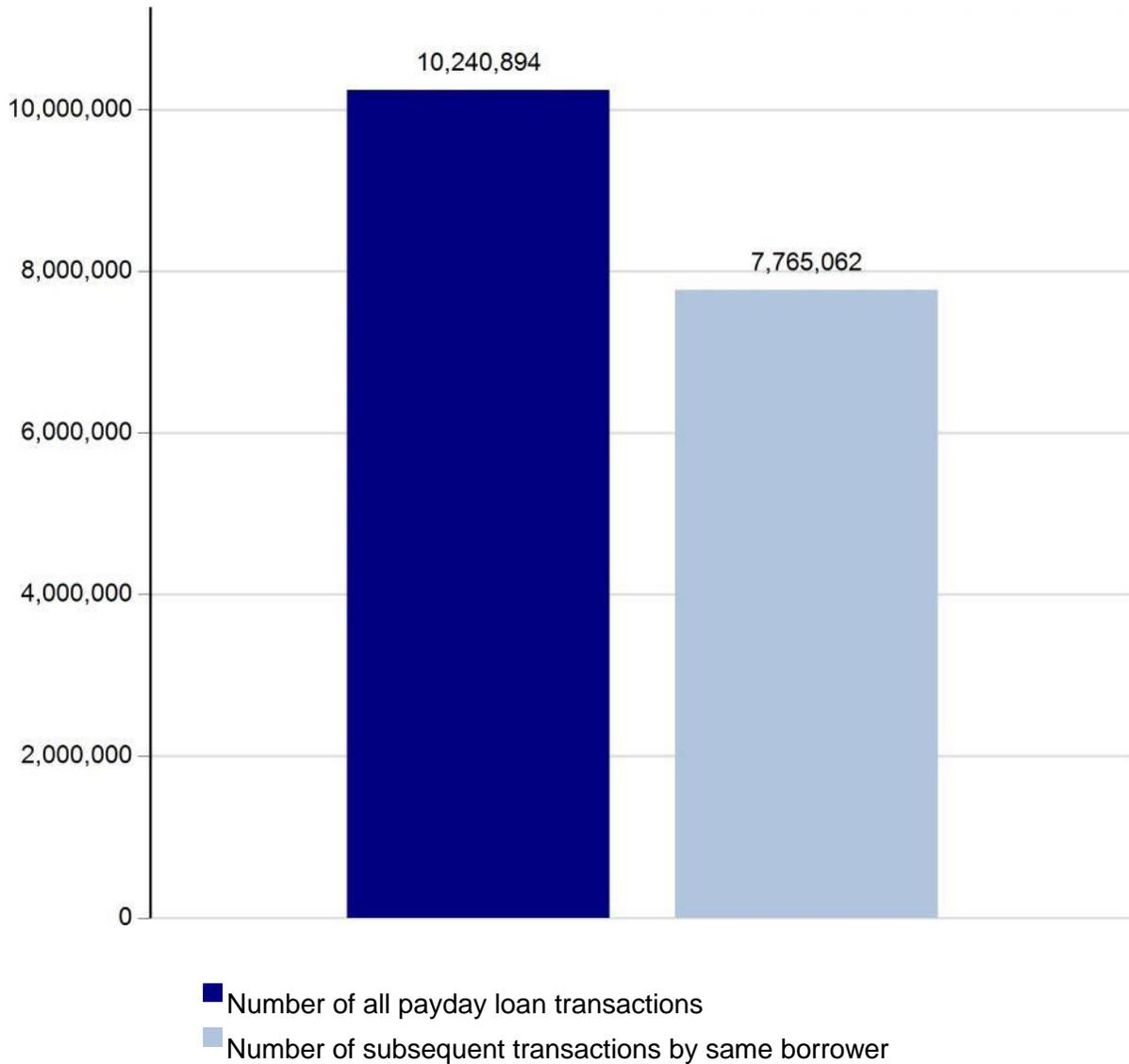
Source: Survey questions 75-81



Question Number	75	76	77	78	79	80	81
Question Text	Transaction fees collected from customers who made 1 deferred deposit transaction	Transaction fees collected from customers who made 2 deferred deposit transactions	Transaction fees collected from customers who made 3 deferred deposit transactions	Transaction fees collected from customers who made 4 deferred deposit transactions	Transaction fees collected from customers who made 5 deferred deposit transactions	Transaction fees collected from customers who made 6 deferred deposit transactions	Transaction fees collected from customers who made 7 or more deferred deposit transactions
Totals	\$28,254,999	\$16,675,270	\$18,080,002	\$19,201,206	\$20,017,930	\$20,997,257	\$297,263,911

Subsequent Customers

Chart 17: Subsequent Transactions by Same Borrower: Number
Source: Annual Report question 1 and Survey question 89

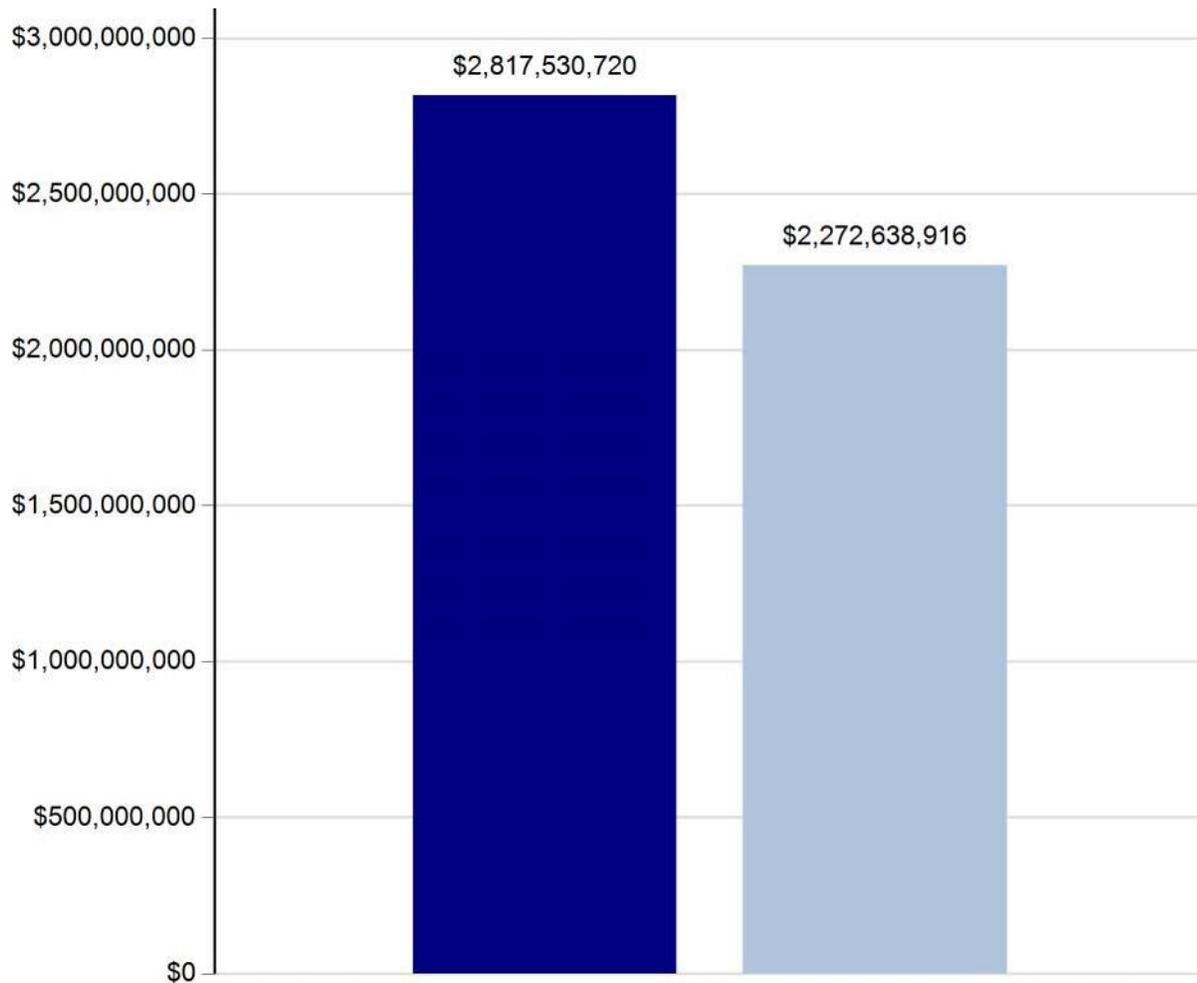


- Of the 10.2 million payday loans reported for 2018, 75.8 percent were subsequent transactions made by the same borrower.

Subsequent Customers (continued)

Chart 18: Subsequent Transactions by Same Borrower: Dollar Amount

Source: Annual Report question 2 and Survey question 90



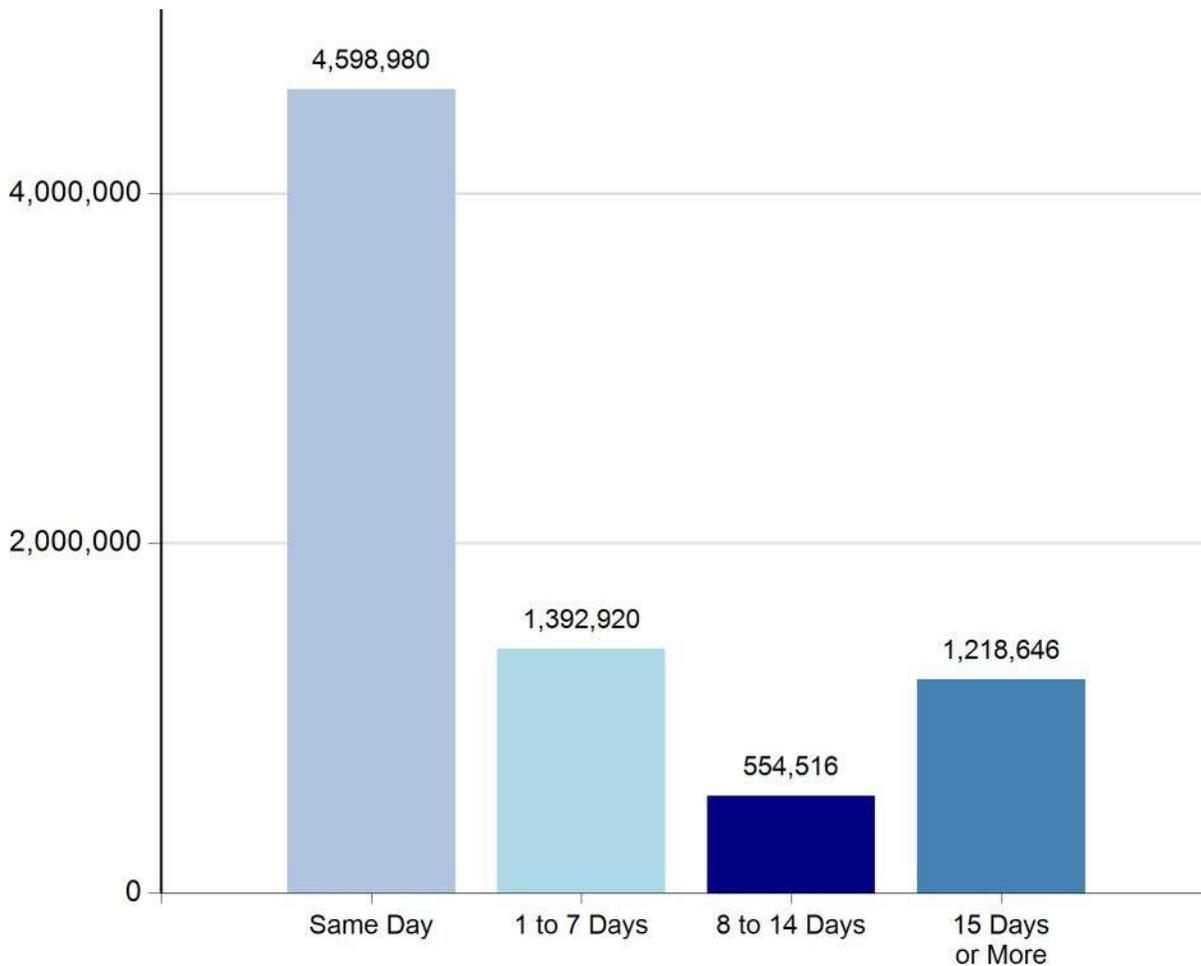
- Dollar amount of all payday loan transactions
- Dollar amount of subsequent transactions by same borrower

- Of \$2.81 billion in payday loan transactions reported for 2018, 80.7 percent of the total dollar amount represented transactions with repeat borrowers.

Subsequent Customers (continued)

Chart 19: Subsequent Transactions by Same Borrowers: Days Between Transactions by Volume

Source: Survey questions 85 - 88



- Of subsequent payday loan transactions, 59.2 percent were made by the same borrowers on the same day the previous transaction closed; 17.9 percent were made one to seven days later; 7.1 percent were made eight to 14 days later, and 15.7 percent were made 15 days or more after the previous transaction closed. These percentages are based on 7.8 million subsequent transactions for which licensees provided the breakdown in Chart 19.

Customers Receiving Government Assistance

Loans Made to Customers Receiving Government Assistance

Fifty-eight percent of licensees reported serving customers who received government assistance. Those customers accounted for 7.9 percent of all customers for those licensees. Table 11 is a breakdown of customers receiving government assistance.

Table 11: Percentage of Customers Receiving Government Assistance

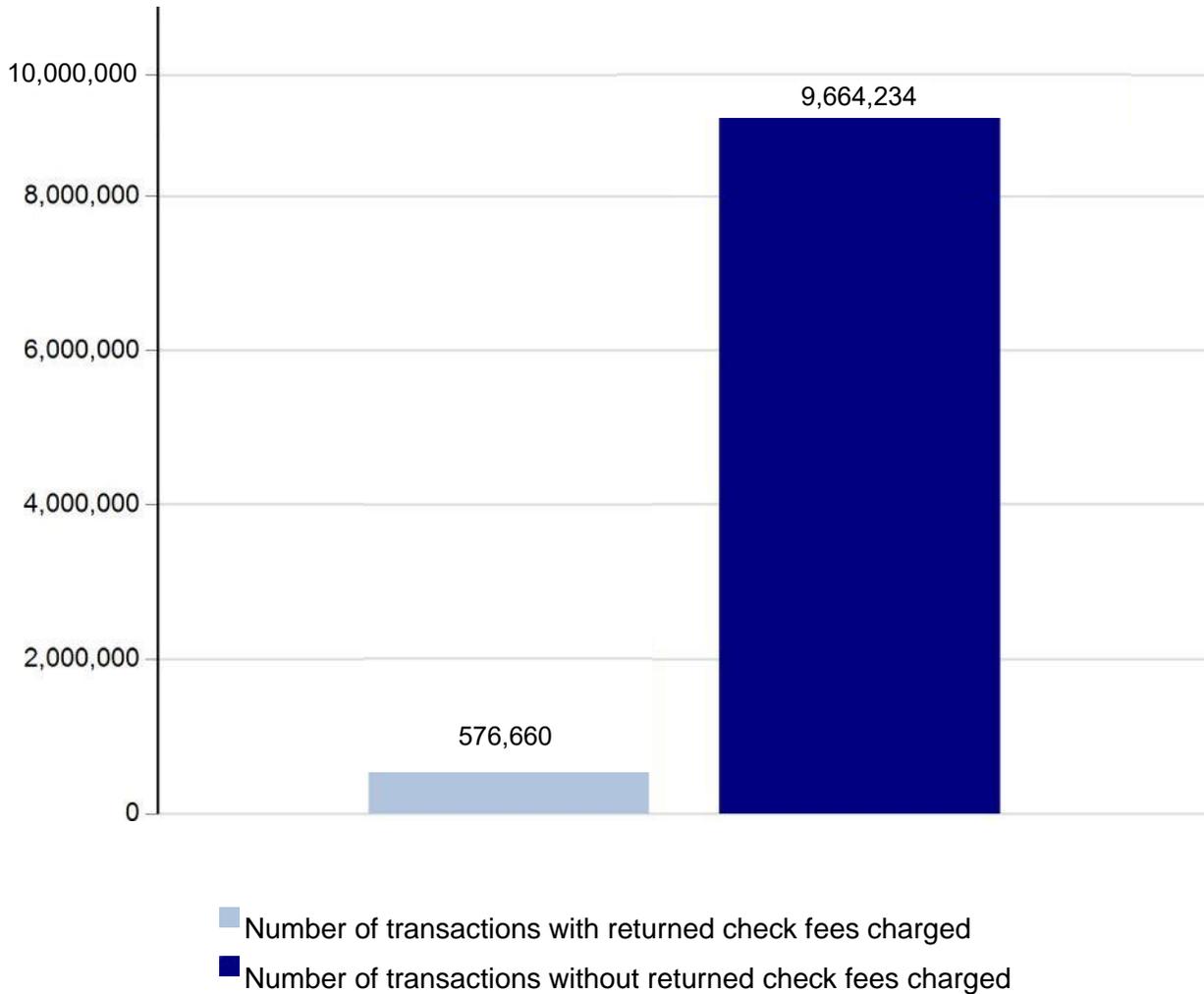
Source: Survey question 91 and Annual Report question 3

Percentage of customers receiving assistance	Number of licensees
Less than 26%	155
26% to 51%	14
Greater than 51%	6

Dishonored Checks

Chart 20: Deferred Deposit Transactions: Dishonored Check Volume

Source: Survey question 83 and Annual Report question 1



- Of 10.2 million payday loan transactions in 2018, 5.6 percent resulted in dishonored check fees.

Dishonored Checks (continued)

Chart 21: Dishonored Check Fees vs. Transaction Fees

Source: Survey questions 82 and 84



Dispute Arbitration

Chart 22: Percentage of Licensees with Dispute Arbitration Clause in Written Agreement
Source: Survey question 92

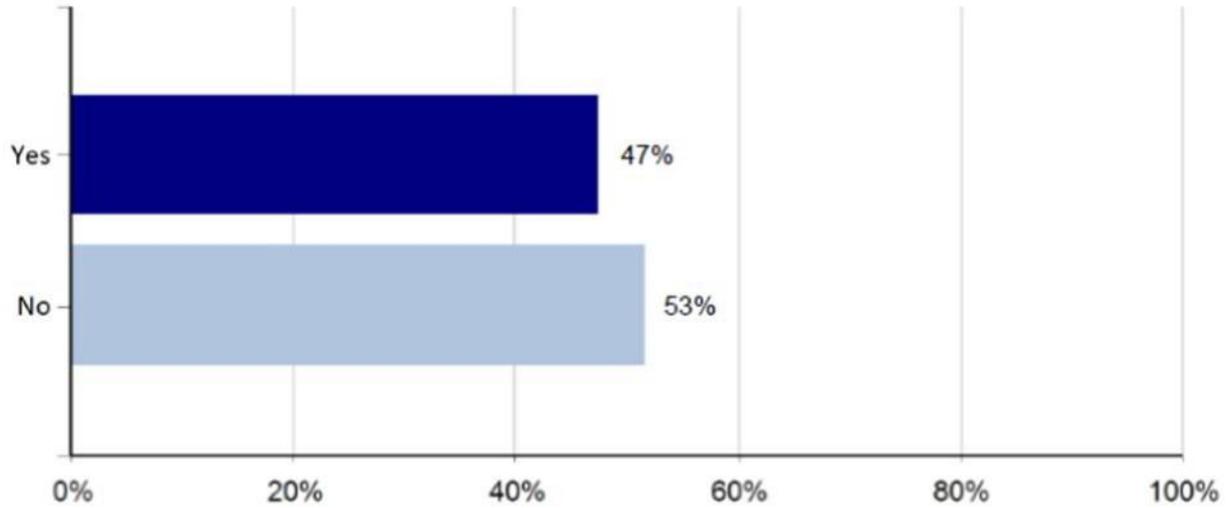
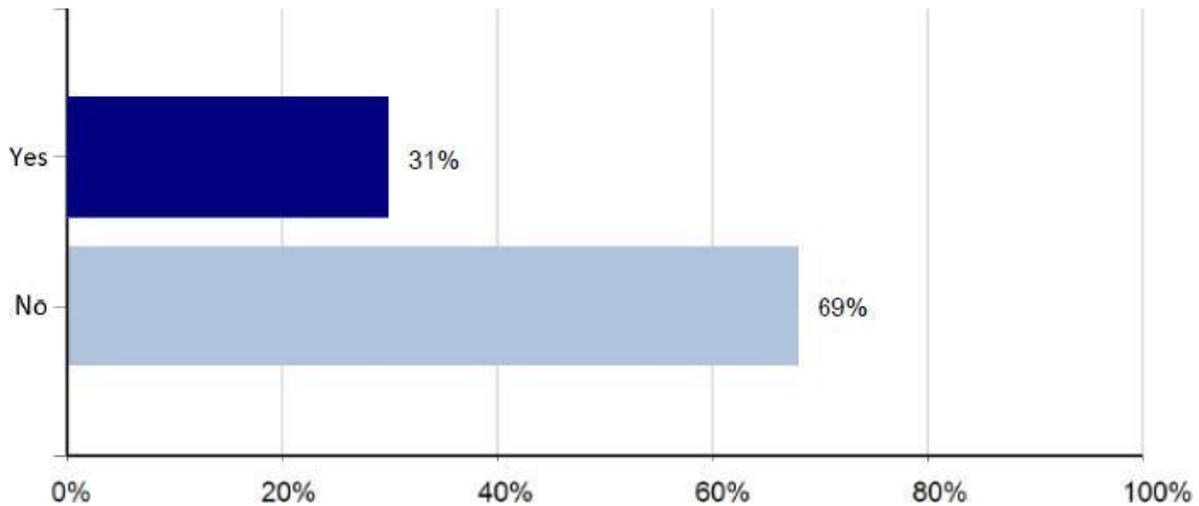


Chart 23: Percentage of Licensees with Dispute Arbitration Clause in Written Agreement That Prohibits Borrowers from Joining Class Action
Source: Survey question 93



Covered Borrowers

Report of Covered Borrowers

Less than 1 percent of reporting licensees indicated they had customers who were “covered borrowers,” which include active members of the military and their dependents. The total number of customers was three, and those customers made three unique transactions amounting to \$694. (Source: Survey questions 49 - 52)



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