STATE OF CALIFORNIA
Department of Business Oversight
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California Payday Loan Industry Appears to be Moving Toward Larger Consumer Installment Loans

SACRAMENTO – California's payday loan industry seems to be moving toward larger consumer installment loans over $300 and, in many cases, over $2,500, according to lender reports released today by the Department of Business Oversight (DBO).

The reports show the total number and aggregate dollar amount of payday loans continued a long decline in 2018 while non-bank, unsecured consumer loans issued under the California Financing Law (CFL) increased markedly. The payday loan report is here and the CFL report is here.

"The numbers and other trends strongly suggest the payday loan industry is evolving, with lenders moving more into CFL territory," said DBO Commissioner Manuel P. Alvarez. "On the one hand, it's encouraging to see lenders adapt to their customers' needs and expectations. But by the same token, it underscores the need to focus on the availability and regulation of small-dollar credit products between $300 and $2,500, and especially credit products over $2,500 where there are largely no current rate caps under the CFL. Consumers need a range of sensible credit choices and, in that regard, we all have different roles to play."

California payday loans, also known as deferred deposit transactions, typically require customers to give lenders a personal check of up to $300, the maximum allowed. Borrowers receive the check amount minus an agreed-upon fee that cannot exceed 15 percent, or $45 from a $300 check. The lender defers depositing the check for a specified period not to exceed 31 days.

Payday lenders charged an average annual interest rate of 376 percent, and continued to rely on repeat and low-income customers who took out most of the 10.2 million loans totaling more than $2.8 billion last year, the 2018 report found. Still, these were the lowest levels reported for both categories in 13 years, since $2.55 billion and 10 million transactions in 2006, according to historical data on the DBO website. The 1.62 million customers also represent a nine-year low dating back to 2009 when the industry reported 1.57 million customers.

This multi-year decline has left the industry with the fewest licensed payday locations in California since the former Department of Corporations, which merged into the DBO, began regulating payday

lenders in 2005. According to the 2018 payday report, the number of licensed locations has dropped 34 percent to 1,645 from a high of 2,493 in 2006.

In contrast, the 2018 report for lenders licensed under the CFL shows that, in the largest category of unsecured consumer loans (i.e., those under $2,500), the total number of loans increased 13.1 percent and the aggregate dollar amount loaned increased 19.4 percent. The number of unsecured consumer loans between $2,500 and $4,999 increased 11.4 percent with an aggregate dollar increase of 11.2 percent. In the $5,000-to-$9,999 range, the number of unsecured consumer loans increased 26.2 percent with a 30.5 percent increase in aggregate dollar amount.

State law limits interest rates that can be charged on installment loans of less than $2,500. But there are generally no rate caps under the CFL for loans above $2,500, with a notable exception for loans issued under the Pilot Program for Responsible Small Dollar Loans. More than 55 percent of the CFL consumer loans between $2,500 and $4,999 bore interest rates of 100 percent or more, the 2018 report found.

Among other significant data points, the payday loan report also showed that in 2018:

- Repeat customers accounted for 80.7 percent or nearly $2.3 billion of the total amount borrowed and 75.8 percent or almost 7.8 million of the 10.2 million loans.

- 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.

- Repeat customers who took out seven or more loans paid 70.7 percent or $297.3 million of $420.5 million in fees the industry collected on payday loans.

- One of every four customers took out 10 or more payday loans. This group of 411,067 customers exceeded the 373,201 who took out just one loan. The average number of loans per customer decreased to 6.31 from 6.36 in 2017.

- Half of all payday loan customers had average annual incomes of $30,000 or less 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 to 272,753 from 107,691 in 2017. As such, the number of payday loan customers referred by lead generators grew from 6 percent in 2017 to 17 percent.

Other notable data points in the CFL report showed that in 2018:

- A $4 billion drop in real estate loans pushed total installment consumer lending by non-banks down nearly 8.8 percent to $33.9 billion.

- The number of consumer loans made online increased 3.1 percent, to nearly 393,000. The total principal of those loans increased at a faster rate, by 8.9 percent to $4.96 billion. Loans of $2,500 or higher – those that do not have capped interest rates – accounted for almost 62 percent of the total number and 54.4 of the total principal of consumer loans made online.

The DBO licenses and regulates more than 360,000 individuals and entities that provide financial services in California. The department's regulatory jurisdiction extends over state-chartered banks and credit unions, money transmitters, securities broker-dealers, investment advisers, non-bank installment lenders, payday lenders, mortgage lenders and servicers, escrow companies, franchisors and more.

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