DEPARTMENT OF BUSINESS OVERSIGHT

Ensuring a Fair and Secure Financial Services Marketplace for all Californians

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Payday lending slows statewide, but surges among senior citizens

SACRAMENTO – Payday lending slowed in California in 2016 although it increased dramatically among senior citizens who for the first time took out more of the loans than any other age group, according to a report released today by the Department of Business Oversight.

After peaking at $4.17 billion in 2015, the total amount of payday loans dropped nearly 25 percent to $3.14 billion in 2016, the lowest level since 2010, according to a survey of DBO-licensed payday lenders included in the report.

Borrowers paid an average annual percentage rate (APR) of 372 percent on those loans, up slightly from 366 percent in 2015, but lower than average annual APRs that exceeded 400 percent for much of the past decade.

In addition to the reduced dollar volume, the total number of payday loans declined 6.2 percent to a nine-year low of 11.5 million while the number of customers slipped 4.7 percent, to 1.8 million, the report shows. The number of licensed payday loan locations in the state also declined nearly 6 percent from 2015 and has dropped almost 23 percent since 2007.

In contrast, the number of loans taken out by seniors, those 62 and older, nearly tripled to almost 2.7 million in 2016 compared to fewer than 945,000 in 2015.

"The report shows that while payday lending has declined, it still pushes too many Californians into a debt trap," DBO Commissioner Jan Lynn Owen said. "Our seniors, and all consumers, deserve safer, less costly access to cash when they need it to get through tough times."

The report released today – the Summary Report: California Deferred Deposit Transaction Law Annual Report and Industry Survey for the year 2016 – contains unaudited data submitted by 220 of California's 236 payday loan licensees. The other licensees either submitted data too late to be included, or did not file. The Department has revoked the licenses of or has enforcement actions pending against those that did not file.

As it has in the past, the data shows the industry continues to rely heavily on repeat customers. Subsequent transactions by the same borrower accounted for 83 percent of the total number of payday loans and 79 percent of the aggregate dollar amount of those loans, according to the report. Of subsequent transactions by the same borrower, 63 percent were made the same day the previous transaction closed.

Moreover, the number of borrowers who took out 10 payday loans in 2016 exceeded the number who took out just one.

Other data points in the report show that in 2016:

- Licensees collected $458.5 million in fees on payday loans. Nearly 75 percent of that, $343 million, was from customers who took out seven or more loans.

- 52 percent of payday loan customers had average annual incomes of $30,000 or less.

- The amount of payday loans charged off as uncollectible bad debt increased more than 54 percent to a record $143.4 million.

California law refers to payday loans as deferred deposit transactions, in which consumers give lenders a personal check, typically for the $300 maximum allowed. Consumers receive the amount of the check minus an agreed upon fee that cannot exceed 15 percent of the check amount. The lender then defers depositing the check for a specific period of time, not to exceed 31 days.

As of Dec. 31, 2016, the DBO supervised 236 deferred deposit licensees at 1,854 licensed locations. Overall, the DBO licenses and regulates more than 360,000 individuals and entities that provide financial services, including state-chartered banks and credit unions, money transmitters, securities broker-dealers, investment advisers, non-bank and mortgage lenders, escrow companies and franchisors.

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