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Abstract

Payday lending, which many policymakers consider predatory and irresponsible given extraordinarily high interest rates, have nevertheless grown rapidly in recent decades. Stakeholders are therefore interested in exploring more responsible alternatives to payday loans to help meet low-income families' demand for short-term credit. This paper uses mixed-method data from a survey of 123 borrowers and in-depth qualitative interviews with 30 borrowers of loans offered through Payday Plus SF. This program, operated through five local credit unions, offered borrowers loans of up to $500 at 18 percent interest, repayable over up to 12 months. Our results indicate that the Payday Plus SF program helped low- and moderate-income borrowers meet their pressing financial needs, and that borrowers were highly positive about the program, its low interest relative to payday loans, and the ease with which they were able to repay the loan. Borrowers also saw the program as helping build their credit, their relationships with mainstream financial institutions, and often their self-esteem and financial capabilities. Credit unions, for their part, saw the program as not particularly costly and a worthwhile tool in their portfolio of services aimed at helping underserved members of their communities.

Payday loans, short-term loans to individuals with limited access to credit, provide something of a conundrum to policymakers. These loans, which can carry annualized interest rates that are upwards of 400 percent (Snarr, 2002), both fulfill a demand from low-income households for access to credit but simultaneously encourage chronic use and the payment of exorbitant and potentially usurious interest rates among borrowers with limited ability to repay (Stegman and Faris, 2003). Many who are concerned with the financial well-being of low- and moderate-income Americans thus argue that there needs to be viable alternatives in place in the mainstream financial sector that service the need for credit among financially-constrained households while simultaneously protecting these households from falling prey to cycles of high-interest debt (Barr, 2012).

In December 2009, spearheaded by San Francisco Treasurer Jose Cisneros, the San Francisco Office of Financial Empowerment, and the public/private partnership Bank On San Francisco (hereafter referred to as Bank On), six San Francisco credit unions began offering a product called Payday Plus San Francisco (hereafter referred to as Payday Plus). Payday Plus offers small dollar loans of up to $500 at a maximum APR of 18 percent, to be paid off over (up to) the next 12 months. Borrowers' repayment is reported to credit bureaus with the hopes of helping borrowers build better credit. A secondary goal of the program is to help more credit-constrained households become "banked," by providing them access to non-profit credit unions and their associated financial products. Some credit unions also steer borrowers into financial education programs in order to help develop longer-term financial management and savings skills.

Following the official launch in 2009, which was accompanied by a high profile launch event and a good deal of media press, the six credit unions experienced a very high volume of applicants. In part this was thanks to the event and the accompanying media, but credit union staff and program leaders also attribute the wave of applicants to the temporal proximity of the launch to the 2009 "stimulus" bill, which may have made some community residents think the Payday Plus program was a component of the stimulus package and thus was "free money" available from the government. In response to the initial wave, two of the credit unions significantly pulled back from the program and ceased issuing loans for a period. Another, for unrelated reasons due to issues with financial regulators, dropped out of the program because it was no longer allowed to issue loans to borrowers with credit scores below a certain level. In April 2011, following a period of reorganization and standardization of loan issuance procedures, Payday Plus relaunched with five credit unions participating. It is after this "re-launch" that our evaluation data collection began, and this paper focuses on the roughly 18 month period following the re-launch.

Despite innovations like Payday Plus SF and other programs like it around the country, little is known about how payday alternatives work in practice: How borrowers experience the program, whether they divert borrowers from traditional payday lenders, what the challenges and successes of such programs are, and how participating financial institutions experience the provision of such programs. This paper seeks to help fill this gap through a formative evaluation of mixed-methods data collected from borrowers and credit unions in the Payday Plus SF program. By

examining the issues described above through rich qualitative insights gleaned from in-depth interviews with both borrowers and credit union staff and supplementing these rich interviews with quantitative data from 123 surveys from Payday Plus borrowers, we hope to inform ongoing policy debates about how to best provide credit-constrained households with access to safe, responsible short-term credit.

Previous Literature

The Financial Lives of Low- and Middle-Income Families

Making ends meet is challenging for many families. Whether in paid employment, on government assistance, or simply retired, many individuals in the U.S., especially those who are part of low- to moderate-income (LMI) families, struggle to meet their expenses on a day-to-day basis (Edin and Lein 1997). While this phenomenon is dire enough, what makes their financial lives even more tumultuous is that the financial services on which most LMI families routinely rely tend to set them back even further. Indeed, many LMI families lack access to the standard financial products that most middle-income families take for granted. For instance, many do not have bank accounts, cannot qualify for even small loans, and lack any means of saving for their future, thereby making it unlikely that they will live a financially stable lifestyle or attain upward mobility.

Some of this can be explained by attitudinal differences between LMI families and their middle-income counterparts, which make LMI households less likely to be banked. Recent scholarship suggests that a significant proportion of *unbanked* individuals are wary of banks and their "hidden" fees and thus report preferring to

remain unbanked in lieu of falling prey to the concealed costs of banking (Barr 2009; Carr 2002). Indeed, nearly 45 percent of unbanked individuals in one study reported that they would join a bank if fees were lower and more clearly defined (Barr 2009). The unbanked is a group that is largely comprised of individuals who classify as low-income because they earn less than $25,000 per year. In fact, approximately 83 percent of unbanked families are low-income families (Barr 2004) and 51 percent of unbanked families live below the poverty line (Barr 2009).

Many LMI households, however, *are* banked but lack routine access to formal financial services because of severe resource constraints. These households are referred to by scholars as the *underbanked* (Barr 2004). This group tends to be comprised of families who are slightly wealthier than their unbanked counterparts and whose salaries range from a modest $18,000 to $34,000 per household (Barr and Blank 2009). Because of their relative lack of financial resources and poor credit backgrounds which prevent them from accessing standard bank-issued products in times of financial desperation, both the unbanked and the underbanked must often rely on non-bank providers to meet their everyday financial needs in times of crisis. However, the underbanked are even more vulnerable to relying on these type of "fringe banking" products because they are more likely to be employed, a standard requirement of most AFS products.

Non-bank providers like payday lenders fall under the alternative financial sector (AFS) and offer high-cost financial services to those who can afford it least. Providers who are part of the AFS industry include those who offer payday loans, check cashing, rent-to-own products, and refund-anticipation loans as well as pawn

shops and loan sharks (Barr 2009; Swagler et al 1995).[1] AFS services are typically small short-term transactions with a high-cost, particularly when compared to services offered by traditional financial providers (Swagler et al 1995). However, because AFS services are designed to serve the short-term financial needs of the nation's most vulnerable population, they continue to exist and appear to be growing at an alarming rate (Carr 2002). One theory behind the recent rapid growth of AFS services is that their high-cost, short-term nature frequently causes customers to become trapped in a cycle AFS usage, with many consumers relying on multiple different AFS products simultaneously to meet their financial needs and continuing to use the products for several months or even years until they eventually escape the cycle or declare bankruptcy (Barr 2009). This, in turn, reduces discretionary income and the potential to build savings and credit, thereby reducing the likelihood of upward mobility among AFS consumers (Barr 2009; Barr and Blank 2009; Swagler et al 1995). Recent research suggests that the availability of payday loans is associated with greater levels of material hardship, including the ability to meet housing costs and utility payments (Melzer, 2011).

Reducing poverty and encouraging upward mobility among poor families is among society's many widely shared goals. Yet it is clear that current financial practices in the U.S. often prevent these vulnerable populations from moving forward. Without access to formal financial services, which most banks are unwilling to provide to LMI families because of their low yield in returns, LMI borrowers are often pushed into high-cost products and prevented from several of

[1] For a clear table of the services offered by AFS providers and their explanations, see Swagler et al 1995.

the fundamental building blocks to securing financial stability. Namely, overreliance on costly AFS products means LMI consumers are not afforded the opportunity to build savings (because their dependency on these products prevents them from doing so), handle emergencies (because their inability to access low-cost financial products in the event of an emergency is often barred by poor credit histories), and make ends meet on a month to month basis (because they lack access to reasonable credit products they may not be able to afford even the day to day expenses with which they are faced). Indeed, even small fluctuations in monthly expenses, like the one in the hypothetical example described above, can result in drastic damages to financial resources and leave many LMI families vulnerable to poverty, food insecurity, and homelessness (Barr, 2012).

The Payday Loan Industry

One of the most popular AFS products among LMI borrowers is the payday loan. Payday loans, sometimes referred to as "post-dated checks," are short-term loans with alarmingly high interest rates meant to carry individuals through to their next paycheck. According to a report put forth by the California Budget Project (2008), the payday loan industry originally developed out of the check-cashing industry and is thus offered by a wide range of providers. Typical providers include stand-alone companies, check cashing outlets, pawn shops, online providers, and providers via telephone or facsimile (Robinson 2001).

Payday loans range in length from seven to 30 days and allow a customer to cash a check (typically a paycheck) dated several weeks later (Stegman 2007).

These transactions are short in length but high in cost. For example, it is common for payday lenders to advance a customer $255 in cash until their next payday. In exchange, the customer writes a post-dated check to the lender in the amount of $300, thereby forgoing $45 as a fee for the service. Thus, customers taking out a 14-day loan can have an annual percentage rate (APR)[2] of more than 400 percent.

In addition to the high fees imposed upon a population who can least afford them, payday loans pose serious risk by encouraging chronic borrowing because borrowers frequently lack enough income to pay off their loan and meet everyday household expenses. This is a particularly costly way of borrowing because, in the span of several months, a chronic borrower might pay fees that will eventually surpass the initial loan amount, thereby exacerbating their already vulnerable financial position and further preventing them from even modest upward mobility. This is made even worse when borrowers borrow from multiple Payday loan outlets at one time, like one of the respondents in our sample who at one point in the last year had out 8 separate payday loans and was paying roughly $720 per month in fees alone.

A 2007 study of California borrowers, where our evaluation took place, found that 48 percent of payday loan borrowers take out loans at least once per month and that 36 percent have simultaneously taken out multiple loans from different lending providers (Applied Management and Planning Group 2007; California Budget Project 2008). Additionally, less than 4 percent of borrowers in California took out

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[2] APR represents "the percentage cost of credit on a yearly basis, including interest and any applicable fees" (California Budget Project 2008). Thus consumers taking out repeated loans at this amount will incur fees and interest totaling more than 400 percent of the initial loan amount.

just a single loan that year. Thus, the payday loan industry is highly dependent on converting occasional users into chronic borrowers, thereby earning them the slang title of "predatory lenders" (Stegman and Faris 2003). In fact, some reports suggest that many of the nation's largest payday lenders provide pay incentives to their staff for encouraging chronic borrowing by individual customers (Stegman and Faris 2003).

According to the Community Financial Services Association (2011), there are approximately 20,600 payday outlets in the U.S. and this figure is growing rapidly. Additionally, there are over 2,000 locations in California alone (Carr 2002). Furthermore, analysts estimate that approximately 1 million Californians (3 percent of California's total population) took out a payday loan in 2006, averaging 10 loans per California borrower (California Budget Project 2008).

In addition to the large and growing number of payday outlets and customers, the revenue earned by outlets is also exceedingly large. One report suggests that payday outlets generate approximately $38.5 billion worth of short-term payday loans (Community Financial Services Association 2011). According to a separate report, payday lending has increased by more than 500 percent in the last 10 years, from $10 billion in 2000 to $50 billion in 2007 (Driehaus 2008). Regardless of the measure being used to reach these estimates, one thing is clear: Payday loans are an expensive product for the consumer but a profitable one for the lender; and unless policy alternatives are put into place, it is unlikely that the growth the payday lending industry saw in the last decade will show any signs of slowing.

Payday Loan Borrowers

The majority of payday loan customers are under-banked with "the core demand for payday loans [originating from] households with a poor credit history, but who also have checking accounts, steady employment, and an annual income under $50,000" (Stegman 2007). But certain sub-groups of this population are also more likely to take out payday loans. For example, studies show that there are small racial differences in payday borrowing practices with blacks being twice as likely as whites to have taken out a payday loan in the last year (Stegman 2007). Furthermore, individuals who are a part of the working-class are more likely to take out payday loans relative to the poor (Barr 2009; Community Financial Services Association 2011; Elliehausen 2009; Stegman 2007), with the majority of payday borrowers earning between $25,000 and $50,000 (Lawrence and Elliehausen 2008). This is in part due to the fact that one of the key criteria for eligibility of a payday loan is steady employment and a current account at a credit union or bank. Additionally, approximately 90 percent of payday loan borrowers have a high school diploma and roughly a third (32 percent) own their own homes (Community Financial Services Association 2011; Elliehausen 2009; Stegman 2007).

In addition to educational, income, and racial differences in payday borrowing practices, an individual's position in the life course can also have an impact on their borrowing practices. The majority of payday borrowers are younger than 45 years old and have children living with them in the household (Elliehausen 2009; Lawrence and Elliehausen 2008; Community Financial Services Association 2011). Furthermore, before Congress passed legislation imposing

regulations from lending to active duty military personnel in 2007, this group was three times more likely to take out payday loans than their civilian counterparts (Stegman 2007).

Payday loan outlets are aware of the demand for the product and the populations who are most likely to borrow from the AFS. Thus, outlets cluster in neighborhoods which tend to be low-income, moderate poverty, and racially diverse (Stegman 2007; Gallmeyer and Roberts 2009). Additionally, even after controlling for a community's economic profile, communities who have higher percentages of foreign born, elderly and military personnel populations are significantly more likely to have payday lenders (Gallmeyer and Roberts 2009).

Because borrowers are specifically seeking payday lending in the AFS, payday lending outlets tend to capitalize on the weaknesses of traditional banks and credit unions. Researchers posit that outlets offer a more convenient range of hours of operation to fit the need of employees with inflexible work schedules and clients with immediate needs. Additionally, some scholars suggest that providers in the AFS offer more respectful treatment of customers than do providers in the traditional market (Swagler et al 1995). In fact, in focus groups conducted by the Union Bank of California in 2001, low-income consumers "identified five ways in which check cashers were superior to banks: (a) easier access to immediate cash; (b) more accessible locations; (c) better service in the form of shorter lines, more tellers, more targeted product mix in a single location, convenient operating hours, and Spanish-speaking tellers; (d) more respectful, courteous treatment of customers; and (e) greater trustworthiness" (Stegman and Faris 2003).

In a content analysis of advertising tactics of the AFS and the traditional financial sector, Swagler and colleagues (1995) show that AFS providers are likely to capitalize on the characteristics that draw customers to their services. For example, out of 94 short-term loan companies, 54 stressed immediacy, 41 stressed convenience and 11 stressed friendliness. Of the 168 traditional banks in the study, only 1 emphasized immediacy, 8 emphasized convenience, and 10 emphasized friendliness.

It is clear that payday loans fill certain niche in the market and judging from the rapid industry growth seen in the last decade, payday lending outlets are happy to fill it. However, the financial lives of some of America's most vulnerable fall victim to its predatory nature and without a policy intervention, it is unlikely that payday borrowers will be able to maintain self-sufficiency, accrue savings, and become upwardly mobile.

The Present Study

While many calls for alternative credit products geared specifically towards helping LMI families have been made (Barr 2004; Barr and Blank 2009; Barr 2009), few have actually been piloted. Thus, questions linger regarding whether and how these services would be received by LMI borrowers as well as whether they are economically sustainable to the banking institutions that offer them. The purpose of this study is to fill these gaps through an analysis of the Payday Plus product. Payday Plus provides a unique lens for analyzing such questions because it is offered to LMI consumers who are most vulnerable to predatory loan products.

Further, the product is offered through credit unions, which tend to have a higher proportion of LMI clients relative to banks. Not only are credit unions key financial service providers to LMI households, but their products are also a more attractive option to LMI consumers because of the well-known humanistic roots of credit unions which tout them as oriented towards helping local communities and personally supporting their customers (Carter, Skiba, and Tobacman 2011). Further, with a client base of over 90 million members (and growing) (McKillop and Wilson 2011), this type of financial service provider serves a vast array of clients whose backgrounds vary considerably more than those of traditional banks, making it a ripe location in which to analyze the impact of an alternative to predatory payday lending.

Data and Methods

Data were collected using a mixed-methods approach. After a planning meeting with Bank On, City, and credit union staff members, we designed a short pre-loan survey that was administered to all borrowers on the day that they took out a loan with one of the five participating credit unions. After instituting data collection procedures across the five credit unions, we received a total of 123 pre-loan surveys over the course of the 17-month evaluation period (April 2011 to September 2012). While this is not a true universe of the total loans issued (credit unions reported some troubles with routinely remembering to administer the pre-survey early on in the evaluation period, and borrowers were allowed to refuse to fill out surveys despite assurances of confidentiality), for our purposes it constitutes

the universe of the evaluation sample. We draw on the pre-loan surveys in this report to show the descriptive statistics of the evaluation sample.

As pre-loan surveys were being returned to us, we conducted 7 interviews with credit union staff across the 5 credit unions to gather their perspectives on the history of the program, major and minor challenges and successes associated with their participation, their goals and hopes for the program and their credit union's participation, their perceptions of borrowers and borrowers' overlap with traditional payday loan clientele, and their thoughts for improving the program in the future.

Following completion of loan payback[3], we contacted borrowers again to conduct an in-depth interview and a post-loan survey. The post-loan survey asked brief questions about their use of the Payday Plus SF loan, their perceptions of its strengths, weaknesses, and potential benefits to their finances, and whether they utilized other credit union products and services through their participation. The interviews examined these and other issues more deeply, probing into borrowers' financial decision-making, experiences with the Payday Plus loan product (and

[3] Approximately halfway through the evaluation period, we opened up the opportunity for "post-loan" interviews to borrowers who had yet to fully pay back their loan. This was partially due to a desire to complete more interviews in a timely fashion given the somewhat lower-than-expected number of loans being issued by the credit unions, and partially due to a desire to not only include people who successfully completed the loan in the sample. The lower-than-expected numbers of loans was not due to a lack of consumer demand, but rather because three of the credit unions initially had instituted procedures to minimize the number of loans they would issue, one because of their negative experience during the initial launch, and two because they were still deliberating whether and how to continue participating in Payday Plus. These latter two credit unions fully rejoined the re-launch in late 2011, while the former only offered fewer than 10 loans over the evaluation period covering the re-launch.

other financial products, including payday loans), and perspectives on debt, financial education, and other related topics. Of the 123 pre-loan surveys we had, we had consent to contact 97, 76 of whom had valid contact information.[4] Of these, we completed interviews and post-loan surveys with 30, for a response rate of roughly 40 percent. Given the hard-to-reach nature of this population, we considered this yield fairly successful. It is worth noting, however, that we potentially missed applicants whose loans were charged off and those who experienced more material hardships in having their phones cut off (and for whom the product may not have worked as well).

All interviews were conducted by one or both of the authors and typically lasted between 45-60 minutes. Interviews were audio recorded and transcribed verbatim by a professional transcription company. We then coded and analyzed the interview text in Dedoose for Qualitative and Mixed Methods Research.

The data analysis of the in-depth interviews involved three key stages. The first was the process of "open coding," whereby blocks of text were assigned codes based on the themes and instances that they referenced. Open coding allowed us to organize the data in a meaningful way, gain a broader understanding of the data as a whole, and begin to compare themes across cases. We used a theoretically-informed, inductive approach to studying the effect of this product throughout the coding and analysis phase of our qualitative evaluation. By this, we mean that we approached

[4] Not all of these 76 were reached by the evaluation team, the 21 we exclude from the above calculations had disconnected phone numbers, bad email addresses, or were reported as wrong numbers when a person answered the phone. Many other contacts were never reached, but if the phone or email provided was functional and a voicemail or email was delivered, we kept these contacts in the denominator.

qualitative coding with some key codes in mind based on our understanding of the literature on financial decisions of low-income populations (e.g., "benefits to Payday Plus" and "experiences with AFS providers"). But, as qualitative approaches often do, our data also yielded some new and surprising findings and thus we incorporated new coding themes as they emerged "from the ground up" during our analysis (e.g., "non-pecuniary effects of Payday Plus") (Glaser & Strauss, 1967).

Upon completion of the open coding, we conducted what scholars refer to as "focused coding" (Charmaz, 2006; Glaser & Strauss, 1967) during which we applied more fine-grained codes to our initial open coding scheme. Focused codes were more theoretical and analytic than the open codes and better tapped the nuances of the open coding themes. The third and final stage of our analytical strategy was the act of memoing. Memoing occurred both during and after the coding process and involved writing memos on a given theme. Our memos often reflected our understanding of the interview data and served to crystallize our final interpretations of the data. The quotes that are presented throughout this paper can be viewed as quotes that are representative of the primary themes found in the data at-large.

Results

We proceed by first examining basic information on Payday Plus SF borrowers. Using data from the 123 pre-loan surveys, we provide data on the demographics of Payday Plus borrowers, the reported reasons for their taking out the Payday Plus loan, and additional characteristics of their financial histories. We then turn to an examination of a subset of 30 borrowers who completed post-loan

in-depth interviews, as well as embedded post-loan surveys, to better understand how borrowers experienced the loan product and its repayment. These post-loan evaluation strategies also allowed us to find out how the product fit into borrowers' financial lives and whether they perceived the program to offer any costs and benefits to their well-being.

Pre-Loan Surveys with Payday Plus SF Borrowers

Table 1 shows descriptive statistics about the borrower sample, as reported on pre-loan survey data. Roughly 45 percent of borrowers self-described as Black, another 25 percent as Hispanic, 16.5 percent as White, 10.7 percent as Asian, and a small number as some other racial or ethnic group. There were somewhat more male borrowers (55 percent) than female, though the sample was fairly evenly split. A slight majority (51 percent) of borrowers self-described as single/never-married, one-third were married or living with a domestic partner, and the remainder reported being divorced or separated. Most of the sample (60 percent) were non-parents, and of the remaining 40percent, half had one child, another 30percent had two children, and the remainder had three or more. Roughly 20 percent of borrowers were under 30 year old, another 16percent were in their 30s, and 55percent were between 40 and 60 years old, with a small number (9 percent) over 60.

Household incomes displayed a wide range, with about 31 percent reporting incomes under $24,000 a year, another 41 percent reporting incomes between $24,000 and $48,000 a year, and the remaining respondents reporting higher incomes. A slight majority of the sample reported some college education (which

would include a 2-year degree), another 20 percent each had a high school degree or a Bachelor's degree, respectively, and the remaining 10 percent had either more or less education. The vast majority of the sample rented their housing, with only about 7.5 percent owning their own home. And finally, nearly three-fourths of the sample reported receiving no government assistance. The second column presents identical statistics for the 30 post-loan borrower surveys, which by and large show that the post-loan sample looked quite a bit like the larger pool of borrowers from the pre-surveys.

Table 2 reports financial characteristics of the borrowers and their loans, as reported on the pre-surveys. The most common referral source reported for how borrowers found out about the Payday Plus SF program was by hearing it through the credit union (45 percent). Smaller numbers heard about the program through a friend (20 percent) or advertisements (13 percent). The remainder either heard about the program through a community-based organization, the city help line 2-1-1, or some other channel. In terms of the primary reported use of the funds, the most common reason given was regular household bills like rent, utilities, etc. (31 percent). The next most common (23 percent) reason was an unexpected household expense, such as fixing an automobile or a major appliance. The third most common was what we labeled a large periodic expense (12 percent), which would entail things like a child's tuition or the payment of an auto insurance bill. Smaller numbers used their loans primarily to pay off other debt (10 percent) or a medical expense (8percent), while the remainder had some other reported reason or a combination of some of the reasons above.

The vast majority (95 percent) of borrowers reported being a previous credit union customer. Since opening an account is a precondition of obtaining the loan, this figure may be somewhat biased upwards if borrowers interpreted their having just opened an account as being a previous credit union customer. Nevertheless, consistent with our credit union staff interviews, many of the clients served by the program, at least after its re-launch in 2011, were existing credit union clients. At the same time, 44 percent of borrowers reported that they had at some point in the past 12 months taken out a traditional payday loan. The modal payday loan history of these borrowers were 1 to 3 payday loans in the past year, in the amounts of between $200 and $300, with between a $25-$49 fee.

Borrowers also reported a variety of experiences with alternative financial products, products that often come with costly transaction fees. Nearly 30 percent had used a prepaid debit card, 21 percent used money orders to pay bills, and 26 percent regularly sent money to family or friends. Additionally, in the last year, 38 percent had paid a check cashing fee (most often between $3 and $7), 32 percent had paid late payment fees, and 36 percent had paid an overdraft/over-limit fee. Based on this information, we created a dummy variable for whether the client had any one of the following: a payday loan, paid bills with a money order, paid a check cashing fee, or had any late/overdraft fees. We excluded prepaid debit cards and sending money to friends/families as one could argue that those types of financial transaction might conceivably not carry costly fees relative to the amounts of money involved in the transactions. When considering these four types of costly

transactions jointly, approximately 85 percent of the sample had engaged in or been subject to at least one in the past 12 months.

Lastly, we asked about respondents' debt. Nearly 70 percent reported that they currently were carrying debt. Of these, 20 percent reported that it was less than $1,000, while another 53 percent reported that it was between $1,000 and $10,000. Another 9 percent had debt between $10,000 and $20,000, while 18 percent were carrying debt of over $20,000. One-fifth of the sample reported having a bankruptcy in their past. Taken together, these statistics paint a portrait of a population struggling to get by and using a variety of financial strategies to patch their routine and unexpected expenses together in order to make ends meet on a routine basis. Though not destitute, our sample appears to be financially vulnerable and quite constrained when faced with unexpected expenses and their ability to make regular monthly payments. Again, the portrait of these characteristics in the post-loan sample largely resembled the pre-loan survey sample.

Borrower Post-Loan Interviews and Surveys

Our post-loan interviews and surveys focused on the borrowers' experiences of the Payday Plus program and how it fit into their financial lives. By and large, the borrowers we interviewed viewed the product very favorably. Indeed, of the 30 borrowers we tracked for our post-loan surveys and interviews, 29 out of 30 reported being either "satisfied" (N = 6) or "very satisfied" (N = 23) with the product. Predominant among their reasons were the ease of paying it back, the ease and convenience of obtaining the loan from their credit unions, and to a lesser extent the fact that it helped them build their credit.

Ease of Use and Repayment

Nineteen of our 30 respondents noted that a positive aspect of their Payday Plus experience was the ease and convenience of obtaining the loan. And seventeen explicitly mentioned the low interest on the loan as a positive experience. When asked what he liked most about the Payday Plus loan, Jim, a married Black man in his 40s, reported:

> That I can get it right away. I don't know if it's because I know the guys for a long time—our relationship. I don't know if it's because I know the guys there for a long time but I could go and say, "Hey, Marino, I need." "Okay, Jim." He would do it and the next day I can go there and it'll be in my account.

Likewise, Chantal, a married Black woman in her late 50s, described how prior to her loan she had recently had open-heart surgery. This led her to fall behind on her debts and not be able to meet her rent. Knowing her situation, the manager at one of the credit unions informed her about the Payday Plus product. When we asked her how she decided the product would be worth trying, she told us: "The benefits was the immediate cash and the stress offa me." Similarly, Lorrie, a Hispanic woman in her mid-40s, thought the loan was great because "They didn't give you a hard time. It was quite easy."

Twelve of our 30 respondents also highlighted the ease of paying the loan back (over up to 12 months as opposed to at one's next payday) as a major advantage of the Payday Plus product. Indeed, the twice-monthly payment on a $500 Payday Plus loan was roughly $25 compared to traditional payday loans which require payment in full for the loan just two weeks after its issuance in addition to an exorbitant fee. In describing this benefit to us, many of our respondents either

implicitly or explicitly compared their Payday Plus loans to standard predatory loans. For instance, according to James, a single Black man in his 40s:

> I don't really have to think of it as an expense. It is an expense, but since it's so low, and I have so much time, I'm not—it's not in the back of my head saying, "Oh, I have this loan pressing that I got to pay back," because it's not a strain; $22.00 is not a strain now that I have a full-time job. I can always pay it off, but I'm just leaving it at that in case something comes up where I need money as opposed to just trying to save up the full amount and pay it off. Because it's low, it's good.

The low monthly payment, which borrowers could often set at a comfortable level in conjunction with their credit union, allowed James to view repayment as a minor expense as opposed to a big stressor. Or, as Harold, a single Black father of one in his 50s told us:

> I had control over saying what I was willing to pay back, how much I was willing to pay back. I'm more or less in control of when I am able to pay it back, which I pay a certain amount on a monthly basis instead of having to pay it all back at one time and being told the time I have to pay it back. It gives me the ability to pay on my loan and still be able to survive.

Harold's loan gave him a sense of personal control over his finances and some "breathing room" to be able to meet his repayment obligations while also meeting the rest of his regular living expense. The ease of paying back the Payday Plus product stood in contrast to borrowers' experience of more costly financial products like payday loans and direct deposit advances from traditional banks. Consider the following exchange with Tara, a 52 year old White woman who used her loan to pay off other payday loans (which Tara refers to as her "little" loans):

> The one—the little ones should be against the law. Because they're—you can never get them paid back. Yeah. The one like at the [credit union] that I have, I like it. When I found out about those I was like,

> "Oh thank you!" because I can go get that loan out and in six months it's paid off. They take it directly out of my account. I spend, before work, my lunch hour, and running after work to try to get all of my little loans paid off. Because they have to be paid on that day. That one come—the one that you were—the [credit union one], it comes directly out of my account. I know when it's going to come out. You don't have to worry about it. As opposed to the little ones that are every two weeks you've got to run in there with 300 dollars for each one you have out.

Six of our respondents who had experience with traditional payday loans referenced the negative risk of getting trapped in a cycle of debt because of not having enough money handy by the time the original debt came due. For instance, despite having recently taken out payday loan, Mae told us that she does not "really like them…because it's an endless cycle kind of thing." Another respondent said that payday loans are "like a band-aid. It keeps you going […but it also] keeps you in a hole." Lorrie, a single mother of three, was also perceptive of the risk of becoming trapped in a payday loan cycle. She told us that unless it's an emergency "it's good to stay away" from payday lenders because "of the fees and because you become accustomed to it and it becomes like every time you know you can have that. In a way it makes you like—it keeps you down in a hole."

Tara, who was at the time of the interview struggling to get out of the cycle of payday lending, described to us her experience with payday lenders which at one point, before she received the Payday Plus loan, was costing her $720 per month in fees alone. In expressing her negative perceptions of payday lenders she told us:

> How did they ever get [payday lending outlets] started? Whoever has that franchise are getting filthy rich. Just off me when I had eight of them out. Eight times nine is…what is it? $720 a month,

> every month and it never ends. It can't end. Like the [Payday Plus] loan from the credit union, it will end in six months. But those little ones…You don't think about it when you're doing it. About 'how am I going to have $300 to actually pay this off and then live on what I have left?'

Building Credit

Besides the ease of obtaining and repaying the Payday Plus loans, some borrowers expressed positive feelings toward the product for less obvious or material reasons. Twelve respondents specifically mentioned a positive aspect of the loan being its ability to help them build good credit and have credit available to them in the future. Take Darryl, a 25-year-old Black man who was a full-time student and also working 30 hours each week. Darryl told us that when his Payday Plus loan came through:

> I was pretty happy. I mean they kinda printed me a check right there. I just went to the bank and deposited it. Yeah. No. It was pretty good. I was glad that it was there especially like if I do need it in the future for a reason. I know that I can always go there and get that in an emergency situation […] and it's good on my credit as well.

Darryl sees his loan as both a way to build his credit, but also ensure his future access to credit in the future should he need another loan. Similarly, Randall, a 54-year-old Asian man, told us:

> I have direct deposit. I just—it comes in on my savings account. I just leave 50 in there and they take it out every month, which makes it easy, instead of me writing a check. Every time they take it, I just go, "It's building my credit." You know, I've taught some people how to build their credit through banking. I go, "What you do is you get a collateral loan from a bank. You put $500.00 in, you take collateral loan for $500.00. You pay it off. You pay the interest of 10 to 12 percent, which is $50.00 to $60.00 that month, but you just

> established in that year credit with that bank. Then you can go out there and you can make another $500.00 loan out or you can make $1,000.00 loan out. You pay that off, and by that time, you can establish your credit enough to get a car loan. From a car loan, you can establish yourself to get a house loan."

Darryl and Randall tended to be a bit savvier about credit and the power of credit scores than many of the other borrowers in our sample. But some of the less savvy borrowers were appreciative that the credit union staff – particularly at the most active credit union in our study – took the loan as an opportunity to help them clean up their credit and build better credit. For instance, one borrower, Eric, attributed his ability to purchase a condo to the credit union staff: "He's the reason I got the condo. He helped me get my credit in order." Others had poor credit histories from their youth but were looking to Payday Plus as a way to build their credit back up in order to have a more stable financial future. For example, one borrower, Roberto, had already successfully repaid his first Payday Plus loan and was working on repaying his second one so that he could build his credit for the wellbeing of his family. He was using the funds from his current loan for an unexpected legal expense, but also told us:

> I pulled the first loan off to build my credit. Little by little, I'm building my credit because it's been shot for so many years that I'm kind of taking advantage of any little thing that they give me, so I can build my credit score back up so that in the future I can get a home for me and my future family.

When borrowers noted the ability of Payday Plus in building their credit, this sometimes stood in contrast to traditional payday loans. Alex, a 30-year-old White man, told us:

> It improves my credit—I mean, any way that I can improve my credit, at this point, is good, and I needed the money and why not improve my credit? With those payday loans, you don't, nothing happens.

Whereas traditional payday lenders only report to credit bureaus when borrowers default, members of our sample were generally happy that their loan with the credit union could actually help improve their credit for the future.

Non-Pecuniary Benefits

Finally, it became apparent during the course of the interviews that many borrowers derived a set of non-pecuniary benefits from their experience with Payday Plus. Among these benefits was an overall improvement to their self-esteem. For instance, Terrance, s 64-year-old Black male relying primarily on Veterans' Assistance, told us that what he liked most about his experience with Payday Plus was that the "credit union will give you a chance. And that gives you self-esteem, like 'I can do this.'" Roberto echoed Terrance's feelings and that of many other respondents in our sample when he described how he felt when he was able to successful meet the loan payments, a feeling to which he was not accustomed:

> I'm able to [make the payments]. It feels good. It feels good just to be able to pay on time, and know it's for – obviously, it's paying back money that I got as a favor – but it's also building my credit. And so if feels good being able to pay it on time.

Alex, a 30-year-old male, also mentioned the improvements to his confidence that Payday Plus provided. In referencing the needs and experiences of many LMI individuals, Alex told us that Payday Plus:

> Gives people back the confidence that they're worth a second, third, or fourth chance. It's not really that much. And I think it's worth the chance […] I mean, everyone's always disapproved for everything it seems like these days. You go in there, and even when you go into these mini-agencies and you have these strict criteria to be approved […] And people lose their confidence because of their everyday lives and then when they run into a jam, they do stuff like sell crack on the streets or they like sell their bodies or whatever. It sounds dramatic but it's happening […] because they need to make ends meet.

In addition to improvements in self-esteem in being given a "second chance," borrowers also referenced the improvements to their overall confidence about budgeting and making financial decisions. Take, for example, Chantal who struggled her whole life to budget and make ends meet. While she was paying off her second Payday Plus loan, she recounted:

> In my life previously I was not a good bill-payer. I'm still not a very good bill-payer, but I'm better…I've gotten better because of the Payday Plus loans […] I'm paying my [Payday Plus] loan but I've also been able to be on top of my bills and pay back my other loans. And I'm building my credit so it's great..

Others described the newfound product as a welcomed relief to their everyday financial stressors since they now knew they had somewhere to go in the event of emergencies that would not gouge them with exorbitant fees and trap them a never-ending cycle of debt. For instance, Darryl describes the loan to us as, "It's like something I guess like a psychological buffer. You know what I mean? If need be, I can always go there and get $500.00. You know worst case scenario." Other, perhaps less verbose respondents, also referenced the psychological buffer described so aptly by Darryl. Roberto mentioned that of all of his monthly expenses, his Payday Plus loans were his top priority so that he could rest assured he would have access to them in future emergencies. He told us:

> I'm gonna make sure I stay on these payments whether—it kind of hurts me for that month or that week or whatever. It's my priority to pay these off […] just like to stay good with [my credit union]. That way, in the future, if I ever need loans or even right now, if there's another emergency going on, they see that I'm still making payments. Who knows, maybe they might approve me for another loan if an emergency were to pop up.

<u>Negative Experiences</u>

Negative experiences with the Payday Plus product were far less common. Indeed, when we asked borrowers what they liked least about the product, the most common response (N=14) was nothing. Nevertheless, small numbers of borrowers expressed some negative feelings toward different aspects of the process. The most common complaint was that borrowers wanted a larger loan, which was mentioned by 7 borrowers. Five borrowers thought the experience of getting the loan was a bit tedious, and didn't like having to wait for the loan. But unlike those who thought the loan was easy and convenient, this displeasure seemed to take the form of a more

surface displeasure rather than a substantially large hindrance. To give an example, Mae reported the following when asked what she liked the least:

> Well, I think maybe the timing cuz it did take a little while maybe goin' back and forth and stuff… I do recall havin' to go back and forth.

A few respondents also mentioned aspects related to the terms of repayment, i.e., that there wasn't a longer time from the time of the loan until the first payment, that there was a waiting period in between paying off one loan and taking out another, etc. But these complaints were few and far between compared to the positive comments we heard about the flexibility of repayment options, especially relative to traditional payday loans when borrowers had had personal experiences with those loans.

Payday Plus SF and Borrowers' Finances

Borrowers' perceptions of the Payday Plus product were widely seen as positive. But to what extent did they see the product as helpful to their shorter- and longer-term financial well-being? The ability of our data to conclusively demonstrate such effects is limited, as to really answer this question would require a much larger sample and comparative data among a group of equivalent non-users and their financial trajectories and well-being. It would also require a much longer longitudinal analysis of each of these groups, which was beyond the scope of this evaluation. But 25 of our 30 borrowers reported that the Payday Plus loan helped their finances. The qualitative data provided by our post-loan interviews suggests that the Payday Plus SF loan was helpful to borrowers in mitigating their immediate needs that led them to seek out the loan in the first place, in some cases effectively substituting for more drastic measures they might have undertaken in the absence

of the loan. That said, we found little evidence that our borrowers' financial lives were significantly "turned around" by their experience with Payday Plus (with the exception of the few described above who felt it improved their financial literacy and confidence). Rather than solving borrowers' long-term financial problems, we found that access to Payday Plus improved borrowers' ability to meet their immediate financial needs at low cost in a way that was much appreciated and well-understood. But financial struggle and hardship remained in place following respondents' loans, even as they found themselves temporarily assisted by the availability of low-cost credit through their credit unions.

Borrower Finances

As noted above, 25 of our 30 borrowers reported on the post-loan survey that the Payday Plus loan was helpful to their finances. In the interviews in which the surveys were embedded, we probed to better understand how the loan fit into their finances. The open-ended responses to the survey probes were instructive: a) "It allowed me to pay-off payday loan and general bills."; b) "freed up extra money to make other purchases"; c) "Gave me a chance to control our finances and build our credit history"; d) "You can take care of other things."; e) "Paid rent, avoided payday loan"; f) "Helped me stay afloat; set me back on track financially"; g) Helps if you're falling behind on basic needs"; h) "paid off credit card;" i) "pay bills/fewer problems." As these short responses indicate, borrowers found the small loan helpful in dealing with their immediate financial needs of making ends meet when they took out the loan. And as described above, borrowers appreciated and hardly noticed the small repayment amounts over subsequent months, at relatively low

interest compared with the repayment schedule and fees of traditional payday loans.

A few respondents reported that if not for the Payday Plus SF program, they would have had to resort to a payday loan, or suffer a variety of hardships. Part of how we attempted to get at the counterfactual was to ask respondents what they would have done if they hadn't gotten their Payday Plus loan. Sal, a mixed-race 49 year old single man, considered this:

> My worst-case scenario is I just would have got in deeper with the various community resources that I had, and that would have led to being cut off and/or going down the payday loan, pawn shopping cycle. I don't have a lot of items that I can think of that would be really pawnshop worthy. It would be more like going to some institution with some outrageously huge interest rate and getting short-term cash and kind of getting on that treadmill. I'm really grateful to not have to go down that route, that there is some community alternative.

Sal tried to think of better-case scenarios, but ultimately decided if he hadn't gotten the loan he would have had to muddle through with help from friends in the community, which he thought would make it likely it'd take years to get back on his feet. Another example is Roberto, a 34-year-old Hispanic man, who told us in response to the same question:

> I honestly don't know, I honestly don't. I just thank God that I got approved. I think God for that [credit union]. I know for a fact my good friend was able to put in a good word for me, and I think—I don't know if maybe that's what I was approved with. But I honestly don't know what I would have done if this loan wasn't approved. Yeah, so I don't even know what I would have turned to 'cuz I already had turned to my family. I already had turned to friends.
>
> Actually probably the only thing I would have did after that is probably ask my boss if he could give me loan, but that's a pretty big loan to ask for my boss. That's what I probably woulda did, but I was hoping I didn't have to go there, so luckily I was approved.

If not for the Payday Plus loan, Roberto says he might have had to take a rather drastic financial step, approaching his boss for personal financial assistance. But more common among our sample were people who reported they would have had to go back to friends and family members, "resources" they might have already tapped numerous times before. Others reported variants on Sal's "muddling through" strategy, reporting they would have negotiated with landlords, utility companies, and other creditors to buy time and get to the next paycheck. Often, respondents suggested they would have had to absorb various late fees to buy this time, which is why they found the Payday Plus loan such a relief.

Financial Hardships

This is not to say that Payday Plus SF provided borrowers with any sort of "magic bullet" that improved their financial lives and sent them hurtling toward economic mobility. Most respondents still reported juggling bills and expenses and financial worries at the time of our interviews. For instance, Jack, a single 57-year-old Black male earning roughly $1300 per month, told us:

> I owe about 12 credit cards right now money, and I can't afford to pay them [...which will probably end in] another bankruptcy. It depends on whether creditors come after me or not. I'm definitely below the poverty level, so I qualify for a bankruptcy.

When asked if there was a time recently when she could not pay a bill on time, Georgia, a single mother living with (and financially supporting) her 21-year-old son, told us:

> Oh, all the time, yeah. I just, if a bill is overdue, then I just get caught up later. Bit if it's way overdue – see I have a lot of bills that are overdue – but it's hard to play catch up when you like, you know, are paycheck to paycheck. And then by the time you pay the past due [bills], of course new bills are blinking and waiting.

It was clear during the course of our interviews that most borrowers were still plagued by financial instability and hardship. One female respondent in her mid 50s even paused her interview during a discussion of her finances upon realizing she needed to make a $40 phone payment on her phone bill lest it get cut off (paying by phone cost her a $1.00 transaction fee).

And while the Payday Plus loan was not quite the panacea of borrowers' financial difficulties, this was not really the goal of the program. Rather, the program sought to provide a low-cost financial alternative to credit-constrained borrowers to help them deal with financial issues and crises, avoid costlier alternatives, and build credit in the process. According to the borrowers, the program seems to have exceeded this goal.

Credit Union Experiences

Of course, borrowers' experiences are just one half of the story when it comes to whether a program like Payday Plus can be successful. For this to be true, the credit unions themselves also need to be able to feel that offering the product is worthwhile and at least not overly costly, in terms of both delinquency and staff workload. Our interviews with the credit union staff revealed that the credit unions embraced the goals of the program and saw it as part of their repertoire of services

designed to reach out to underserved communities. At the same time, most of the credit unions were reticent to offer the program very broadly out of concerns that the Payday Plus loan would have to be a "subsidized product," one that would cost the credit union more than it would bring in.

According to some of the credit union staff, the Payday Plus program was one of the tools they used to help the communities they served. According to one staff member:

> That's the path that we want to get them to, so eventually they're going to be able to qualify for mainstream financial services that have way better terms—lower interest rates, lower payments, easier to qualify for, but to get there, they've gotta improve their credit or improve their income. This is one of the tools that we use to improve their credit.

Issuing the Payday Plus loan can be helpful as a small product the credit union uses to get a customer's credit built up so that they might eventually benefit from other credit union products and services. In addition to the credit-building aspect, another staff member noted how they use the product to integrate customers into other services:

> We're kind of looking to help people more holistically. We want to talk to people. We've had a few people who've been turned off by us wanting to have a discussion to help them and want to talk about a budget. They just kind of like, "Well, I don't want to tell you all this information. I just want my money." We kindly let them know that

> we're here to help people. You can go to other places that will charge you a lot more than we'll charge you, and they won't ask as many questions, but you definitely pay for it. You're not going to be paid off, and if you keep extending it, you're going to pay a fortune for the money. We give them some examples.

This credit union staff member sees the program as a stepping stone into financial education, as their loan procedures involved having the client construct a budget as one of the loan application procedures. While this was the only credit union that took this step formally, all the credit unions reported attempts to channel their customers into financial education programs when they seemed appropriate or necessary.

At the same time as credit unions saw the product as fitting neatly within their missions, they were also clear that they didn't see the program as something that was going to generate much revenue, as the interest on small loans, at the level of volume issued by the credit unions, would not outweigh the cost of generating those loans and having a portion of them, however small, go delinquent. According to one credit union staff member:

> I mean in my view, we're gonna' lose money on it even if we have absolutely zero loan losses…Because of the amount of time it takes to originate, to underwrite, to educate, to collect, relative to a small dollar short-term loan, if you charge a reasonable interest rate, there simply are not enough dollars attached to it to cover your costs.

For such a formula to be profitable, many many more loans would have to be generated by the credit unions, likely in a more automated way. Instead of going down this route, however, most of the credit unions rationed the product, especially after some of them were made wary from the heavy traffic and uncertainty following the initial public launch in 2009. That said, the credit union staff reported that at the levels at which they were engaged with the product, it was not terribly costly to them, either financially or operationally. As one staff put it:

> It had very little impact actually on the credit union itself. The losses weren't significant, and we don't have a whole lot of their loans, so in the scheme of things, it's had a small impact.

So ultimately, the Payday Plus product seemed to fit within the credit unions' portfolio of services fairly comfortably, at least when it could be offered on a relatively small scale. This perspective is neatly summed up by one of the credit union staff members, who described the ability to offer payday alternatives as a triangle:

> I think of it as a triangle. You've got responsibility, you've got accessibility and you've got sustainability—financial sustainability. Those three all play off each other. The payday lenders have mastered two of the three points of the triangle at the expense of the third. They're unbelievably accessible and they're incredibly sustainable but they're unbelievably irresponsible. As you try to balance those three points of the triangle, you make tradeoffs. My view is that in order to

> be both responsible and sustainable, if you can do it at all, the thing that's gonna' be compromised is the accessibility.

Discussion

The mixed-methods data presented here show that the Payday Plus SF program helped LMI borrowers deal with their pressing financial issues. Borrowers overwhelmingly voiced support for the program, said it helped their financial lives, and highlighted various non-pecuniary benefits to the program, such as improved self-esteem and financial confidence. Borrowers also appreciated the credit-building aspect of the Payday Plus program, its low interest rate relative to traditional payday loans, and the ease of repaying the loan over a longer time horizon. For their part, the credit unions saw the program as a worthwhile tool in their portfolio of services designed to help the communities they are embedded in. They also saw the program, at least in its rationed form, as not terribly costly, despite their view that offering Payday Plus was essentially offering a subsidized product.

Our rich qualitative data enabled us to understand how an innovative local public policy fit into the lives of LMI individuals and non-profit credit unions in San Francisco. This is a strength of qualitative inquiry in program evaluation, when a program model is new and relatively untested. Harnessing such data enables evaluators and policymakers understand how a new program is working, and come to a better understanding of how it may be improved in the future and eventually be tested more formally with well-structured comparison groups. For instance, our data suggests that it is difficult for such a small number of credit unions to meet the demand for credit of LMI individuals while still putting all the effort into the Payday

Plus SF loan that they put into other types of financial products in their portfolio of services. Policymakers could experiment with financially backing an expanded and more automated version of Payday Plus to decrease the credit union workload while shielding the credit unions from potentially high default rates in order to test whether such a system could prove less costly or even potentially profitable for credit unions in the future. Alternatively, policymakers could make the program more scalable by involving a much larger number of credit unions and financial institutions to help meet citywide demand while keeping operational costs per credit union low.

Our study has several limitations that must be noted. First, we lack a true comparison group of non-users with which to understand program effects. With such data, we could compare, for instance, the balance sheets and account balances of users and non-users, and better understand whether participating in Payday Plus SF improved borrowers' financial well-being or helped them escape harmful cycles of payday lending. Our interview data suggested that borrowers perceived the loan product as helpful at meeting their immediate needs in a relatively pain-free manner, but more research is necessary to quantify the magnitude of such effects. Another limitation is that the nature of our sample (relying on borrowers who for the most part successfully paid off their loans) meant our results may have been skewed toward those for whom the loan was a positive experience. Given the overwhelmingly positive response of borrowers in our sample, however, the likelihood that the majority of those we did not catch in our sample felt wildly different about the product is probably small. Nevertheless, it would be interesting

to conduct a series of similar interviews with borrowers who defaulted on their loans, to understand how their experiences might have differed from those we captured in our sample.

Payday Plus SF can be considered a qualified success. It met its goal of helping LMI individuals in need of short-term credit meet their financial needs in a responsible manner. Participating credit unions did not perceive their participation in the program as too onerous or costly, at least at the moderate levels in which they offered the program after its re-launch. To successfully compete with the payday lending industry, however, payday alternatives like Payday Plus SF will have to be "scaled up" on a much bigger level. Only then will enough of the demand for short-term credit be siphoned away from payday lenders to seriously compromise their profitable, though potentially predatory, industry.

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Table 1: Demographic Characteristics, Borrower Sample		
	Pre-Loan	**Post-Loan**
Black	45.5%	50%
Hispanic	24.8%	20%
White	16.5%	20%
Asian	10.7%	6.7%
Other	2.5%	3.3%
Male	55%	50%
Female	45%	50%
Single	50.8%	60%
Married/Partnered	32.8%	23.3%
Divorced/Separated	16.4%	16.7%
Parent	60.3%	30%
1 Child (if any)	50%	50%
2 Children (if any)	28.9%	20%
3+ Children (if any)	21.1%	30%
Age 30 or under	19.7%	16.7%
Age 30-40	16.4%	13.3%
Age 40-50	27.9%	33.3%
Age 50-60	27.1%	30%
Age 60 or above	9.0%	6.7%
Household Income		
Less Than $12,000	11.8%	6.7%
$12,001-$24,000	19.3%	26.7%
$24,001-$36,000	21.0%	30%
$36,001-$48,000	20.2%	23.3%
$48,001-$60,000	18.5%	13.3%
More than $60,000	9.4%	0%
Less than High School	5.1%	5%
High School or GED	19.0%	10%
Some College	50.6%	65%
Bachelor's Degree	20.3%	20%
Graduate Degree	5.1%	0%
Rent	84.2%	90%
Own	7.5%	3.3%

Other	8.3%	6.7%
Receives Government Assistance	27.3%	36.7%
N	121	30

Table 2: Financial Characteristics, Borrower Sample		
	Pre-Loan	**Post-Loan**
Referral Source		
Credit Union	45.1%	40%
Friend	19.7%	20%
Advertising	13.1%	16.7%
Community Based Organization or 211	6.6%	3.3%
Other	15.6%	20%
Primary Use of Funds		
Regular Household Bills	31.4%	41.4%
Unexpected Household Expense	22.9%	6.9%
Large Periodic Expense (e.g., holiday, car insurance)	11.9%	6.9%
Pay Off Other Debt	10.2%	17.2%
Medical Expense	7.6%	3.5%
Other/Combination	16.1%	24.1%
Previous CU Customer	95%	96.5%
Has Used Payday Loan (Mode: 1-3, $200-$300, $25-$49 fee)	44%	30%
Has Used Prepaid Debit Card	29%	33.3%
Uses Money Order Pay Bills	21%	20%
Sends Money to Family/Friends	26%	30%
Paid to cash a check (Mode: $3-$7)	38%	36.7%
Has Paid Late Payment Fees	32%	26.7%
Has Paid Overdraft/Over-limit fees	36%	36.7%
Has Any Current Debt	69%	69%
Less than $1,000	20%	17.7%
$1,000-$3,999	33%	29.4%
$4,000-$9,999	20%	29.4%
$10,000-$19,999	9%	11.8%
$20,000 or more	18%	11.8%
Has had a Bankruptcy	20%	23.3%
Payday Loan, Money Order, Check Cash Fee, or Late/Overdraft fees, last 12 mos.	85%	76.7%
N	123	30