Payday Loans Consumer Profile based on the 2009 Canada Financial Capabilities Survey

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Summary of Results

- **Payday loan consumers had lower household and personal incomes than non-consumers. The gap was not as large for the very lowest income category in each case as it was for the lower income categories just above it.**

- **Consumers of payday loans tended to have smaller tangible and financial assets and shorter term and more expensive debts (such as credit card and student loan debt rather than mortgage debt) compared to non-consumers.**

- **Consumers of payday loans were more likely to be fully employed but had lower education levels than non-consumers**

- **Consumers of payday loans were younger and more likely to live without a spouse or a common-law partner. However, more payday loan users carried financial responsibility for children compared to non-users.**

- **Almost half of payday loan consumers used the service at least three times during last 12 months and these users tended to have lower family incomes than less frequent payday loan users.**

- **Probit and ordered probit models corroborate the basic results above: lower household income, lower assets, employment, lower education, younger age, unmarried individuals, and financial responsibility for children each increase the probability of having taken out a payday loan and increase the probability of repeat use of payday lenders, even when other factors are accounted for.**

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Introduction

The profile of consumers who take payday loans is drawn from the Canadian Financial Capability Survey (CFCS) conducted by the Statistics of Canada in 2009. In telephone interviews 27,555 Canadian adults 18 years and over were asked if they or their household members were using the services of payday lending during the last 12 months. The data was collected on 15,519 individuals with response rate of 56.3%. To compare personal and household characteristics of payday loan users (PL sample) and non-users (NL sample) we dropped individuals who did not respond to the questions of interest. This provides a sample of 14,490 individuals, of which 265 respondents (1.83%) indicated that they used the services of payday lending at least once during last 12 months and 80 respondents (0.55%) reported that at least one household member had a payday loan at the time of the survey.[1]

In 2005 Statistics Canada conducted a Survey of Financial Security (SFS). Similar surveys were conducted by The Financial Consumer Agency of Canada (FCAC) and the Canadian Association of Community Financial Service Providers (CACFS) in the same period. All three surveys collected similar information about payday loan users. We will use the information provided by these surveys to assess the difference between payday loan users in 2005 and 2009 where appropriate.

Payday Loan Consumption and Income

Analysis of household income shows that payday loan consumers were more concentrated in lower income categories than non-consumers. Specifically, as shown on the Figure 1, 20.8% of families that used payday loans in the previous 12 months (the PL sample) had total household income below $25,000 compared to 17.8% of families in the same income category that did not use payday loans (the NL sample). The biggest gap does not occur in this lowest household income range but in the next two higher ranges. Thus, 30.6% of payday loan users reported

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[1] The data is available by region but not by province and, in any case, the regional results indicate the sample for Manitoba would not be sufficient to yield useful results. The CFCS breakdown by region provides a sample of 3,496 respondents across Alberta, Saskatchewan and Manitoba, of which 86 (2.46%) had used a payday lending service at least once in the previous 12 months. Hence, we report results for Canada as a whole, which facilitates comparison with previous surveys such as the Survey of Financial Security.

household income between $25,000 and $50,000 compared to only 23.2% of non-users, while 28.7% of payday loan users reported household income between $50,000 and $75,000 compared to only 20.4% of non-users with similar incomes. This illustrates an important point: Payday loan users are more concentrated in lower household income categories but not in the lowest categories, i.e. they are not the poorest of the poor. This is not surprising given that the eligibility requirements for a payday loan revolve around having employment at the time of application.

Analysis of personal incomes shows a similar pattern to household incomes. Figure 2 indicates that the percentage of individuals with incomes lower than $20,000 is similar in the PL and NL samples at 28% and 26.8%, respectively but that 39.6% of payday borrowers were in the category between $20,000 and $40,000 compared to only 28.0% of non-borrowers. About 20% of individuals in both groups had incomes between $40,000 and $60,000 while a far smaller percentage of the PL sample were in categories above $60,000 compared to the NL sample. Thus, we again see that those using payday lenders are in the lower personal income groups but not particularly in the lowest personal income group.

In general, then, users of payday lending had lower incomes compared to non-users of payday lending. Specifically, 51.3% of the users of payday lenders had a household income below $50,000, compared to only 41.0% of non-borrowers, and 66.5% of them had personal income below $40,000 compared to only 56.0% of non-borrowers. The relationship with income is not uniform, however, in the sense that the difference between the two groups is not as great in the very lowest categories of household and personal income as it is in the lower income categories just above.

Payday Loan Consumption and Wealth

CFCS added questions about wealth of respondents not available in earlier surveys of payday lending, such as the SFS. In particular, there are questions about the types of assets and liabilities, as well as their value. Figure 3 and Figure 4 illustrate that the sample of families using payday lenders tended to have fewer assets, both tangible and financial. Firstly, respondents in the PL sample reported ownership of assets less often than respondents in NL sample. Only 65% or payday loan users reported the possession of tangible assets (including real

estate, automobiles or other) and more than half of subsample (58.5%) had total assets valued at less than $100,000, while 71% of NL respondents reported the possession of tangible assets and only 24.7% valued their assets at less than $100,000. About half of non-borrowers (42.0%) had tangible assets valued at $200,000 and more, while only 26.4% of PL sample reported similar tangible asset ownership. While less people in both samples possessed financial assets including RRSPs and RESPs (26% in PL sample and 42% in NL sample), non-borrowers tended to have higher financial possessions compared to payday borrowers. In general, the largest part of the NL sample (30.3%) had financial assets of more than $100,000, while the majority of payday loan users (49.3%) reported the total value of financial assets to be less than $10,000. The average value of total assets was estimated as $595,575 in NL sample compared to $368,280 in the PL sample.[2]

As seen on Figure 5, the structure of liabilities differed in two samples in such a way that payday borrowers tended to have smaller and shorter term debts such as student loans (18.9% of those in the PL sample compared to only 10.5% of those in the NL sample) and credit card debts (48.3% in PL sample compared to only 32.5% in NL sample). Only 29.4% of payday loan users reported a mortgage compared to 43.4% of non-borrowers, which is consistent with a larger proportion of NL sample possessing tangible assets. As Figure 6 shows, 65% of the PL sample reported total liabilities of less than $50,000 compared to only 48% of the NL sample, and there was higher proportion of non-users of payday lending rather than payday loan borrowers in every liability category above $50,000.

Employment and Education Characteristics of Payday Loan Consumers

The majority of PL sample (65.3%) was employed or self-employed compared to 58.1% of NL sample. The employment rates in PL sample continued to be higher compared to NL sample, but overall employment rates dropped in both samples compared to the data of 2005. For example, the SFS in 2005 reported that 83.4% and 67.0% of respondents were employed in PL and NL sample respectively. Both FCAC and CACFS showed a 70% employment rate in PL sample and lower employment rates in 2005 NL sample (53.4% and 55%, respectively). In 2009

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[2] This is based on relatively low response rates, since 48.5% of NL sample and 38.5% of PL sample did not answer the question about total assets value. This may affect the reliability of the response if the respondents are not representative of the populations of payday loan customers and non-customers.

16.2% of unemployed individuals answered that they had a job during last 12 month in the PL sample. Moreover, 68.3% PL sample married or common-law respondents declared that their spouses were employed or self-employed.

Respondents in PL sample on average had lower educational attainment. as 24.2% of payday loan users did not have high school diploma compared to 17.0% of non-users and 26.8% of individuals who used payday lending services had an education level of high school compared to 20.9% of NL sample. At the same time, a lower proportion of respondents with more advanced education used payday loans, as 29.8% of payday borrowers had an undergraduate or college degree compared to 41.9% of those in the NL sample and only 5.3% of payday loan users had a graduate degree compared to 9.6% of NL sample respondents. Comparing the education level of both PL and NL samples in 2005 and 2009, we can see that the percentage of educated and non-educated respondents increased during 4 years. For example, the 2005 SFS survey reported 21% of PL sample without high school diploma (vs. 10% of NL sample), and the FCAC and CACFS reported 16.3% and 14% of PL sample in the same education category (vs. 10% and 15% in NL sample). A the same time, the proportion of PL and NL samples with an undergraduate degree in 2009 was larger as the SFS, FCAC, and CACFS reported 10.6%, 8.7% and 21% with university graduates in PL sample compared to 25%, 29.7% and 32% in NL sample.

Other Demographic Characteristics of Payday Loan Consumers

Other demographic characteristics were found to be different in PL and NL samples as well. Although respondents in the PL sample were found to be younger compared to the respondents in NL sample, the proportion of 18-35 years old respondents decreased compared to 2005. In 2005 52.6% of PL sample and 23.9% of NL sample were younger than 35 (SFS). In 2009 the CFCS reported that 33.6% of PL sample and 21.4% of NL sample were in the same age category. In 2009, 27.9% of PL sample were in the age group of 35-45, compared to 18.6% of NL respondents. Only 11% of individuals who used payday loans were over than 55, compared to almost 30% of the NL sample. More than half of payday loan users (53.6%) did not have a spouse or common-law partner compared to 41.4% of non-users (including single, divorced, and separated individuals). Of those without a partner, single (never married) respondents were the largest group who used payday lending (32.5%), whereas only 20.2% of NL sample were single. 18.1% of divorced or separated individuals used payday loans compared to 12.4% of the NL

sample. About half (47.6%) of PL sample answered that they carry financial responsibility for one or more children, while only 30% of NL sample had such responsibility.

As might be expected, the household structure of payday loan borrowers and non-borrowers has not changed much since 2005. According to the CACFS, 47% of PL and 32% of NL respondents had children in 2005. According to SFS 47.7% of PL sample and 36.6% of NL sample had more than 2 people in the household. In 2009 the proportion of payday borrowers with more than two members in the household was 46.0%, while in NL sample only 37.4% of respondents had more than two people in the family.

The CFCS allows us to analyze payday borrowers by immigration and aboriginal status for the first time. Overall, those using payday lenders were marginally more likely to be foreign born compared to non-users (18.9% compared to 17.0% in NL sample). 11.7% of those using payday loans were foreign-born but had acquired Canadian citizenship, while 5.7% were landed immigrants and only 1.5% were temporary residents. Those using payday lenders were decidedly more likely to be aboriginal, as 11.7% of the PL sample declared aboriginal status compared to only 3.0% of NL sample.

PL sample respondents were more likely to have English as their first language (71.7% compared to 62.7% of non-borrowers) but less likely to have French as their mother tongue (only 10.2% of the PL sample compared to 22.3% of the NL sample). The proportion of English speaking respondents was also higher among payday lending customers in the 2005 SFS (89% in PL sample compared to 77.9% in NL sample).

Payday lending services were a family affair. That is, the PL group respondents were more likely to have other members of the household using payday lending services at the time of the survey than the NL group, as 18.9% of PL users answered that the members of their households had payday loan at the time of the interview while only a minuscule 0.2% of the NL sample provided the same response.

Frequency of Payday Loan Consumption

Figure 7 shows the frequency of payday load usage among those using a payday lender in the last twelve months. Out of 265 individuals in the PL sample, most (45.7%) said that they

took payday loans at least three times, while 27.6% and 26.8% of respondents used payday lending services once or twice respectively. Moreover, the heavier reliance on payday lenders appears to be more closely associated with lower household incomes. Figure 8 indicates, for example, that 43.6% of those taking payday loans with a household income under $25,000 borrowed three times or more, while the comparable figures for those payday loan customers with household incomes between $25,000 and $50,000 and $50,000 and $75,000 were 48.2% and 50%, respectively. At the same time, higher income households (from $100,000 to $150,000) who used a payday lender were more likely to rely on this source of borrowing only once a year, while two payday loans a year were reported by the majority (63.3%) of households with incomes between $50,000 and $100,000.

More frequent payday borrowers also report the lowest wealth. Those who borrowed a payday loan once a year had a mean of total assets of $140,178, while those who took a payday loan twice reported on average $298,414 of total assets and those who took a payday loan three times or more had on average $103,003 in total assets.

The amount of the loan plays a role in the decision to use payday loans. 4.5% of payday borrowers answered that they would use a payday loan again if they needed $500 for unexpected expenditure, while only 0.04% of NL sample were willing to contemplate the payday lending option in this case. This figure fell to 0.8% of payday borrowers for an unexpected expenditure of $5,000 but remained steady at 0.07% of NL sample.

Regression Analysis of Payday Loan Consumption

To study a complex relationship between personal and household characteristics of payday loan consumers we used two regression techniques appropriate to our data, probit and ordered probit models. The probit model estimates the probability of obtaining a payday loan when various determinants are taken into account simultaneously. The ordered probit regression estimates how various factors affect the decision of a borrower to use payday loan once, twice, three times or more during a year. The regression results are shown in the Tables 1 and 2.

Table 1 shows estimates of four modifications of Probit regression. First, we included only personal characteristics such as age, sex and marital status that were significant in our earlier research using the Survey of Financial Security. In models 2 and 3 we then added

information about respondent's education, number of children, and a dummy variable indicating if a respondent carries financial responsibility for children. Finally, we added characteristics such as labour force status, household income and the value of respondent's total assets. Overall, we can conclude that the probability of obtaining payday loan is higher for younger people and significantly smaller for respondents over 55 years of age. While sex does not significantly affect the probability of using payday lending, married respondents are less likely to borrow. Larger households are more likely to have taken out a payday loan. The number of children coefficient loses significance when we include a dummy for financial responsibility for one or more children in the household. The probability of using a payday loan is smaller for respondents with university degree, those full-time employed or self employed, and retired persons and students. Respondents with a household income level above $75,000 are less likely to use payday loans and increase in the value of total assets reduces probability of payday loan consumption as well.

Table 2 includes the results of ordered probit regression, which captures features of repeat use of payday lending that would be ignored in the simple probit model results in Table 1. Again, we considered three different models, including personal and household characteristics in the first, adding labour force and household income information in the second, and adding a total assets variable in the model 3. When we do not control for labour force status and the income of respondents (model 1), younger age is a significant variable indicating that respondents of 25-44 years of age are likely to borrow payday loans more frequently. Overall respondents reduce frequency of payday loan consumption with age. Married respondents use payday loans less frequently, while those who carry financial responsibility for children borrow more frequently, other factors considered. Retired individuals and students, as well as respondents with household income over $75,000 and higher asset value (i.e. wealthier respondents) use payday loans less frequently.

FIGURES AND TABLES

Figure 1. Household income distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009
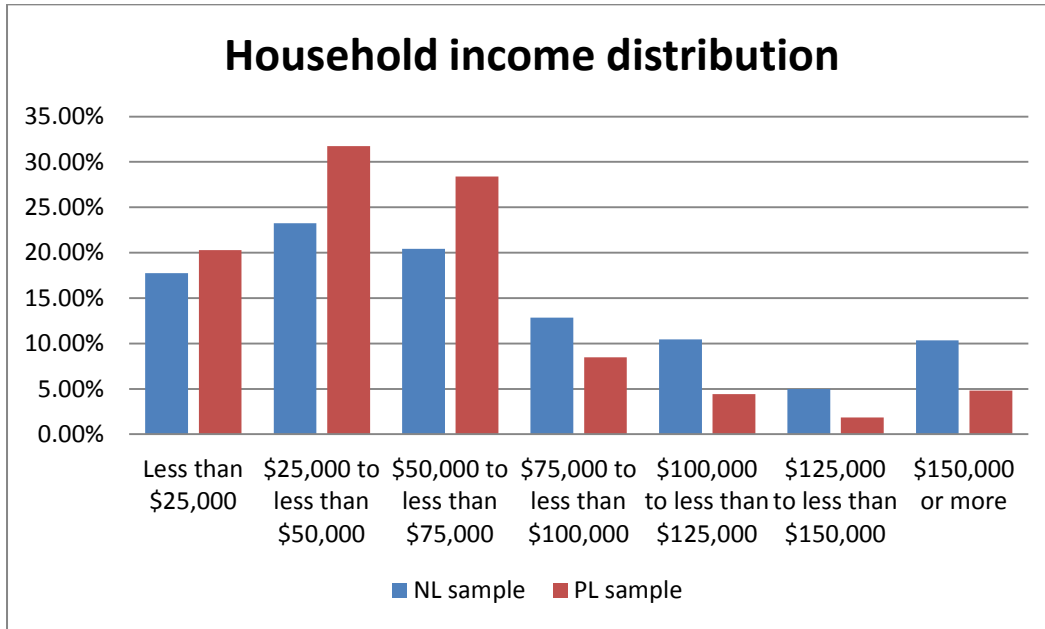
Household income distribution

NL sample, PL sample

Categories: Less than $25,000; $25,000 to less than $50,000; $50,000 to less than $75,000; $75,000 to less than $100,000; $100,000 to less than $125,000; $125,000 to less than $150,000; $150,000 or more

Figure 2. Personal income distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009
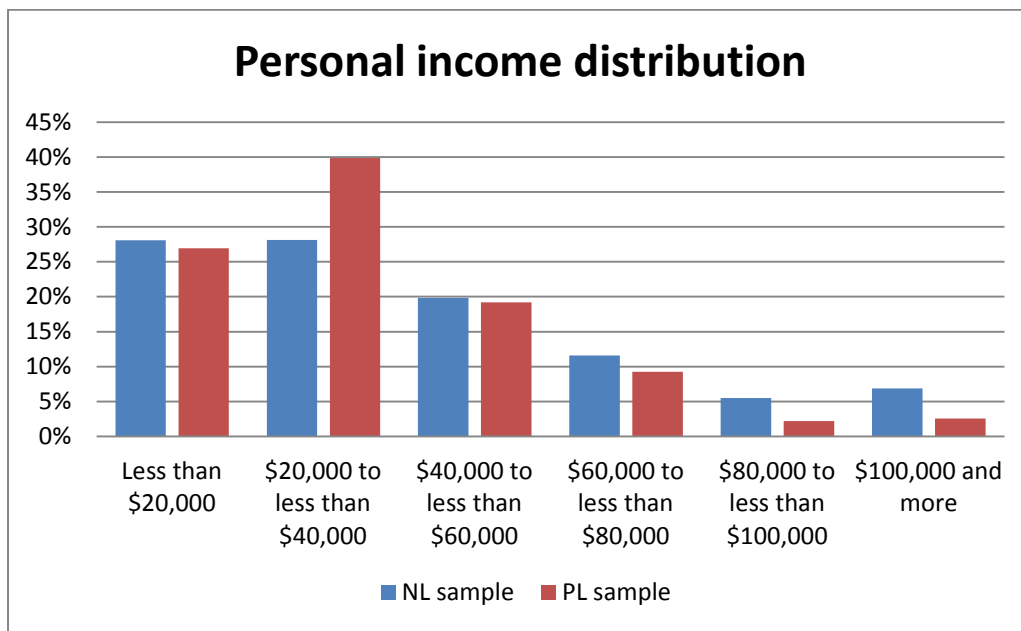
Personal income distribution

NL sample, PL sample

Categories: Less than $20,000; $20,000 to less than $40,000; $40,000 to less than $60,000; $60,000 to less than $80,000; $80,000 to less than $100,000; $100,000 and more

Figure 3. Total tangible assets distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009
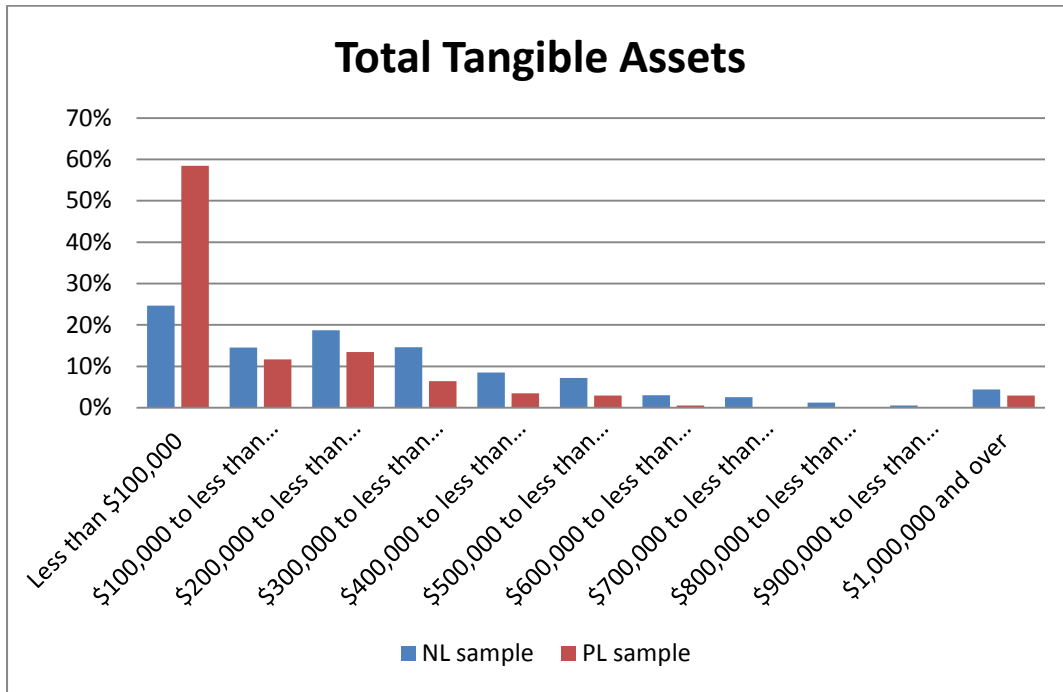

Figure 4. Total financial assets distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009

Figure 5. Types of loans distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009
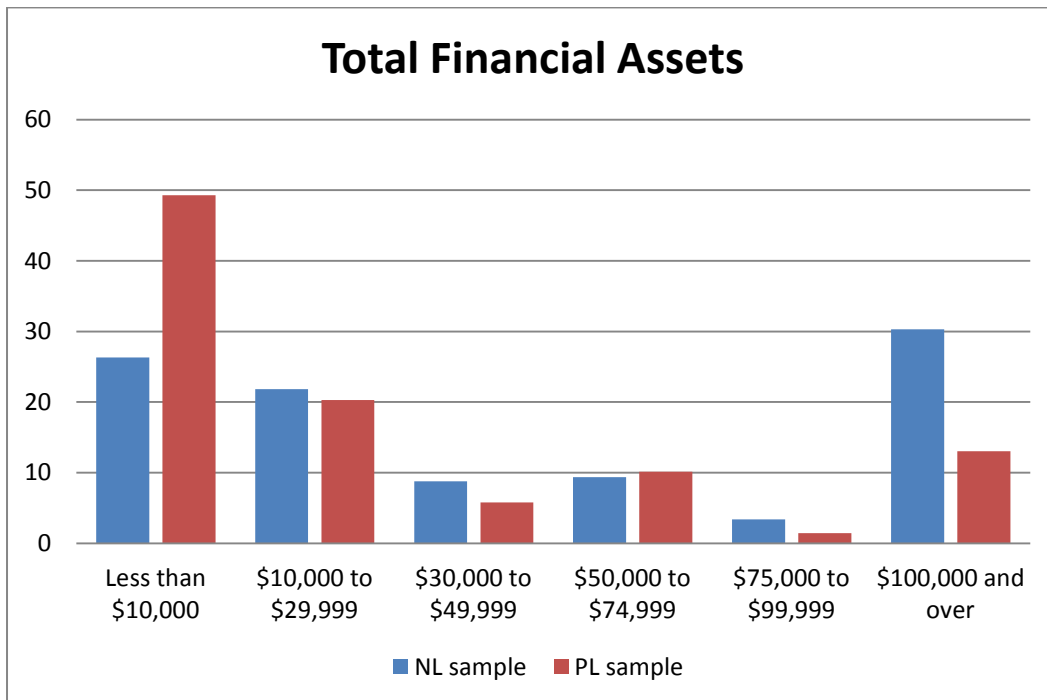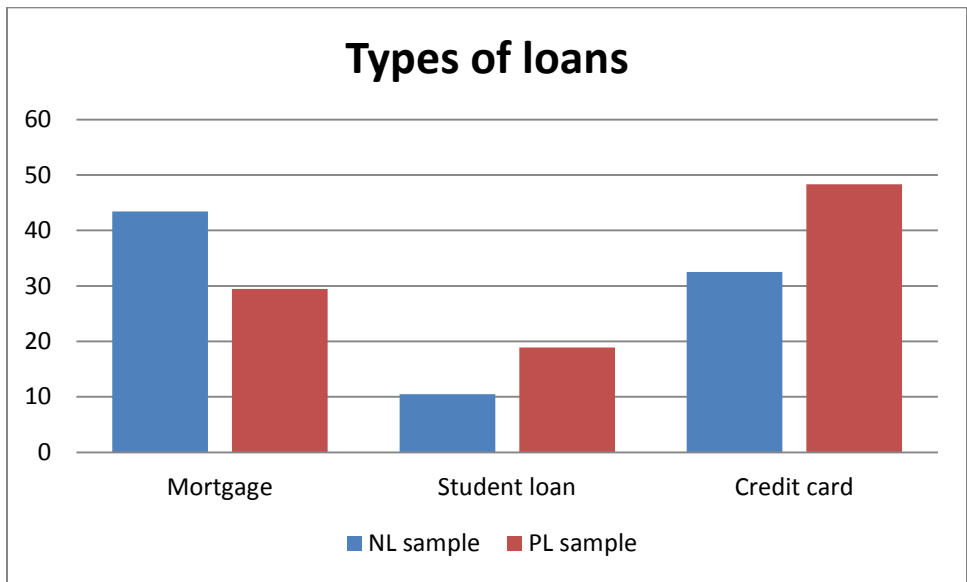

Figure 6. Liabilities distribution for those using Payday Loans (PL Sample) and those not using Payday Loans (NL Sample) in the Canadian Financial Capability Survey (CFCS), 2009
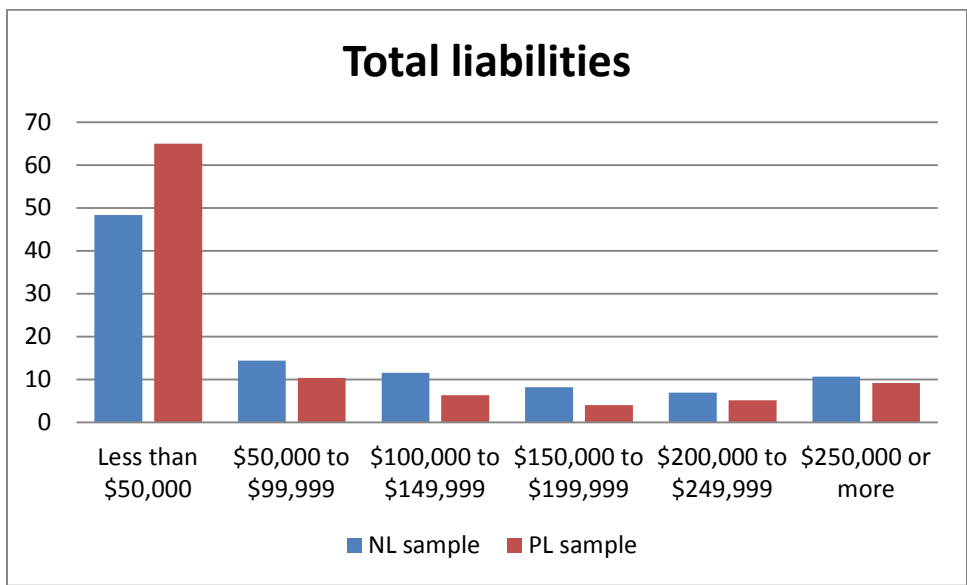
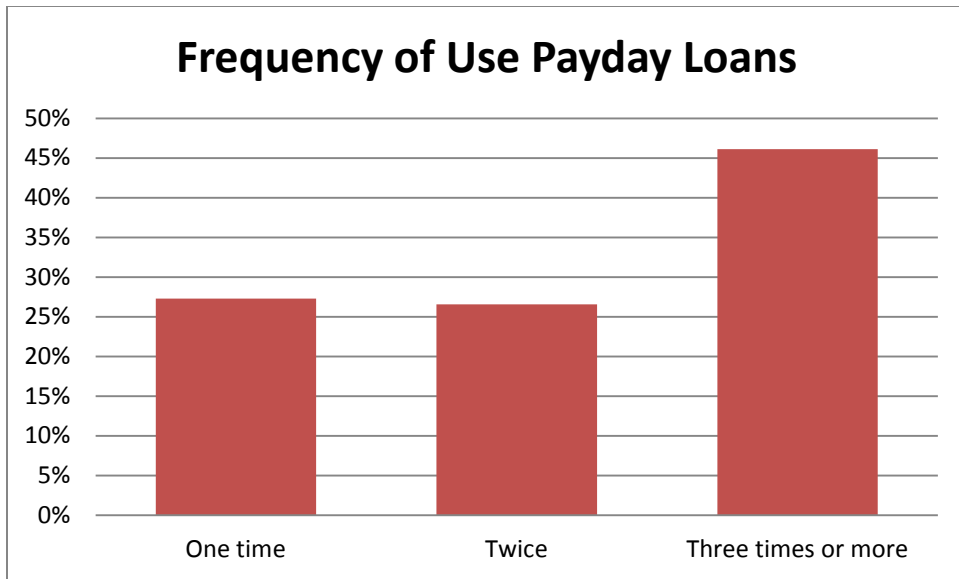**Figure 7.** Frequency of Use of Payday Loans during last 12 month by PL sample (CFCS survey)

Figure 8. Frequency of Use of Payday Loans during last 12 month by Household Income (CFCS survey)
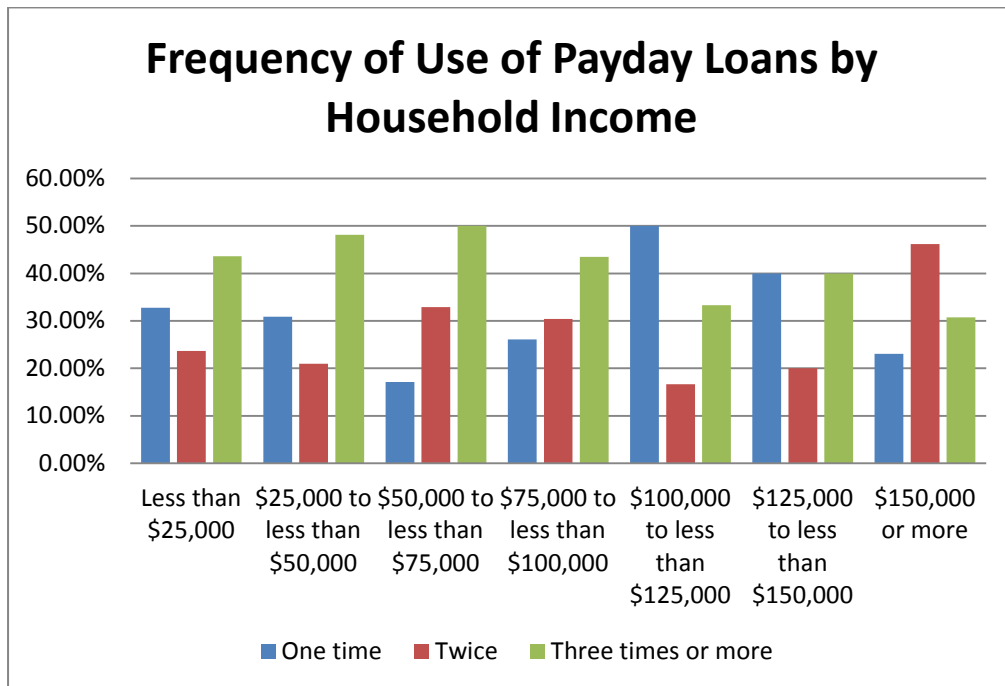
Table 1. Probit Estimates of the Determinants of Payday Lending from the CFCS (2009)
[Dependent variable is 1 if a member of the household has taken out a payday loan in the last 12 months and 0 otherwise]

	(1) Coefficient Estimate	Standard Error	(2) Coefficient Estimate	Standard Error	(3) Coefficient Estimate	Standard Error	(4) Coefficient Estimate	Standard Error
Age: 25-34 y.o.	0.217**	(0.103)	0.199*	(0.104)	0.257**	(0.108)	0.0534	(0.114)
Age: 35-44 y.o.	0.173*	(0.101)	0.129	(0.103)	0.182*	(0.108)	-0.0316	(0.114)
Age: 45-54 y.o.	0.0187	(0.102)	0.0387	(0.103)	0.0707	(0.105)	-0.139	(0.111)
Age: 55-59 y.o.	-0.220*	(0.130)	-0.163	(0.132)	-0.112	(0.133)	-0.316**	(0.141)
Age: 60-64 y.o.	-0.352**	(0.148)	-0.287*	(0.150)	-0.266*	(0.152)	-0.427***	(0.165)
Age: 65-69 y.o.	-0.500***	(0.177)	-0.437**	(0.178)	-0.411**	(0.178)	-0.476**	(0.211)
Age: 70 y.o. and over	-0.386***	(0.126)	-0.327**	(0.128)	-0.347***	(0.129)	-0.357**	(0.180)
Sex	-0.0641	(0.0511)	-0.0835	(0.0516)	-0.0653	(0.0524)	-0.0765	(0.0542)
Marital status	-0.234***	(0.0528)	-0.281***	(0.0552)	-0.278***	(0.0564)	-0.187***	(0.0614)
Number of children			0.0918***	(0.0274)	0.0387	(0.0359)	0.0407	(0.0366)
Financial responsibility for children					0.167**	(0.0832)	0.146*	(0.0843)
Education: university degree					-0.361***	(0.0545)	-0.304***	(0.0571)
Employed / self-employed							-0.117	(0.0714)
Student							-0.706***	(0.199)
Retired							-0.367**	(0.144)
Household income: less than $25,000							0	(.)
Household income: $25,000-$50,000							0.0819	(0.0812)
Household income: $50,000-$75,000							0.110	(0.0873)
Household income: $75,000-$100,000							-0.209*	(0.112)
Household income:$100,000-$125,000							-0.395***	(0.135)
Household income: $125,000-$150,000							-0.401**	(0.184)
Household income: $150,000 and more							-0.304**	(0.131)
Total assets							-1.10e-10**	(5.47e-11)
_cons	-1.915***	(0.0880)	-1.949***	(0.0891)	-1.861***	(0.0905)	-1.513***	(0.121)
N	14490		14490		14490		14490	

Standard errors in parentheses; * $p<0.10$ ** $p<0.05$ ***$p<0.01$

Table 2. Ordered Probit Estimates of the Determinants of Payday Lending from the CFCS (2009)

[Dependent variable is 1 if respondent has taken out a payday loan once in the last 12 months, 2 if respondent has taken out a payday loan twice in the last 12 months, 3 if respondent has taken out a payday loan three times or more in the last 12 months, and 0 otherwise]

	(1)		(2)		(3)	
	Coefficient Estimate	Standard Error	Coefficient Estimate	Standard Error	Coefficient Estimate	Standard Error
Age: 25-34 y.o.	0.286***	(0.105)	0.0818	(0.113)	0.0505	(0.113)
Age: 35-44 y.o.	0.248**	(0.103)	0.00583	(0.112)	-0.0239	(0.113)
Age: 45-54 y.o.	0.109	(0.107)	-0.119	(0.110)	-0.145	(0.111)
Age: 55-59 y.o.	-0.118	(0.138)	-0.309**	(0.141)	-0.335**	(0.141)
Age: 60-64 y.o.	-0.226	(0.156)	-0.409**	(0.164)	-0.429***	(0.164)
Age: 65-69 y.o.	-0.364**	(0.183)	-0.454**	(0.209)	-0.471**	(0.210)
Age: 70 y.o. and over	-0.256*	(0.135)	-0.363**	(0.180)	-0.363**	(0.180)
Sex	-0.0612	(0.0510)	-0.0768	(0.0536)	-0.0645	(0.0539)
Marital status	-0.315***	(0.0594)	-0.209***	(0.0610)	-0.201***	(0.0611)
Household size	0.0607***	(0.0220)				
Number of children			0.0439	(0.0361)	0.0444	(0.0361)
Financial responsibility for children			0.165**	(0.0835)	0.160*	(0.0836)
Employed / self-employed			-0.115	(0.0707)	-0.115	(0.0710)
Student			-0.726***	(0.201)	-0.723***	(0.201)
Retired			-0.350**	(0.143)	-0.353**	(0.144)
Household income: $25,000-$50,000			0.0801	(0.0805)	0.0906	(0.0809)
Household income: $50,000-$75,000			0.115	(0.0864)	0.128	(0.0868)
Household income: $75,000-$100,000			-0.213*	(0.111)	-0.197*	(0.112)
Household income:$100,000-$125,000			-0.406***	(0.134)	-0.394***	(0.135)
Household income: $125,000-$150,000			-0.397**	(0.183)	-0.391**	(0.184)
Household income: $150,000 and more			-0.311**	(0.130)	-0.294**	(0.131)
Education: university degree			-0.296***	(0.0566)	-0.302***	(0.0568)
Total assets					-1.27e-10**	(5.44e-11)
N	14490		14490		14490	

Standard errors in parentheses; * p<0.10 ** p<0.05 ***p<0.01