

Survey by University of North Carolina Finds Consumers Face Costly Short-term Credit Choices Since Payday Loans Exited the State

A November 2007 study by the University of North Carolina Center for Community Capital looked at how North Carolina consumers have fared without the option of payday loans.

Although the study concluded that consumers were better off without payday loans, this conclusion does not match the actual findings. In fact, respondents' answers to the survey clearly show that the elimination of payday loans in North Carolina did nothing about the demand and forced consumers to replace payday loans with costly, less desirable and even dangerous options. The survey found that consumers most frequently "did not pay/paid late" [an expense] when faced with a financial crisis. Other frequently cited strategies were "bounced checks/used overdrafts" or "used credit card/cash advance." Some chose to forgo prescription medications or experienced damaged credit ratings.

It should also be noted that the majority of people surveyed had never used a payday loan or even experienced a financial hardship in the previous three years. Only 23 of the 401 surveyed were former payday loan customers. Of those, only five said that prohibiting payday lending has had a positive effect on their household. The remaining majority may have been better served by payday advances, which often offer lower fees and do not negatively impact credit ratings.

Read the full study at:

http://www.nccob.org/NR/rdonlyres/4BB13853-F3B0-48E2-9A2B-1A59177018CF/0/NC_After_Payday.pdf

Noted in the report:

➤ **North Carolina consumers continue to face unexpected financial shortfalls**

"The single most common cause [of a financial crisis] was an illness or some other medical expense.... Tied for third place was the loss of income and home repairs."

"The majority of [payday loan users] reported that they initially took out a payday loan because they experienced a financial shock.... [This]...included car repairs, job loss, reduced work hours, medical bills, annual car insurance payments, or unexpected expenses incurred by a child."

➤ **North Carolina consumers have replaced payday loans with costly, less desirable and even dangerous options**

"The most common option [for dealing with their most recent financial crisis]... was to pay the expense late or not to pay."

"Ten percent [of those who did not pay or paid late] had utilities disconnected, went without a prescription medication, or had a damaged credit rating."

"[Fifty percent of those who did not pay or paid late] incurred late fees on charges, including [some] who said their bill was turned over to a collection agency or that they faced repossession or bankruptcy."