



# Payday Loans: Definition, Use, Consumer Demographics

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November 17, 2009

# Overview:

- What are payday loans?
- Who are typical payday loan customers?
- Why do people use payday loans?
- How prevalent is the payday loan industry in Illinois?
- How do payday loans put people at risk of debt traps?



# What are payday loans?

- Short-term, small dollar loans
- Quick application turn-around
- Little to no underwriting
- Collateralized with postdated check or ACH authorization



# What are payday loans?

- “Payday loans” are not always cash advances
- Illinois: Payday Loans vs Consumer Installment Loans
  - Payday – under 120 days; 400% APR cap
  - Consumer Installment Loans – 120 days and over; no regulations



# What are payday loans?

- Onerous payment structures
  - Application & Processing Fees
  - High Interest Rates
  - Interest Calculated via “Sum of the Digits” (Rule of 78ths)
  - Unequal Payments



# Who are typical payday loan customers?

- Mid- to low-income, working
- Have relationship with a mainstream financial institution
- Less access to other credit options
- Younger adults
- African-American (young) & Caucasians (older)
- High school & some college education
- Female



# Why do people use payday loans?

1. To make ends meet – bills, groceries, gas, rent
2. To deal with an emergency – car breaks down, medical need arises
3. To make other loan payment – car or mortgage payments



# How prevalent is the payday loan industry in Illinois?

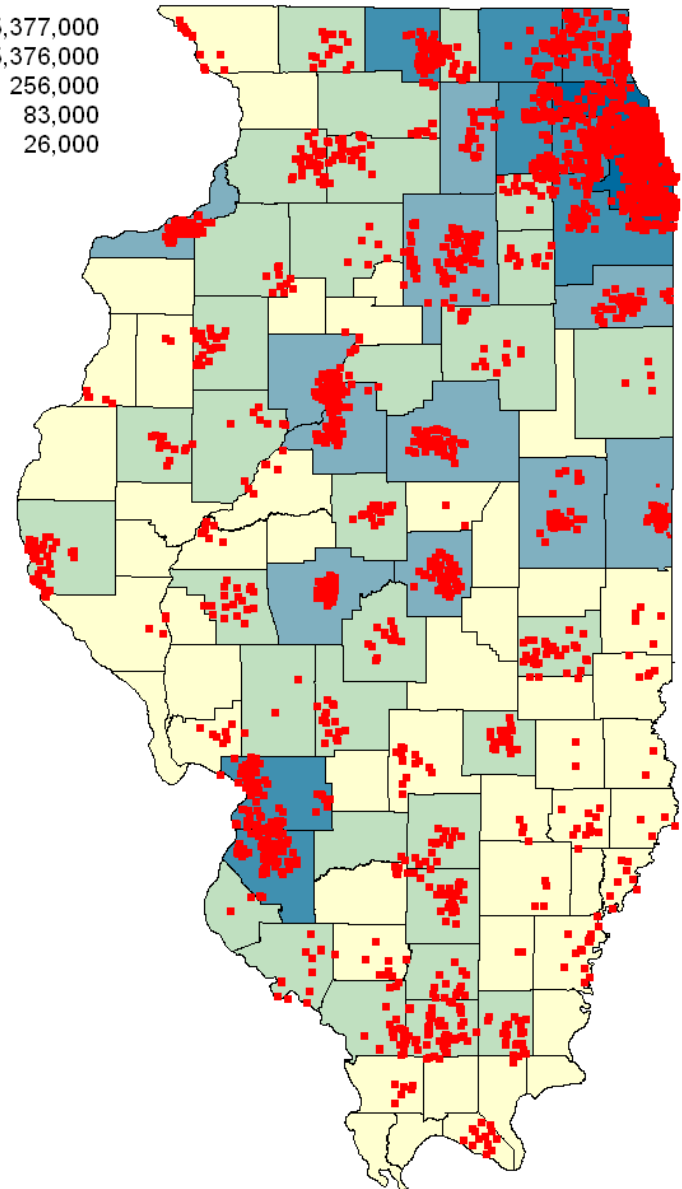
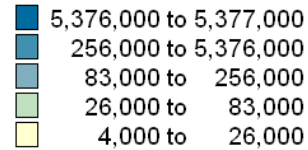
- Nationally: \$59 billion industry
- Illinois:
  - 403 licensed lenders under the Payday Loan Reform Act
    - Another 1211 licensed lenders under the Consumer Installment Loan Act
  - 1,194,582 loans started between Feb 2006-Dec 2008



# How prevalent is the payday loan industry in Illinois?

1 Dot = 1 Payday Loan or Consumer Installment Loan License

Illinois Population  
by County



# How do payday loans put people at risk of debt traps?

- Loans granted regardless of ability to pay
- Sum of digits interest calculation
- Balloon payments
- Rollover options
- Triple digit APR becomes a reality



# How do payday loans put people at risk of debt traps?

**Loan Granted  
without  
Ability to Pay**

**Sum of Digits  
Interest  
Calculation**

***The  
Debt  
Trap***

**Triple  
Digit APR  
Becomes  
Reality**

**Rollover/  
Refinance**

**Balloon  
Payment**



# Thank You

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