



AB 377: Do Californians Need \$500 Payday Loans?

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Quick Facts on Payday Loan Amounts

- Nearly 80 percent of payday borrowers report that the amount they received was the amount they needed
- 90 percent of payday borrowers whose loan was insufficient didn't take out a new payday loan
- Borrowers whose loans were insufficient typically postponed purchases, did without and borrowed from friends and family

A key provision of AB 377, authored by Asm. Tony Mendoza (D-Los Angeles), would raise the payday loan limit from \$300 to \$500 on the industry's assertion that \$300 is insufficient due to California's high cost of living. Not only is more debt rarely the solution to financial problems for Californians living paycheck to paycheck, but the Department of Corporation's own data confirm it.

According to the DOC analysis of the loans of more than 70 percent of California's payday borrowers in 2006, a mere **2.4 percent** of customers that year obtained more than one loan at the same time from different licensees. If borrower demand for larger amounts of money were a reality, then this number should be much higher.

But borrowers don't need more than the law currently allows. It's the payday lending industry—not most borrowers—who claim that \$300 is not enough.

Additionally, the 2006 survey of 1,500 payday borrowers conducted for the Department of Corporations illustrates—as best as can be done considering only 45 percent actually admitted to receiving a loan—what borrower needs really look like.

- According to this survey, the overwhelming majority—*nearly 80 percent—of respondents said that the payday loan they received was the amount they needed.*
- Of those who reported that they did need more money, a third of the respondents managed their needs responsibly, making the same decisions that were made 20 years ago before payday lending proliferated: borrowing from friends and family; postponing purchases; and simply doing without.
- Only 10 percent of those who said they needed more money actually went to another payday lender and obtained a second loan.

The push to raise loan limits in California is coming from the payday lending industry, not from borrowers themselves. The key problem with payday loans is that they are a debt trap. Most borrowers cannot afford to pay back both their loan and pay for other essential household expenses; they are then forced to take out repeated, back-to-back loans.

If payday borrowers are unable to repay \$300 in two weeks, does it make sense that they would be able repay \$500? The answer is no.