



Research Brief

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The Impacts of Payday Loan Use on the Financial Well-Being of Social Security Beneficiaries

Payday loans are small, unsecured, short-term, easy to get, and high-cost credit products where a borrower writes a check for the amount of the loan and its fee. The check postdate corresponds to the borrower's next pay date. Payday loans are often labeled as "predatory" because the borrower's postdated check becomes the collateral for the loanⁱ. If the borrower fails to pay off the loan by the date posted on the check, the lender can deposit the check.

Most payday loan users are in a fragile economic positionⁱⁱ. Approximately 1.8 million Social Security recipients use these products. Receiving regular benefits makes Social Security recipients less risky and, therefore, more attractive borrowers. If used more frequently, payday loans and other high-cost alternative financial services (AFS) can negatively affect the SSA beneficiaries' financial security in retirement.

This study draws information from nationally representative Current Population Survey (CPS) unbanked/under-banked supplements, and the Survey of Consumer Finance (SCF). These surveys provide data on factors that predict consumer demand for payday loans.

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ⁱ Bhutta, Neil, Martha Paige and Jeremy Tobacman. 2015. "Payday Loan Choices and Consequences." *Journal of Money, Credit and Banking*. 47 (2-3): 223-260.

ⁱⁱ The Pew Charitable Trusts. "Payday Lending in America: Who Borrows, Where they Borrow, and Why." 2012.

Who Uses Payday Loans?

Figure 1 shows that SSI (Social Security Income) recipients used payday loans at higher rates than the general population and all SSA beneficiaries, who use payday loans less than the general population.

Table 1 displays payday loan use by age groups among SSI recipients. Payday loan use was very high right after the 2008 recession. In every age group, SSI recipients used payday loans at significantly higher rates than SS recipients.

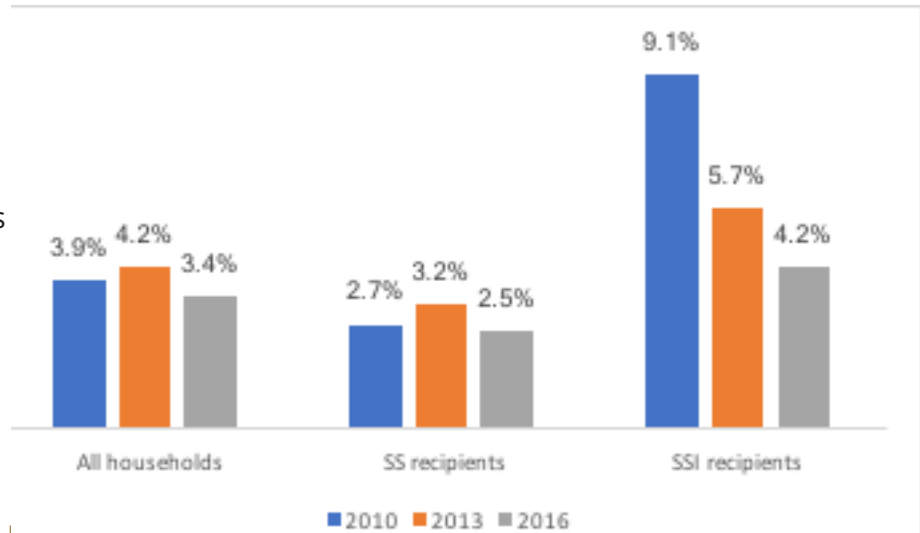


Figure 1: Payday Loan Use among SS and SSI Recipients, SCF Data

Share of SSI recipients who use payday loans (%)			
65 and younger	21.9	10	5.9
66-70	8.7	6.5	5.8
71 and older	3.3	3.4	2.0

Source: Author's calculations based on 2010, 2013 and 2016 SCF samples.

Further estimates in this study confirm that the probability of using payday loans is higher if a borrower is younger, less educated, unemployed, African American, from female-headed or from lower-income households. Those who applied for credit and were denied or received a lower amount than they had applied for are more likely to borrow from payday lenders. Having access to credit cards lowers the likelihood of using payday loans. Notably, states with more permissive payday loan regulations had higher incidence of payday loan use.

Implications

This study shows that payday loan use is higher among SSI recipients compared to the general population and SSA recipients in general. More SSI recipients use payday loans because they have lower incomes and more frequently experience financial hardship. A larger percentage of the lower-income SSI recipients used payday loans during the 2008 recession, which suggests that during economic downturns economically vulnerable populations experience severe cash flow problems.

Potential policy considerations may provide protection to economically vulnerable SSI recipients, especially during economic downturns. For example, those recipients likely to be in financial trouble may benefit from additional counseling or services such as a more flexible benefits period that adjusts to address cash flow timing issues during longer months.