Most payday borrowers use the small-dollar loans to cover ordinary living expenses instead of occasional or unexpected emergencies, according to a new research report by Pew Charitable Trusts. Who Borrows, Where They Borrow and Why, the first in a series of payday lending reports by Pew, also found that 81 percent of those who have used a storefront payday loan would cut back on expenses if the high-cost loans were not available.

Payday alternatives preferred by consumers included credit unions (44 percent), credit cards (37 percent) or an employer loan (17 percent). Among first-time borrowers, 69 percent used a payday loan for recurring expenses such as utilities, credit cards, housing or food.

Although most payday borrowers are white, female and aged 25-44, African-Americans and four other groups are the most frequent payday borrowers: renters, consumers earning less than $40,000 annually and those who are either separated or divorced.

Additional Pew findings showed:
- Twelve million Americans used a storefront or online payday loan in 2010, the most recent year for which substantial data is available;
- The average borrower is indebted about five months of the year; and
- On average, a borrower takes out eight loans and spends $520 on interest.

“In states that restrict storefront lending, 95 percent of would-be borrowers have elected not to use payday loans at all. Just 5 percent went online or elsewhere,” said Nick Bourke, project director for Pew’s Safe Small

Dollar Loan Research Project.

Earlier payday research by the Center for Responsible Lending found that communities of color are frequently areas where payday stores are clustered. Further, states with the highest number of payday stores per 10,000 residents also had significant African-American populations. Those states are: Alabama, Louisiana, Mississippi, Missouri, Nevada, South Carolina and Tennessee.

A 2011 report by the Center for Responsible Lending found that payday loan customers remain indebted double the time that the Federal Deposit Insurance Corporation recommends. Payday Loans, Inc.: Short on Credit, Long on Debt verified how the typical two-week small-dollar loan becomes a deepening pit of debt lasting on average 212 days in the first year of borrowing and growing to 372 days in the succeeding year.

Yet according to FDIC guidance, no payday borrower should be indebted for more than 90 days in any 12 month period.

According to CRL, much of the problem with fully retiring payday debt is because of the industry requirement that borrowers pay the entire loan within the next paycheck. For most borrowers, this specific loan term denies them the ability to financially manage the rest of their lives.

In response to these and other payday findings, Rev. DeForest Soaries, Jr., author of dfree: Breaking Free from Financial Slavery, said, “Reputable businesses build their loyal clientele by offering value-priced products and services. Customers choose to return to these businesses. But payday lenders build their repeat business by trapping borrowers into a cycle of crippling debt with triple digit interest rates and fees."

Soaries recently launched a Web-based community, www.billiondollarpaydown.com, where participants will learn how to set debt reduction goals and get ahead financially. The campaign goal is to assist 150,000 individuals and 1,000 organizations to pay down $1 billion of consumer debt by registering at least 150,000 consumers and 1,000 organizations.

The curriculum includes a workbook, trainers' guide, activities and evaluation tools to help participants become financially self-sufficient. As a financial safeguard, the Challenge Web site does not ask for any account information, nor does it accept payments on its site.

For more information on how to become involved in the Billion Dollar Challenge, interested parties can contact Rev. Soaries at: dbsoaries@mydfree.org.

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