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Fringe Banking and the Rise of Payday Lending

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I. Introduction

Ten years ago I wrote a book entitled, *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor* (Caskey, 1994). The book discussed the operations of check-cashing outlets and pawnshops, explained who used these "fringe banks" for financial services and why, and documented the rapid growth in fringe banks over the 1980s and early 1990s.

This paper reviews major changes in fringe banking that have occurred in the decade since my book appeared. Unlike in the book, however, my focus is not just on pawnshops and check-cashing outlets (CCOs) but also on payday lending. I made this change for two reasons. First, over the past decade, payday lending has been the most rapidly growing segment of fringe banking and now is probably as large as, or larger than, pawnbroking. Second, one can't discuss changes in pawnbroking and check-cashing without discussing the influence that the explosive growth in payday lending has had on these industries.

The next section of the paper discusses the rise of payday lending, emphasizing who borrows from these high-cost lenders, why people do so, the degree to which people become frequent borrowers. It also documents the explosive growth in the industry. The third section of the paper argues that the rapid growth in payday lending has slowed or reversed the growth of pawnshops, as many pawnshops have lost their lower-risk customers to payday lenders. The fourth section proposes that the traditional check-cashing business may have also begun a period of decline as electronic payments continue to grow. In many states, however, large numbers of check-cashing outlets have entered the payday loan business and the resulting revenues have supported the continuing rapid multiplication of these stores.

II. Rise of Payday Lending

In a traditional payday loan, a customer writes a personal check made out to the lender. The lender agrees to hold the check for about two weeks before depositing it. In exchange, the payday lender advances a cash payment to the customer that is somewhat less than the amount of the check. The difference, which is the "finance charge," in combination with the maturity of the loan determines the annualized interest rate. In the states where payday lending thrives, lenders typically charge $15 to $25 for each $100 that they advance. That is, in a typical transaction, a borrower might write a check for $235 that the lender agrees to hold for two weeks and the lender would provide the borrower with a $200 cash advance. In most cases, the loan process is very quick. A first-time borrower who arrives with the necessary information (a check, recent pay stub, copies of recent bank statements, identification, and a series of utility bills or other evidence of a stable place of residence) can walk out with his cash in under thirty minutes.

Prior to the maturity of the loan, the borrower can pay the lender the face value of the check in cash extinguishing the debt and concluding the transaction. If the borrower does not repay the loan by its maturity, the lender may deposit the check. Assuming that the check clears, the loan is fully repaid and the transaction is complete.

If a borrower does not want to repay a loan at maturity, or cannot, a lender will frequently allow the borrower to renew the loan by "rolling it over." In a rollover, the borrower pays the lender the finance charge due at maturity and the lender agrees to hold the check for another specified period of time. Another way to extend the maturity of a loan is a "same-day" advance. Under a same day advance, the borrower repays an existing loan with its finance charge and, on the same day, takes out a new cash advance equivalent to the previous cash advance.

Under either method of renewing a loan, the interest on the loan is paid with each renewal. There is no compounding of interest. This makes the calculation of the annual percentage rate quite simple. For example, the annual percentage interest rate on a two-week $200 loan for which the lender charges $30 is 390 percent (15% for two weeks multiplied by 26). Given the

short maturity of the loans and the size of the finance charge relative to the size of the loan, the annual percentage rate on payday loans commonly falls between 350 and 1,000 percent.

Researchers have conducted several surveys of the characteristics of payday loan customers and their findings are broadly consistent.[1] All payday loan customers have bank accounts, for this is what makes them eligible for the service. The vast majority are employed and have a household income between $15,000 and $60,000. The customers tend to be young adults; most are under 40 years old. Most have children in their household. A strong majority of customers have a high school education; about half have some higher education. Somewhat more than half of the customers are women. About half of payday loan customers carry major credit cards.

Information on why people seek payday loans is more limited. Payday lenders say that their clients have almost no money in their bank accounts and they face pressing expenditure needs. Such a situation may arise because of an unexpected expense, an unexpected income shortfall, or because of poor budgeting habits. The vast majority of their customers do not have access to convenient lower-cost credit from mainstream lenders because they have severely impaired credit histories or because they have reached the limit of the credit lines these lenders are willing to extend. Payday lenders emphasize that their customers, rather than taking out a payday loan, could respond to their financial shortfalls by paying bills with checks that they know will bounce or by paying some bills late. These measures, however, can be more costly than a payday loan. Banks commonly charge $20 to $30 for each check that bounces and the firms to which the checks were written also typically impose "returned check" charges, often around $20.[2] In addition, utility companies, landlords, and other firms commonly impose stiff financial penalties for late payments.

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[1] This section draws extensively on an earlier paper that I wrote on payday lending (Caskey, 2002b).

[2] According to a recent survey of 521 banks across the country, banks' bounced check fees average $26 for "big" banks and $22 for "small" banks (Mierzwinski et al, 2001).

Not surprisingly, given that payday lenders make unsecured loans to high-risk borrowers, the lenders incur substantial loan losses, but not as high as one might expect. Most lenders report that loan losses are about 10 to 20 percent of their annual payday loan revenues. Such losses reflect a number of steps the lenders use to limit their risk. Most, for example, will only lend to applicants with steady employment records who have maintained checking accounts in good standing for about six months or longer. Many lenders limit first-time customers to loans of $200 or less but will gradual increase the size of cash advances to customers who develop a history of repaying or renewing loans on time. Lenders commonly limit the size of loans to even well-established customers to under $500. With first-time loan applicants, many lenders will pay a fee to obtain a report from "TeleTrack," a credit bureau that focuses on the fringe banking market. The report will tell a lender whether or not the loan applicant has failed to repay other payday lenders and whether the applicant has other outstanding payday loans. Lenders further reduce their risk by responding quickly when there are indications that a borrower might default. In discussions with such customers, lenders will encourage them to repay or renew their loans by emphasizing possible penalties from a failure to do so. A lender will, for example, point out that, if he deposits a customer's check and it bounces, this will result in a "non-sufficient funds" (NSF) fee from the borrower's bank, a returned check charge from the lender, and possible legal expenses. In addition, the bank may force a borrower to close her account if she has a history of writing NSF checks.[3]

In surveys of payday loan customers and in focus groups, the customers commonly report that they find a number of features of the loans to be attractive (Elliehausen and Lawrence, 2001, and Wilson, 2002). They like the fact that there is no traditional credit check. They like the fast

[3] If the borrower fails to pay the NSF charges, the bank may report her to "ChexSystem," a business that maintains records of individuals' deposit account management histories. Since most banks subscribe to this service, an adverse report with ChekSystem can make it difficult for someone to open an account at another bank.

loan decision and disbursal. They like the closed-end short-term structure of the loan because they think that this meets their needs and reduces the chances that they will incur a long-term debt-service burden. They view the loan as much more convenient and respectable than a pawn-shop loan since they do not have to leave collateral in the possession of the lender. Customers consistently report that they do not like the high cost of the loans.

People strongly disagree over whether or not payday lending provides a useful service for most customers. Defenders of the industry argue that payday lenders provide a form of short-term emergency liquidity insurance to people who have no better alternatives. The defenders acknowledge that the loans appear to be outrageously expensive when stated in terms of the annual percentage rate. But they argue that this is misleading because payday advances are intended to be very short-term loans. They also emphasize that there is a fixed cost to processing a closed-end unsecured loan of any size and, since payday loans are small, this cost is bound to be high relative to the size of the loan. Further contributing to the high cost of the loans are the loss rates on the loans and the extensive portfolio monitoring that the lenders do to minimize these losses.

Critics of payday lending argue that most customers do not use payday loans as an occasional short-term emergency source of credit. Rather, they argue that, whatever their initial intent, many customers become very frequent users of the loans. They may borrow once to meet an unexpected emergency or perhaps because of cash shortfalls caused by careless budgeting. In many cases, however, when the next pay period comes they face a difficult choice. They can use their available cash to repay the loan. If they do, given the very limited amount of their incomes available for discretionary expenditures, they are likely to run short of funds before the next pay period and they will have to return to the payday lender to seek a new payday advance. Alternatively, they can simply pay the finance charge in cash and extend term of the loan until their next pay period, i.e. "rollover" the loan. Under either approach, when the next pay period arrives they will likely face the same set of choices. In this way, a short-term emergency loan becomes either

a medium-term loan through a series of rollovers or it becomes a series of briefly interrupted short-term loans.

The data clearly indicate that, unless external limits prevent it, most loan customers become frequent users of payday loans. A small number of state regulatory agencies, for example, have collected time series data from individual payday loan outlets documenting the frequency with which their customers borrow. The strength of these data is that they come from the official records of the payday loan offices themselves and do not rely upon the memory of customers. A disadvantage is that they underestimate the number of transactions among customers who patronize more than one loan office, and this practice is common. A telephone survey of payday loan customers asked them about their use of different payday advance companies within the previous year. About half of the customers reported using more than one payday loan firm in the previous year (Ellihausen and Lawrence, 2001).

State regulators from Indiana, Illinois, North Carolina, and Wisconsin have produced reports on the frequency with which the customers of individual payday loan outlets borrow over specified periods of time, usually one year.[4] These studies use similar methodologies and they find that most payday loan customers entered into 7 or more loan transactions over the course of a year and about a quarter of the customers entered into 14 or more. In the case of Wisconsin, the Department of Financial Institutions provided me with its raw data after eliminating all information that could possibly identify a particular lender or borrower. These data were collected in the fall of 2000 from 17 payday loan offices located in the state. At each of the offices, examiners from the Department attempted to gather information from 20 randomly selected active loan files and from 5 closed loan files. The examiners asked the lenders to provide a history of all transactions for the selected borrowers over the previous year. The active loan files were outstanding loans that were not in arrears at the time of the examination. The closed loan files were loans that

[4] My earlier study on payday lending (Caskey, 2002b) includes references to these reports and brief summaries of the key data.

matured prior to the time of the examination; whether these loans were paid off in full was not specified. In some cases, the closed loan files included loans that fell due only within the month previous to the examination. In cleaning the data, the Department eliminated the data from three lenders because these lenders were too young to have data going back a full year.

After eliminating a small number of observations with extensive missing or obviously erroneous data entries, I retained the records for 322 loan clients, 283 with active accounts and 39 with closed accounts. The 322 loan customers had a total of 3,832 reported loan transactions (originations or renewals), or about 11.9 each. The average term for the loan originations and renewals was 14 days; nearly 90 percent were for between 12 and 16 days. The average cash advance was $245.03 and the average finance charge was $49.37, implying an average APR of 528 percent. Table 1 shows the distribution of the customers by number of loan transactions. About 26 percent of the clients had fewer than 6 transactions over the previous year and 18 percent had more than 20 loan transactions.[5]

Table 1 here

The data in Table 1, which as noted above are similar to the data produced by other state regulatory agencies, can be somewhat misleading. Recall that 283 (88 percent) of the borrowers in the data set had active accounts at the time of the data collection. What is not shown in the table is that 16 percent of the active borrowers took out their first loan from the payday lender within only two months prior to the examination date. Another 61 percent of the active borrowers initiated their first loan between two and six months prior to the examination date. These relatively new customers are bound to take out fewer loans over the previous year. Thus, the borrowers in the first category of Table 1, those taking out five or fewer loans over the previous year are primarily short-term customers, not long-term customers who borrowed infrequently. In fact, of the

[5] Using data provided by the North Carolina Commissioner of Banks, Michael Stegman and Robert Faris (2003) estimated that a one percent increase in the percentage of payday loan customers who borrow at least monthly raised the revenue of a typical payday loan outlet by $1,060.

127 customers in the data set who were customers at least once 10 months or more prior to their most recent loan, only 4 took out 5 or fewer loans over the course of the year. But 56 (44 percent) of these long-term customers had more than 20 loan transactions. The median long-term customer had 19 loan originations or renewals over the course of the year.[6]

The Department's data also permit an examination of patterns with respect to loan renewals, defined to be a rollover or same-day advance. Of the 322 customers, 20.2 percent never renewed a loan in the relevant time period, 38.5 percent had four or more sequential renewals, and 15.5 percent had 7 or more sequential renewals. If we limit the analysis to customers who took out at least one loan ten or more months prior to their most recent loan, 11.8 percent never renewed a loan, 54.3 percent had 4 or more sequential renewals, and 23.6 percent had 7 or more sequential renewals. Moreover, as noted earlier, some customers consistently repay their loans on the due dates but take out new loans prior to their next payday, remaining out of debt only a few days between paydays. Out of the 3,832 transactions by the 322 customers, 53 percent were rollovers or same-day advances. But an additional 26 percent were loan originations made within one to thirteen days of the termination of the previous loan.

A few states set limits on the number of times a payday lender can renew a loan (Fox and Mierswinski, 2001). In those that do, typically no one payday loan shop can renew a loan more than three or four times. Even in states that do not set such limits, some payday lenders set their own limits on renewals.[7] But most payday loan customers who wish to exceed limitations on renewals probably find the limits to be only a mild inconvenience. If state law, or the lender's

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[6] Just as the data from active loans files at a point in time can understate the frequency with a typical customer borrows over the course of a year due to the inclusion of many new customers, the data from the long-term customers selected from among the active customers at a point in time could also be a misleading indicator of a typical customer's experience. Selecting customers who borrowed 10 months or more prior to the survey date and who are still active customers may well over sample the heavy users of payday loans.

policy, only restricts rollovers, a lender can renew the loan with a same-day advance. If same-day advances are not permitted, a borrower can create one by repaying one lender and, on the same day, going to another lender to take out a new loan. Finally, a borrower can repay one lender, wait a few days, and borrow again from the same lender or a different one.

Although payday lending, in its modern incarnation, began to emerge and grow explosively only in the mid-1990s, variants of it have been around a long time. In the early 1900s some lenders would "buy" a worker's next salary at a discount a few days before its payment. These early payday loans were structured as salary-purchases in an effort to avoid state usury laws (Neifeld, 1939, 37-39). In a 1975 master's thesis on the check-cashing industry in New York City, Irving Wolf (1975, 21) reported that in the 1930's some check-cashers, "…cashed postdated checks and charged a 'fee' for each day the check was not negotiated."

In the early 1990s, it appears that only a small share of check-cashers in states where check-cashing fees were unregulated or loosely regulated engaged in payday lending (Caskey, 1994, 59). There are, however, no firm data to document its evolution from 1990 to 1995. Prior to 1995, almost no state regulatory authorities collected data on payday lenders. One cannot even use yellow-page listings to document the rise of the industry since most list themselves under "check-cashing" or under "loans," categories that include other businesses as well. Payday lenders have told me that between 1993 and 1995, an increasing number of check-cashers began to enter the business. At the same time, in a small number of states without restrictive usury laws, some entrepreneurs opened "monoline" stores that specialized in payday lending, rather than combining this service with commercial check-cashing. The evidence indicates that, by

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[7] According to the list of "best practices" for members of the trade association for the payday advance industry (Community Financial Services Association of America, 2003) in states where rollovers are permitted, "…a member will limit rollovers to four or the State limit, whichever is less."

1995, the industry was growing very rapidly in many states, and it sustained this growth through 2001.

Wisconsin's Department of Financial Institutions (2001, 4), for example, reports that in 1995 there were 17 payday loan offices in the state. In early 2003, the licensee list on the Department's website (www.wdfi.org) listed 278 payday loan offices. The North Carolina Office of the Commissioner of banks (2001) reported that there were 307 payday loan offices in that state in 1997. By year-end 2001, there were 1,204. The rapid spread of payday loan offices caught the attention of journalists. My own search for news articles, under the "business and finance" category of Lexis-Nexis, using the term "payday loan" in the article title or first paragraph found that, prior to 1996, there were no such articles. In 1996 there were two. In 1999, there were 111.

By 2002, payday loan offices were found in all but a few states. The exact number nationally is not known since many states do not require the lenders to hold licenses, or do not report the number of licensed locations in the state. In 2001, an investment banker who helps finance the industry estimated that there were 10,000 payday loan offices nationwide, about half of which also function as CCOs (Robinson, 2001). About 4,400 of these offices belonged to firms that operate 200 or more offices spread across multiple states.

In states where usury laws are not restrictive, many payday lenders operate under state laws.[8] In other states, payday lenders commonly functioned as agents for banks located in states with permissive usury rules. Under such arrangements, a customer completes a loan application in the payday lender's office, but the out-of-state bank technically approves and books the loan. The bank may subsequently sell a substantial share of the loan back to the payday lender. Alternatively, the bank may kick back a substantial share of the interest payments on the loans to the payday lender. In exchange, the payday lender agrees to reimburse the bank for most of its associated loan losses. Payday lenders argue that, under such arrangements, the relevant usury ceiling

[8] Jean Ann Fox and Edmund Mierzwinski (2001) provide an overview of state laws, as of 2001, governing payday lending.

is that of the state in which the bank is located since, like banks that offer credit cards across state lines, the bank can "export" its interest rates to customers in other states.[9]

These bank/payday lender partnerships, often referred to by critics as “rent-a-charter” deals, have been challenged on a number of fronts. A small number of states have restricted the ability of local businesses to function as agents of out-of-state banks. In addition, the chartering authorities for national banks and thrifts --- Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), respectively --- have indicated that they think such arrangements almost inevitably bring excessive risk to the banks. By early 2003 they had forced all banks and thrifts with national charters to exit the business (Jackson, Ben. “OCC Payday Purge Done; Lenders Eye State Banks,” *American Banker*, February 3, 2003, p. 2). Many payday lenders continue to have partnerships with state-chartered banks, but these arrangements will be threatened if the Federal Deposit Insurance Corporation decides to apply as much pressure on these banks as the OCC and the OTS did to deposit institutions with federal charters. If bank/payday lender partnerships are terminated by bank regulators, the industry will have to withdraw to the, approximately, 30 states where payday lenders can operate profitably under state laws. Given its large size, the industry would undoubtedly launch a major lobbying campaign to alter the laws in states where the industry cannot operate profitably and to pressure the federal bank regulatory agencies to take a more benign view of bank/payday lender partnerships.

Another threat to payday lending comes from the development of payday-loan-like overdraft programs that large numbers of community banks and credit unions have begun to offer in recent years (Berenson, Alex. “Banks Encourage Overdrafts, Reaping Profit,” *The New York*

[9] Another way that some payday lenders try to avoid state usury laws is by structuring the loans as “prepaid product” agreements. There are many variations in the details, but typically the customer agrees to make a series of fixed bi-weekly payments for a particular product, such as internet service, long-distance telephone calls, etc. At the moment the customer enters into the agreement, the lender provides the customer with a cash payment.

Times, January 22, 2003, p. A1, C7). These programs carry such trademark names as "Bounce Protection," "Overdraft Privilege," or "Courtesy Pay," and are marketed to banks by firms that help the banks implement and manage the programs. A bank that offers an overdraft privilege informs selected customers that it will honor NSF checks that the customers write as long as they do not overdraw their accounts by more than a specified amount, such as $300. Each time the bank honors one these customers' overdraft checks, it charges its standard "overdraft fee," typically $20 to $25. The bank requires that the customer returns the account to a positive balance within a relatively short period off time, commonly 30 days.[10] Some banks impose a daily fee, usually between $2 and $5, as long as an account carries a negative balance. Banks encourage their eligible customers to make use of the service whenever they need it, and the banks gain significant fee income when they do. As far as I am aware, banks and bank regulators have provided no data to date indicating the extent to which customers who use the overdraft privilege do so frequently.

Effectively, the overdraft privilege is a short-term loan, but the banks offering the service claim that it is not a credit product. They claim that there is no finance charge, just an overdraft fee. The overdraft fee is much higher than what the banks would earn in finance charges on a line of credit, enabling the banks to offer the product to customers with higher risk profiles than are typical for customers with credit lines. A customer might, for example, write an NSF check for $100 that the bank honors, charging a $20 overdraft fee. If the customer returns the account to a positive balance within two weeks, this is similar to charging a 520 percent annualized interest rate.[11]

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[10] Although a bank might permit the account to remain in negative balance for 30 days, any incoming deposits that return the account to a positive balance effectively repay the implicit loan. Thus anyone who uses the overdraft privilege and deposits bi-weekly paychecks receives only a two–week implicit loan.

[11] Truth-in-Lending Regulations of the Federal Reserve state that some bank charges are not finance charges, including "Charges imposed by a financial institution for paying items that over-

Some payday lenders with whom I have spoken say that they do not see the entry of banks into this market as particularly threatening. In the case of the overdraft privilege, the payday lenders argue that their finance charges are often lower than the banks' overdraft fees. In theory, someone with a $300 limit on his overdraft privilege could write one overdraft check for $280 and incur only a $20 fee. Most payday lenders would charge somewhat over $45 for a $280 cash advance. In practice, however, many customers may overdraw their accounts by writing several smaller checks, such as three checks for $65 each. In this case, the fee for the overdraft privilege would aggregate to $60 for a $195 advance, well over what payday lenders would charge. Other payday lenders do worry about the spread of payday-loan-like overdraft policies. They point out that even if the bank overdrafts carry higher finance charges than their own loans, they are more convenient since the customer simply writes an NSF check and does not need to visit a payday loan office. These payday lenders worry that they could lose some of their most credit-worthy customers to the banks and credit unions offering payday-loan-like overdraft programs.

III. Changes in Pawnbroking

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draw an account, unless the payment of such items and the imposition of the charge were previously agreed upon in writing." (Regulation Z of Federal Reserve Regulations, 12 CFR 226.4 (c)(3)) The banks offering overdraft coverage typically state that they will pay the overdrafts as a favor to the customer but that they are not obligated to do so. By stating that they are not obligated to pay overdrafts, the banks hope to avoid having the overdraft fees categorized as finance charges with the associated Truth-in-Lending disclosures. At the time of this writing, the Federal Reserve Board is reviewing these payday-loan-like overdraft programs to decide whether or not they should comply with Truth-in-Lending regulations. Presumably, these programs may also raise bank safety issues for regulators, as have bank/payday lender partnerships.

When *Fringe Banking* was published, the pawnbroking industry was growing rapidly. Recent data indicate that this growth continued until about 1997, when it began to slow. In many states, the number of pawnshops actually declined between 2000 and 2002.

Almost all states require pawnshops to be licensed, but only a minority issue public documents reporting the number of active pawnshops in the state. Even fewer provide a time series of pawnshop licenses in the state. One can, however, track rather closely the number of pawnshops nationally by using the services of businesses that sell business mailing lists. American Business Information (ABI), for example, uses local yellow-page listings and other sources to produce a mailing list of businesses in thousands of different business categories, broken down by geographic area. Table 2 provides ABI's data on the number of pawnshops in its lists for each year between early 1986 and early 2003.[12] As indicated in the table, the number of pawnshops nationally grew at about 6 percent or more per year through 1996. After that, it either grew much more slowly or declined. By 2003, the number of pawnshops nationally barely exceeded the level attained in 1997.

Table 2 here

One journalist attributed the marked de-acceleration in the growth of pawnbroking to the strong economic growth that the economy experienced from 1992 through 1999 (Pletz, John. "Strong Economy Makes Business Difficult for Pawnshops," *Austin American-Statesman*, August 24, 1999). The argument is that this raised the incomes of many pawn customers so that they no longer needed to borrow from pawnshops. But this claim overlooks a number of offsetting effects. Partly due to the strong economic growth, there were high levels of immigration during the 1990s, and many working-class immigrants are natural customers for pawnshops. In addition,

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[12] The broad reliability of ABI's listings is suggested by the following. State regulatory agencies in Illinois, Indiana, Louisiana, Mississippi and Oklahoma report that they had 221, 144, 209, 296, and 363 pawnshops respectively in 2001 or 2002. ABI's early 2003 listings show these states as having 256, 151, 220, 378, and 379 pawnshops respectively.

strong economic growth can benefit pawnshops. More optimistic individuals are more likely to borrow for discretionary reasons, confident that they will be able to redeem their pledged property within a short time period. A strong economy also tends to increase pawnshop sales. This, in turn, permits pawnshops to make larger loans relative to the value of the collateral. Finally, the data indicate that, among families earning less than $25,000 in 1998 prices, the percentage that had debt service payments that were 40 percent or more of household income showed a steady increase between 1989 and 1998 (Kennickell et al, 2000, p. 25). And the percentage of these families who reported being overdue on a debt service payment by 60 days or more increased in between 1992 and 1998. Since the natural customer base of pawnshops consists of individuals whose debt burdens or debt payment histories restrict their access to mainstream sources of credit, these trends suggest that the strong economy did not diminish that population group.

In my view, the major reason pawnbroking lost its growth momentum was the rise of payday lending. As noted above, most pawnshop customers have credit profiles that prevent them from obtaining lower-cost credit from mainstream lenders. But survey data indicate that a majority of pawnshop customers have bank accounts, and many might be eligible for payday loans.[13] Those eligible to borrow from a payday lender would likely prefer to do so. Payday lenders are generally willing to make larger loans --- their loans average about $250 versus about $75 for pawnshops. Payday loans carry interest rates similar to most pawn loans, but they are more convenient since the customer leaves a check rather than a personal possession. They may also be perceived as more respectable than pawnshops. In a nutshell, when payday lenders be-

[13] Based on a 1996 survey of lower-income households, Caskey (1997) estimated that about 64 percent of people who borrowed from a pawnshop within the previous year had a deposit account of some type. From a 1998 survey of pawnshop loan customers, Robert Johnson and Dixie Johnson (1998) also found that 64 percent had deposit accounts, and 47 percent had checking accounts.

came common, pawnshops lost a nontrivial share of their customer base to this alternative, slowing the growth of pawnbroking and even reversing it in some states.[14]

Two close observers of the pawnbroking industry agree with my analysis of the major factor behind the recent stagnation of the industry. A recent newspaper article (Blossom, Debbie. "Pawnshops Fill a Niche," *The Tulsa World*, January 20, 2002), for example, quotes the executive secretary of the Oklahoma Pawnbrokers Association as saying, "What has hurt the industry …is competition from a burgeoning crop of small check cashing and loan companies that offer quick money…" The article notes that there were 451 pawnshops in Oklahoma in 1997. By year-end 2001, there were 387. Similarly, Joseph Rotunday, the CEO of EZCorp, a publicly traded corporation that operated 280 pawnshop outlets as of June 2002, explained his company's performance in the following way (Interview by Lynn Fosse, *Wall Street Corporate Reporter*, Vol. 7, Issue 16, July 15, 2002): "The company had been progressing very nicely until the late 1990s…the cash and credit constrained consumer found that they had more choices by which to satisfy their need for cash…in the late 1990s a rapidly emerging new product called payroll advance/payday loans came along and provided our customer base an alternative choice. Many of them elected the payday loan over the traditional pawn loan."

Even more telling than these statements is the behavior of the pawnbrokers themselves. By the late 1990s, many began to offer payday loans. Cash America, for example, is a publicly-traded corporation with the largest number of pawnshops in the United States. At year-end 1987,

[14] The sharp decline in gold prices between 1996 and 1997 likely played a smaller role in the stagnation of the pawnbroking industry. In 1996, gold averaged $369 an ounce. In 1997 it averaged $287, and it generally remained close to this level through 2001. A low gold price has two adverse effects on pawnshops. First, it reduces the value of their inventory held for sale since a significant share of the collateral at most pawnshops' consists of jewelry. Second, it reduces the size of the loans that pawnshops can make on newly pledged jewelry. This, in turn, hurts their interest earnings and discourages potential customers from borrowing from pawnshops.

it had 82 pawnshops. It increased this number every year until, by 1998, it had 414 U.S. pawnshops. Reflecting the general trends in the industry, it stopped growing at that point. By year-end 2002, it owned 396 pawnshops. Obviously concerned with the flagging demand for its pawns loans, Cash America began to offer payday loans in 10 of its pawnshops in 1999, advancing $3.2 million in such loans over the course of the year. As it gained experience, it brought the product to more shops; in 2002 it advanced $124 million in payday loans from 391 of its locations (10-K filing of Cash America International, Inc. for fiscal year ended December 31, 2002, pp. 4-5). The CFO of Cash America explained his company's decision to offer the product by saying, "The payday loan is a product… [our customers] want, a product they need. It's not appropriate for us not to offer it to them." (Nguyen, Hang. "Dallas Area Pawnshops Offer Payday Advances as Good Economy Cuts Business," *Dallas Morning News*, August 23, 2000).

Similarly, EZ Corp, the second largest pawnshop company, grew from 57 pawnshops in 1991 to 331 by 1999. After that, it began to close more shops than it opened and by June 2002 it operated 283 pawnshops. As noted above, the CEO of EZ Corp attributed much of this retrenchment to the rise of the payday loan alternative. EZ Corp responded by beginning to offer payday loans in 2000. In fiscal year 2002, fees from payday loans accounted for 4.2% of EZ Corp's gross revenue and 7% of its net revenue (10-K filing of EZCorp, Inc. for fiscal year ended September 30, 2002, p. 3).

The third largest publicly-traded pawnshop corporation, First Cash Financial, grew from 23 pawnshops in 1992 to 114 in 1999. After that, its pawnbroking business stagnated; at the end of 2001 it still operated 114 pawnshops. According to one newspaper account (Nguyen, Hang. "Dallas Area Pawnshops Offer Payday Advances as Good Economy Cuts Business," *Dallas Morning News*, August 23, 2000), "First Cash reports that its pawn business is not growing at all…'We're hustling to keep it steady,' said Scott Williamson, executive vice president…."

First Cash entered the payday loan business in 1998 when it purchased 11 check-cashing/payday loan stores in California and Washington. By year-end 2001, it owned 44

CCO/payday advance stores. In 1999, pawn service charges accounted for 60 percent of the company's total loan service charge revenues and payday loans accounted for the other 40 percent. By 2001, pawn charges accounted for 37 percent of the company's loan service charge revenues, payday advances accounted for the other 63 percent. In its 2001 10-K filing, the company explained that its, "… primary business plan is to significantly expand its short-term advance operations..." (10-K filing of First Cash Financial Services, Inc for fiscal year ended December 31, 2001, p. 1).

Beyond the new competition from payday lenders and the growing tendency for pawnbrokers to offer payday loans themselves in states where the business is feasible, pawnbroking has changed in one other way over the past decade. In addition to selling items from their inventories to people shopping in their pawnshops, many pawnbrokers regularly sell their goods through the Internet, especially the eBay auction site. One journalist (Tierney, Mike. "Pawn Shops in Atlanta Provide Quick Cash When Going Gets Rough," *Atlanta Journal and Constitution*, November 1, 2001) recently interviewed Jerry Adelman, the owner of two pawnshops in Atlanta, about his business and wrote: "'My third store' is how Adelman describes eBay, on which he peddles tools and such, largely to small-town Americans outside the reach of Home Depot or Lowe's. Adelman's crowded back room …contains a machine for wrapping items purchased via the web." Similarly, an Oklahoma newspaper (Blossom, Debbie. "Pawnshops Fill a Niche," *The Tulsa World*, January 20, 2002) quoted a local pawnbroker as saying, "Today, half of store sales are through eBay."

IV. Changes in the Check-Cashing Industry

As I explained in *Fringe Banking*, check-cashing outlets cash checks, mainly paychecks and government-issued checks, for a fee. Most CCOs charge a check-cashing fee that is a percentage of the face value of the check. Outside of a minority of states that have more restrictive fee ceilings, it is common for CCOs to charge between one-and-a-half and three-and-a-half per-

cent of the face value of the check for cashing payroll or government checks.[15] In addition to cashing checks, CCOs commonly sell a variety of related payment services and convenience items. At almost all CCOs, for example, customers can pay utility bills, wire money, purchase money orders, make photocopies, and purchase prepaid telephone calling cards. As noted earlier, in recent years CCOs in many states have begun to offer payday loans.

Over the past decade, research has provided substantially more information on the characteristics of people who obtain payment services from CCOs, and the findings largely confirm picture common in the early 1990s. In 1998, for example, the Office of the Comptroller of the Currency (OCC) conducted a high quality survey on the use of financial services by residents in low- and moderate-income census tracts in New York City and Los Angeles. The survey sampled 2,006 adults asking, among other things, numerous questions about how they receive and make payments. The one drawback to the survey is that it covered only the residents of two large cities who are not fully representative of residents in many other parts of the country. Both of these cities, for example, have much larger Hispanic and immigrant populations than is typical of American cities. New York has a markedly lower percentage of homeowners than other American cities. Nevertheless, the results from this survey are broadly similar to the results from surveys covering other geographic areas (Caskey, 2002a).

Table 3 provides an overview of the ways in which people in the OCC survey receive their incomes and where people cash checks.[16] The table presents the data for all of the individuals in the survey as well as for two subgroups: those with deposit accounts of any type and those

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[15] In approximately thirty states, there are no legal limits on the fees that CCOs can charge. Connecticut, Illinois, New Jersey, and New York are the most populous states that have low legal fee ceilings.

[16] The data in the table use the weights that the OCC supplies to convert the sample responses into responses representative of the 2.6 million adults living in the low- and moderate-income census tracts of the two cities.

who do not have deposit accounts. For shorthand, these two subgroups are labeled "banked" and "unbanked" individuals. As shown in the table, about half of the adults in the survey population receive most of their income in the form of checks. Among those who sometimes cash checks, 39 percent report that they usually do so at a check-cashing outlet. Not surprisingly, among people who do not have deposit accounts, a significantly higher percentage usually cashes their checks at CCOs compared to people who have deposit accounts. Almost 80 percent of individuals with bank accounts usually cash their checks at banks.

Table 3 here

Data from the OCC survey and other surveys conducted in the 1990s provide a consistent characterization of the socioeconomic characteristics of individuals who cash checks at CCOs (Caskey, 2002a). People who cash checks at CCOs tend to be younger and less well educated than those who mainly use banks for payment services. They are also more likely to rent their homes and they tend to have lower household incomes. In the OCC survey, for example, most had household incomes below $30,000. People cashing paychecks at CCOs are substantially more likely to be African American or Hispanic than those using banks. Most regular CCO customers do not have bank accounts. In the OCC survey, only about 22 percent of the regular users of CCOs had deposit accounts; about half of these had savings accounts but not checking accounts. Among the regular CCO customers, 74 percent reported that they did not have any financial savings while, among those mainly using banks to cash checks or receive direct deposits, 24 percent reported that they did not have any financial savings.

There are no satisfactory formal surveys asking people why they go to a CCO to cash their checks rather than a bank, but available information points to a common-sense explanation. In the case of people without bank accounts, many urban banks refuse to cash checks for non-depositors unless the check is drawn on the bank to which it is presented. In addition, banks commonly charge $1 to $3 for money orders; CCOs usually

charge $1 or less.[17] Unlike CCOs, banks do not sell stamped envelopes in which to mail the money orders and they do not serve as payment agents for utility companies. That is, individuals without bank accounts who go to CCOs to cash their paychecks can conveniently address all of their payment needs at the CCOs. They cannot do so at most banks.

As noted above, about 20 percent of the people who regularly cash checks at CCOs do have deposit accounts. Why would they go to a CCO? There are two explanations. First, as indicated in the surveys, many of these CCO customers have only savings accounts, not checking accounts. They may cash their checks at a CCO because, in addition to cashing the check, they need to purchase and mail money orders or wish to pay utility bills in person. CCOs are one-stop centers for such services; banks are not. Second, even someone with a checking account may want to cash a paycheck at a CCO if the balance in her account is not sufficient to cover the check. In this case, many banks would refuse to cash the check insisting, instead, that she deposit it and wait a few days for it to clear before gaining access to the cash.

Over the past decade, the major change in the commercial check-cashing industry has been the entry of many check-cashing outlets into payday lending. For many, revenues from payday lending now represent a third or more of store revenues. This development, along with

[17] Stegman and Faris (2001) found that 61 percent of the lower-income families they surveyed bought a money order in the previous year. Among those buying money orders, the mean number purchased in a year was 46. Data from the OCC survey indicates that 81 percent of unbanked individuals reported purchasing 12 or more money orders over the previous year, 37 percent reported purchasing 24 or more. A survey of check-cashing outlets in four cities conducted for the U.S. Treasury Department by Dove Consulting (2000) in early 2000 found that the average fee for purchasing a money order at a CCO in these cities varied between $0.40 and $0.80. Unfortunately, I am not aware of any surveys of money order fees at banks, but my own 2002 survey of ten banks in the Philadelphia metropolitan area found them charging $2 to $5 per money order.

strong economic growth between 1992 and 2000, permitted the check-cashing industry to sustain the growth that it exhibited in the 1980s, although at a slower pace in the 1990s.

As with pawnshops, most states do not provide official counts of the number of check-cashing outlets operating within their borders. Until about 1998, however, data from business-listing services provided a good indication of national CCO growth trends. Most dedicated CCOs are listed in their local yellow-pages, listing under "check cashing" or, as the business is known in Illinois, under "currency exchange," and business-listing services typically use the yellow-pages as their major source of information. Grocery stores and other firms that cash checks as a sideline to their main business generally do not list under the "check cashing" category in the yellow pages. After 1998, however, in many states the yellow-page listings under "check cashing" began to include many monoline payday loan stores that do not cash paychecks for a fee. Undoubtedly, much of the growth in yellow-page-listed CCOs that occurred within the last five years represents listings of monoline payday loan stores, but it is difficult to say exactly how much.

Nevertheless, it is interesting to review trends in the listings provided by business-listing services. Table 4 provides a time series of data from ABI. As shown in the table, CCOs grew strongly between 1986 and 1998. The 1992 growth slowdown may reflect the 1991 recession. In recessions, CCOs are typically hurt because they cash fewer and smaller paychecks. The somewhat slower growth rates between 1994 and 1998 compared to the earlier period may reflect contrasting forces. For one, CCOs may have saturated many major markets by the early 1990s. In addition, the trend toward direct deposit over the 1990s may have also undercut the check-cashing business. Offsetting these factors were the strong growth in the economy between 1992 and 2000 and the rise of payday lending as an additional source of revenue for many CCOs.

Table 4 here

As noted above, much of the explosive growth in CCOs that appears to have occurred between 1998 and 2003 undoubtedly reflects increasing numbers of payday lenders listed as check-

cashing businesses. A number of observations support this hypothesis. First, a small number of states require payday lenders to hold check-cashing licenses but distinguish between the licenses held by pure CCOs, CCOs that engage in payday lending, and payday lenders that do not cash paychecks. The North Carolina Commissioner of Banks (2001), for example, reported that 233 firms, with 1,131 locations, held check-cashing licenses in that state as of year-end 2000. Of these 233 license holders, 114 were CCO/payday lender hybrids, 68 were check-cashers that did not make payday loans, and 51 were monoline payday lenders. Similarly, the Tennessee Department of Banking (2001) reported that there were 309 active check-cashing outlets in the state as of year-end 2001 and 1,016 active payday lender offices. ABI, however, reported 941 CCO listings in that state in early 2003. Undoubtedly, its list includes many payday loan offices that list themselves under "check cashing" in the yellow pages.

Tables 5 and 6 provide additional evidence supporting the conclusion that the recent rapid growth in yellow-page-listed CCOs largely reflects the boom in payday lending, not a boom in traditional CCOs. Table 5 provides ABI's 1993 and 2003 counts of the number of CCOs in 17 states in which payday lending was common as of late 2002. Table 6 presents the same data for 4 states where payday lending was rare as of late 2002.[18] The difference in growth rates across the two groups of states is striking.

Table 5 here

Table 6 here

As indicated in Table 6, even in these four states where payday lending had not gained a foothold by late 2002, check-cashing grew significantly over the past decade. Undoubtedly, this was largely due to the strong economic expansion between 1992 and 2000. National employment

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[18] Payday lenders were not active in these states because state usury laws were too restrictive for it to be profitable. In addition, several payday lenders told me that they did not try to make payday loans in these states using an out-of-state bank because they expected that state regulators would challenge them aggressively, resulting in large litigation expenses.

in 1992 was 118.2 million. By 2000, it was 137.6 million. Since traditional CCOs gain most of their revenue from cashing people's paychecks, increased employment raises the demand for their services.[19]

The large returns to check-cashers from entering the payday loan business were reflected in the rapid increase in the percentage of CCOs offering payday loans. As I noted earlier, in the early 1990s only a small share of CCOs offered payday loans. By 2002, available evidence suggests that a strong majority of CCOs did so in states were the laws permitted payday lenders to charge 15 percent or more for a two week loan.[20]

Financial data from ACE Cash Express Incorporated, a publicly-held company with 1,189 CCOs in 35 states and the Washington, DC, provide further evidence of the importance of payday loan revenue to CCOs. ACE began to make payday loans from a small number of its stores in the mid-1990s. In states where laws permitted payday lending to be profitable, ACE expanded this program through mid-1999. In 1999, ACE formed a partnership with a bank in California and used this relationship to offer payday loans in the vast majority of its stores. As shown

[19] Over the 1990s, two of these four states raised the check-cashing fees that they allowed CCOs to charge, a move that also would have increased the number of CCOs in the states. In 1992, New York permitted CCOs to charge 1.1 percent. New York raised its fee ceilings in 1999 to 1.4 percent for all checks. In 1992, New Jersey permitted CCOs to charge 1.0 percent for checks issued by in-state banks and 1.5 percent for checks issued by out-of-state banks. In late 1998, New Jersey raised the fees that CCOs could charge to 1.0 percent for welfare checks, 1.5 percent for social security checks, and 2 percent for all other checks.

[20] I noted above that 68 of 233 CCO license holders in North Carolina did not make payday loans in 2000. A large percentage of these, however, are grocery stores and other businesses that cash checks as a sideline to their main business. The 114 CCOs that offered payday loans were mainly dedicated CCOs. As noted earlier, the remaining 51 CCO license holders were actually monocline payday lenders.

in Table 7, in fiscal year 1998 payday lending accounted for 10 percent of ACE's overall revenue and check-cashing fees accounted for 69 percent. Total revenue per average number of open stores was $154,000.[21] By fiscal year 2002, payday lending revenues accounted for 32 percent of ACE's overall revenue and check-cashing fees accounted for 52 percent. Total revenue per average number of open stores had risen to $230,000.

Table 7 here

Although CCOs benefited financially from moving into payday lending, many check-cashers worry about the long run health of their traditional business --- cashing people's paychecks. One threat to the future of this business is the marked decline in the use of checks for paying wages and for making government transfer payments. The *Federal Reserve Bulletin* (Gerdes and Walton, 2002, p. 369), for example, reported that, "The proportion of payroll payments made via direct deposit rather than paper check increased from close to zero in 1979 to about 50 percent in 2000." Similarly, the National Automated Clearing House Association (2002) reports that 51 percent of social security recipients used direct deposit in 1991. By 2001, 79 percent did so. Data indicate that lower-income households and households headed by younger adults or less well-educated adults are less likely to use direct deposit than are other households, but even within these categories there is a growing use of direct deposit (Mester, 2001). Assuming that these trends continue, CCOs may see a persistent decline in their revenues from check-cashing fees.

A traditional limitation to the use of direct deposit has been that employees without bank accounts could not participate. But, in recent years, numerous firms have developed "payroll cards" that enable all employees to receive electronic transfers of their wages. There is much variation in the details of these cards but most have the following features. An employer gives its

[21] Since ACE was opening new stores over this period, I assumed that the average number of stores open in any one year was the number of stores open at the end of the previous year plus the number open at the end of the current year, divided by two.

participating employees an ATM-type card. A participating bank creates "virtual" deposit accounts for all workers receiving the card. The account is an accounting entry that is credited when an employer pays wages electronically. The employee can remove funds from the account using the employer-issued payroll card at an ATM machine or as a debit card at a merchant. The employee cannot overdraw the account so it can be offered to people with severely impaired credit histories or who have a history of mismanaging a checking account. The fees that employees pay for using the payroll cards vary widely depending on the company that developed the card, the fees levied by the participating bank, and the willingness of an employer to shoulder some of the costs.

To date, there are no reliable reports on the success of the payroll cards. The promoters report that many employers like the cards because they reduce the employers' payroll processing and distribution costs. To comply with state labor laws, however, employers cannot generally mandate that employees switch to the cards. They must enroll employees on a voluntary basis. Celent Communications, a commercial research firm, estimated that 6 percent of unbanked workers were using the cards in 2002. One newspaper quoted Celent's report as stating, "Convincing …[unbanked employees] to accept a piece of plastic as their paycheck is quite difficult" (Breitkopf, David. "Celent: Adoption Barriers Persist for Payroll Cards," *American Banker*, December 24, 2002, p. 6). Nevertheless, these cards may find growing acceptance if unbanked employees begin to see other unbanked workers using the cards and hear favorable reports. Such a development would clearly threaten the traditional check-cashing business.

A second threat to traditional check-cashing outlets is the development and deployment of automated check-cashing machines. Several companies market these machines, which resemble traditional ATM machines. Customers insert their paychecks into the machines. The machine uses a personal identification number or some other method to identify the customer, it reads information from the check, and uses a software algorithm to determine whether or not it should cash the check. If the check is approved, the machine dispenses the cash for the check. If

the check is not approved, the machine returns the check to the customer. Frequently, the machines are equipped with telephones linked to a processing center. A customer can use the telephone connection to obtain or provide information that the machine does not handle or for person-to-person guidance.

The most prominent firm to develop such machines was InnoVentry, a joint venture capitalized with hundreds of millions of dollars from Wells Fargo Bank, Capital One, Cash America and Diebold. InnoVentry began deploying check-cashing machines in the late 1990s and by early 2001 it had placed over 1,000 in department stores, supermarkets, and convenience stores in numerous states. By September of 2001, InnoVentry ceased operating and began to liquidate its assets ("Check Cashing at ATMs Faces an Uncertain Future," *ATM & Debit News*, October 4, 2001). The company provided no explanation for its failure, but rumors indicate that many check-cashing customers simply preferred the human interaction at traditional CCOs. In addition, InnoVentry's machines cost over $45,000 each and the company had to pay retailers for placing the machines in their stores, so the machines had to achieve a high volume of business to cover the associated costs. Finally, it is reported that servicing costs on the machines were high.

Despite this experience, a small number of firms are continuing to develop and deploy automated check-cashing machines. Following InnoVentry's failure, the major actor is 7-Eleven Incorporated. 7-Eleven first installed automated check-cashing kiosks in several of its convenience stores in 1998. Since that time, it has worked to refine the technology. Its current automated kiosks, known as "Vcom" kiosks, can cash paychecks, handle money order purchases and money transfers, and pay bills through Western Union's "Quick Collect" payment service. As of January 2003, 7-Eleven had placed Vcom kiosks in 389 of its 5,800 stores located across the U.S. (7-Eleven news release, February 5, 2003). If such machines prove to be cost effective and significant numbers of check-cashing customers begin to use them, this would obviously threaten the survival of traditional CCOs.

V. Conclusions

Two strong conclusions emerge from this paper. First, the regulatory environment and trends in electronic payments are likely to be the most important factors over the next several years shaping payday lending, pawnbroking, and commercial check-cashing. Second, the explosive growth in payday lending reinforces a point that I previously made after observing the pawnbroking industry: many people are willing to pay very high short-term interest rates in order to obtain or maintain relatively small cash loans.[22] As indicated in the Wisconsin data, a state with no limits on customers' loan renewals, the typical *long-term* payday loan customer had about 19 loan originations or renewals over the course of a year. Based on an average cash advance of $245 and an average finance charge of $49, this implies that the typical long-term customer paid $931 in finance charges over the course of a year, more than three times the average loan balance outstanding. This is remarkable. Does this behavior reflect a conscious decision? Or is it the unconscious result of a series of simple transactions, each of which was understood by the customer, but the cumulative effect of which was not understood? Would these long-term customers, using hindsight, explain their actions as resulting from a lack of self-control? Or would they view them as resulting from a series of reasonable decisions which they would wish to repeat again given the same circumstances? These are questions for future research.

[22] Shane Frederick et al (2002) made this point in a more general context and explored a variety of reasons that might explain the phenomenon.

Table 1

Distribution of Wisconsin Payday Loan Customers by Number of Transactions

Number of loans per borrower within previous year	Number borrowers In category	Percentage borrowers in category
1 to 5	84	26.1
6 to 10	79	24.5
11 to 20	101	31.4
More than 20	58	18.0

Source: Author's estimates using data from Wisconsin Department of Financial Institutions

Table 2

Listings of Pawnshops across the Country

Year	Number of listed pawnshops	Growth rate
1986	4,849	
1987	5,189	7.0%
1988	5,550	7.0%
1989	6,171	11.2%
1990	6,863	11.2%
1991	7,354	7.2%
1992	7,760	5.5%
1993	8,787	13.2%
1994	9,616	9.4%
1995	10,425	8.4%
1996	11,075	6.2%
1997	11,537	4.2%
1998	11,529	-0.1%
1999	Missing	
2000	12,092	
2001	12,356	2.2%
2002	Missing	
2003	11,683	

Source: Catalogues and website of American Business Information

Table 3

Forms of Income and Locations for Cashing Checks among Residents of Lower-Income Census Tracts in New York City and Los Angeles

(Percentages may not sum to 100 due to rounding, nonresponses, or other factors)

	Percentage among the survey population	**Percentage among banked individuals**	**Percentage among unbanked individuals**
Way in which most income was received			
Direct deposit	23.8	37.7	0.0
Check	49.4	48.7	50.5
Cash	10.9	6.2	18.8
Electronic transfer to nonblank	6.4	0.4	16.6
None of these ways or no income	8.6	5.9	13.1
Total number surveyed	**2,006**	**1,369**	**637**
Most common location for cashing checks (among those who cash checks)			
Bank	53.1	79.1	21.2
Workplace	2.0	1.9	2.1
Check cashing outlet	39.3	15.6	68.4
Friend or family	0.8	0.0	1.9
Supermarket	3.3	1.8	5.1
Total number surveyed	**832**	**513**	**319**

Source: Author's estimates using data from OCC

Table 4

Listings of CCOs across the Country

Year	National count of CCO listings	Growth rate in CCO listings	National count of "currency exchange" listings (about 90% of these listings are CCOs in Illinois)
1986	1,202		Missing
1987	1,538	28.0%	Missing
1988	1,958	27.3%	Missing
1989	2,487	27.0%	643
1990	2,991	20.3%	679
1991	3,425	14.5%	691
1992	3,593	4.9%	696
1993	4,125	14.8%	718
1994	4,361	5.7%	726
1995	4,786	9.7%	771
1996	5,127	7.1%	785
1997	5,676	10.7%	798
1998	6,097	7.4%	785
1999	Missing		Missing
2000	7,781		816
2001	10,650	36.9%	847
2002	Missing		Missing
2003	16,689		825

Source: Catalogues and websites of American Business Information

Table 5

Listings of CCOs in States Where Payday Lending Was Common in Late 2002

State	ABI list of CCOs, early 1993	ABI list of CCOs, early 2003	Percentage increase
Alabama	33	388	1,076%
Arizona	71	446	528%
California	1,089	2,293	111%
Colorado	85	314	269%
Florida	343	1,116	225%
Georgia	143	531	271%
Kentucky	19	409	2,053%
Louisiana	47	326	594%
Mississippi	8	714	8,825%
Missouri	50	314	528%
North Carolina	84	673	701%
Ohio	98	817	734%
South Carolina	46	638	1,287%
Tennessee	38	941	2,376%
Texas	560	1,309	134%
Utah	6	169	2,717%
Washington	69	310	349%

Source: Catalogues and websites of American Business Information

Table 6

Listings of CCOs in States Where Payday Lending Was Rare in Late 2002

State	ABI list of CCOs, early 1993	ABI list of CCOs, early 2003	Percentage increase
Connecticut	31	67	116%
Massachusetts	57	87	53%
New Jersey	84	295	251%
New York	420	647	54%

Source: Catalogues and websites of American Business Information

Table 7

Data for ACE Cash Express, Incorporated

Fiscal year (ends 7/31)	Number of company owned stores	Total revenue (thousands of dollars)	Revenue per average number of stores (thousands of dollars)	Check-cashing fees as % of revenue	Loan fees & interest as % of revenue
1992	220	$26,001	$130	84.2%	0.0%
1993	276	$32,666	$132	82.4%	0.2%
1994	343	$39,902	$129	79.8%	0.4%
1995	452	$47,790	$120	78.4%	1.2%
1996	544	$68,959	$138	74.4%	3.6%
1997	617	$87,392	$151	71.9%	6.5%
1998	683	$100,194	$154	68.9%	10.1%
1999	798	$122,314	$165	64.5%	11.7%
2000	915	$140,636	$164	63.7%	12.7%
2001	988	$196,775	$207	53.6%	27.8%
2002	1,003	$229,266	$230	51.9%	32.4%

Source: ACE 10-K filings with the SEC from various years

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