

Assessing the Optimism of Payday Loan Borrowers

Ronald Mann

Abstract

This Article compares the results from a survey administered to payday loan borrowers at the time of their loans to subsequent borrowing and repayment behavior. It thus presents the first direct evidence of the accuracy of payday loan borrowers' understanding of how the product will be used. The data show, among other things, that about 60 percent of borrowers accurately predict how long it will take them finally to repay their payday loans. The evidence directly contradicts the oft-stated view that substantially all extended use of payday loans is the product of lender misrepresentation or borrower self-deception about how the product will be used. It thus has direct implications for the proper scope of effective regulation of the product, a topic of active concern for state and federal regulators.