THE ECONOMIC IMPACT OF PAYDAY LENDING IN ECONOMICALLY VULNERABLE COMMUNITIES

ALABAMA, FLORIDA, LOUISIANA, AND MISSISSIPPI

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DECEMBER 2014

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1. EXECUTIVE SUMMARY

Payday loans are unsecured short-term small dollar loans that, in general, are very expensive. They are usually repaid on the borrower's next payday, and are more expensive than loans from banks, credit unions, and other traditional financial institutions. The short-term nature of these loans can trick borrowers into believing that they are less costly than they actually are.

It has been argued that local communities and consumers are negatively impacted by the high fees and interest rates charged by payday lenders. These high-fee loans end up costing states and local communities in terms of lost revenues as consumers spend less on other goods and services to compensate for the increase in payday debt burden. The short-term structure of payday loans causes borrowers to opt to pay back payday lenders before paying medical bills, rent, utilities, and other expenses.

Using the IMPLAN input-output model and ArcGIS, this study identifies many areas affected by the predatory nature of payday loans. Using 2012 Census residential data featuring zip code distributions, we identify the real and potential victims of payday lending, and pinpoint their geographic locations within the target states—Alabama, Florida, Louisiana, and Mississippi. Based on the locations of these lenders, it is clear that they target minority and low- to middle-income groups, and densely populated areas.

IMPLAN is used to measure the economic impact of payday loans on each of the four states under study. Results show that in Florida, the payday loan industry destroyed 2,150 net jobs, and reduced labor income, value added, and total sales by about $107 million, $308 million, and $381 million, respectively. As a result of this loss in spending, many jobs in Florida were stripped from the economy causing a loss in total economic output. The net economic impact of payday loans also was negative in Alabama and Louisiana. However, we found that the net economic impact of payday loans in Mississippi was positive.

Payday industry revenues are based on the interest and fees they receive mostly from low- to moderate-income residents who reside in economically vulnerable neighborhoods. The economic benefits from the payday loan industry are distributed throughout the state but the economic burdens fall disproportionally on lower income neighborhoods. The industry drains income and wealth from the economically vulnerable communities to generate some positive economic impacts throughout the state. Regardless of whether the state level net economic impacts are positive or negative, payday loans exacerbate distress in the economically vulnerable communities in which they are located, and most likely shift the cost of increased poverty and financial distress to the state.

In this study, we do not attempt to quantify the costs of increased poverty and financial distress on the state economy. Therefore, our study underestimates the size of economic losses caused by the payday loan industry in the four study states. Our results do support previous research and further enhance the contention that payday lending is an ongoing way of life in many states. Although in some states new laws have been introduced to curtail the predatory practices of payday lenders, much more needs to be done to protect vulnerable consumers from these harmful business practices.

Advocates of the payday loan industry argue that the industry provides a valuable service to their customers. Additionally, they maintain that an increase in the number of stores will benefit consumers because payday stores will compete by lowering their fees. Empirical studies do not find evidence to support this claim. The maximum payday advance fees are set by regulations in most states, and recent studies have found that payday stores tend to charge an effective APR close to the maximum amount allowed by the state (Flannery and Samolyk, 2005; Kaufman, 2013). Therefore, without state regulations to lower the maximum loan amount and cap fees at a reasonable rate such as a 36 percent APR as has been done for military personnel under the Military Lending Act, payday lenders will continue to charge very high APRs, thereby stripping away a significant portion of disposable income from low- and middle-income families which will, through a multiplier process, have larger adverse effects on both the local and state economies.

2. <u>INTRODUCTION</u>

The period of the Great Recession has been described as the *asset stripping* period, where the previous levels of assets acquired by many individuals and households have fallen drastically (Gordon Nembhard, 2010). The rise in housing foreclosures, periodic stock market declines, financial distress both here and in Europe, and routine eight percent unemployment have been major contributors to the rampant acceleration in asset loss and predatory lending practices (that is, the process or act of imposing unfair and abusive loan terms on borrowers) (Gordon Nembhard, 2010).

Payday lending is a growing form of predatory lending. Payday loans are short term loans, generally $500 or less, typically due on the borrower's next payday (Consumer Financial Protection Bureau [CFPB], 2013). Lenders generally target low- to middle-income families and locate in minority communities. With an average annual percentage rate (APR) of 400 percent, payday loans have become the most expensive short-term consumer loans on the market. According to credit.com (2013), in some cases, the APR is as high as 5,000 percent which is exceptionally higher than the typical 12 percent APR on a credit card advance or 7 percent APR on the standard consumer bank loan. Industry-sponsored research has argued that payday loan stores fill the need for small dollar, short-term credit in communities throughout the country.

The controversial debate on the economic impact of payday lending has led to this mixed methods investigation that combines quantitative analysis with spatial mapping. This approach will provide a broader view of the influence of payday lenders in communities as well as more insight into the communities they serve. The goal of this study is to explore the net economic impacts of payday lending on local communities and their states. The interest and fees collected from lower income residents can generate some economic activity, but payday loan borrowers will have less disposable income to spend on local goods and services. As an economic development tool, therefore, payday lending has a rather peculiar feature. The positive economic impacts throughout a state are financed by depressing income and spending power in economically vulnerable communities. Specifically, the study seeks to ascertain the extent to which payday lending contributes to or detracts from the economies of the communities in which payday stores are located. In doing so, we will answer the following questions: What are the demographics of the people using payday loans? Where are payday loan stores located? What are the economic impacts on the communities where there are large numbers of payday loan stores?

The remainder of the study is divided into five sections. The first section provides a review of the relevant literature on payday lending. The second section discusses the data, methodology, analysis, and results of the study. The following section provides a spatial analysis of payday locations and measurements of store location densities. The fourth section discusses the efforts underway in addressing payday lending in the study states, and is followed by conclusions and recommendations.

3. <u>LITERATURE REVIEW</u>

Though numerous quality studies of the payday loan industry have been conducted, those that focus specifically on the economic impact of the industry are quite controversial. While industry-sponsored studies generally conclude that payday loans meet borrowers' unmet financial needs, other studies typically maintain that these short-term, high interest loans exacerbate the problems of low-income, minority communities by trapping them in a cycle of debt.

In a study conducted by the Pew Charitable Trusts Foundation ([Pew], 2012), researchers examined the breadth of payday loans by identifying the general demographics and borrowing patterns of typical payday users. Pew conducted 33,576 interviews from August 2011 to December 2011 of adults who had used a payday loan since 2006. On average, some twelve million Americans were found to have used payday loans annually, receiving about eight loans a year of approximately $375 each, and accumulating nearly $520 in interest charges. The study estimated that nearly six percent (5.5%) of adults nationwide borrowed from payday lenders over the study period. Approximately 75 percent of the payday transactions were from storefront lenders and nearly 25 percent were done online in 2010. Payday borrowers were 52 percent female; 55 percent white; 58 percent rented their homes; 52 percent were 25 to 44 years old; 85 percent did not have a four-year college degree; and 72 percent had a household income below $40,000. However, they also found that these figures do not necessarily reflect the likelihood of payday loan usage among different demographic groups. Though like the general population, most payday loan borrowers are white, white respondents were less likely to have used a payday loan than others. In fact, after controlling for other factors, African Americans were 103 percent more likely to use payday loans than others. In addition, people who were either separated or divorced were 103 percent more likely to use payday loans than those of other marital statuses. Gender also was not found to be a significant predictor of payday loan usage, although slightly more women used payday loans than men.

Although most research has concluded that lower income persons are most vulnerable to higher interest and penalty loans, there are other factors that have a higher predictive measure for payday loan borrowing. For example, among participants in the Pew study (2012), low-income homeowners were less likely to use these loans than higher income renters. In fact, eight percent of the renters earning $40,000 to $100,000 per year used payday loans compared to six percent of the homeowners with annual earnings of between $15,000 and $40,000. The study also found that payday loans were often a short-term solution for recurring expenses rather than for unexpected financial expenses, such as car repairs, medical expenses, or other financial emergencies. Sixty-nine percent of first-time payday users reported using these loans for recurring expenses like utilities, credit card payments, mortgage payments, and food, while 16 percent of first-time users reported using the loans for unexpected home and/or car repairs, and medical expenses.

The Pew (2012) study further surveyed payday borrowers about what they would do if they did not have access to payday loans. They found that 81 percent of the survey respondents reported that they would have simply cut back on expenses, delayed payment on them if possible, relied on family or friends, sold or pawned some of their possessions, or simply would not have paid the bill. This was clarified by the decisions to prioritize the bills/expenses and pay only those their

available funds would allow. Nearly 44 percent of the survey participants indicated that they would borrow from a bank or credit union, 37 percent said they would use a credit card to pay the expense, and 17 percent indicated that they would borrow from their employer. Cutting back, deferring payment, or making no payment at all were the most common decisions of those surveyed.

When examining the economic impact of predatory practices, most research has shown that since the Great Recession of 2008, financial predation has grown, reflective of both economic and financial insecurity and market neglect by traditional legal and banking sector regulators. Predatory practitioners are viewed as financial and economic hazards in many already economically distressed communities. During periods of economic decline and stagnation, predatory industries generally profit from the scenarios and grow their presence in distressed communities (Gallmeyer and Roberts, 2009). They function as short-term, low value lenders who provide high-interest cash to those able to show proof of income. Payday loan lenders are seen as a quick source of cash but at the same time they can trap borrowers in a spiral of debt (Gallmeyer and Roberts, 2009). Generally, the trap occurs when the borrower is unable to meet the terms of the loan and lenders pursue one of two options: a rollover or renewal of the initial loan with additional interest and extension fees or the depositing of the borrower's original check, leaving the borrower to deal with the subsequent bad or bounced check costs. These penalty fees are generally excessive. When expressed as annual percentages, some of these rates are as high as 400 percent. Nearly 91 percent of these high yield payday loans go to repeat borrowers and many are not tempered by state level usury law (Gallmeyer and Roberts, 2009).

In 2008 the estimated number of payday lenders ranged from 15,000 to 22,000. At that time, their numbers were greater than the number of McDonald's storefronts in the U.S. (Gallmeyer and Roberts, 2009). In 2007, only thirteen states had passed legislation to restrict the fees and excessive rates of payday lenders, but the legislation had proven to be largely ineffective in deterring lender practices. Only North Carolina and Georgia had succeeded in eliminating payday lending in their states, using the argument that these institutions exacerbated the financial insecurity being experienced in their communities (Gallmeyer and Roberts, 2009).

Gallmeyer and Roberts (2009) and the Pew (2012) findings were consistent with those of Stegman (2007). Payday loan customers have checking accounts and steady employment (Stegman, 2007). These customers have under $50,000 annual income. They are highly credit-constrained and are about four times more likely to file for bankruptcy. Furthermore, payday lenders in Charlotte, North Carolina were found to prefer to locate in working-class neighborhoods rather than in the city's poorest communities (Stegman, 2007). In fact, in 2001, there were more than five outlets per 10,000 households in neighborhoods where the median income was between $20,000 and $40,000 (Stegman and Faris, 2003).

Expanding payday credit increases financial difficulties for a subset of borrowers by interfering with their payment of important bills like mortgage, rent and utilities, and increasing their likelihood of filing bankruptcy (Melzer, 2011). Using 1996-2007 data on income, employment and transfer program participation, economic hardship, wealth and child support payments from the Survey of Income and Program Participation (SIPP) and data on geographic variation in payday loan laws, Melzer (2014) analyzed the burden of payday loan access. SIPP data along with demographic county level data, employment and income statistics were also used in the study. He

found that, similar to Stegman (2007), on average, areas with payday loan access are more prosperous, with lower rates of unemployment and slightly higher per capita income (4.4% unemployment rate and $36,100 per capita income compared to 4.8% unemployment and $35,400 per capita income among non-access counties). However, at the same time, the incidence of economic hardship was higher in these payday access areas. Specifically, households with access to payday loans across state borders were 4.0 percentage points more likely to report any form of hardship, including difficulties in affording health care and in paying important bills such as shelter and utilities. Additionally, based on the premise that loan access varies among households in states that prohibit payday lending, Melzer (2011) found that households located less than 25 miles from a state that allows payday lending have more loan access than families who live farther from the border.

Using regression analysis, Melzer (2014) investigated the spillover effects of payday lending by examining food stamp participation and child support payments. Households with payday loan access were found to be 20 percent more likely to receive food assistance benefits (with monthly food stamp receipts higher by $4.21), and10 percent less likely to make child support payments. These findings suggest costly spillover effects for taxpayers.

A review of 2014 data on payday lending institutions located in Louisiana, Mississippi, Florida and Alabama are presented and analyzed in this report. The analysis reveals and confirms much of the historical research on today's payday environment. Arguably, payday lending outlets can serve as indicators of both economically distressed communities and locations where remedial efforts should be focused. While lenders cater to the unmet financial needs of the underserved or otherwise neglected communities, they certainly add to the economic hardships in these communities. Generally, researchers have determined that these target communities are attractive to payday lenders because of systematic neglect by traditional financial institutions.

Payday industry advocates argue that the increase in the number of stores benefits the consumers because stores compete by lowering their payday fees. However, empirical studies (Pew, 2012) do not provide evidence to support this claim. Maximum payday advance fees are set by regulations in most states. Recent studies have found that payday stores tend to charge the effective APR close to the maximum amount set by the states (Flannery and Samolyk, 2005; Kaufman, 2013). Apparently, more competition, as defined by an increase in the number of storefronts, has not reduced payday fees. Therefore, without an effective state cap on the loan amount and fees, payday lenders will continue to charge very high APRs and transfer a significant portion of disposable income from the lower income population to the higher income population in the states where payday lenders face very limited regulation.

Unlike the industry-sponsored research conducted by IHS Global Insight (2009) which only focused on the gains to the economy from the interest paid to payday lenders, Lohrentz (2013) employed the IMPLAN input-output model to determine the net economic impacts of the payday industry, with a focus on the potential economic loss to the community. Using national data, his results showed that payday lending had a net loss in economic activity of $774 million in 2011 which resulted in a net loss of 14,094 jobs nationwide.

The purpose of this study is to measure the economic impact of payday lenders in the communities in which they operate. Spatial analysis as well as the input-output model IMPLAN-will be used to

shed light on this critical topic. By mapping lenders we will be able to identify the location and concentration of payday stores, and their accessibility to residents. The maps along with the results of the economic model will be used to draw conclusions about the economic impact of payday lending in the four southern states under study. This study differs from previous research in that it investigates the net economic impact of payday lending from a local perspective, looking at the effects of this activity on communities rather than the nation. The positive economic impacts of payday lending are driven by interest and fees collected from the economically vulnerable communities. When consumers pay payday loan interest and fees, they have less disposable income and, consequently, reduce their spending on goods and services. The difference between the positive and negative economic impacts, in our study, determines the size of net economic impacts of payday loans.

4. METHODOLOGY AND DATA SOURCES

Demographic and income data used in the Spatial Analysis section are gathered from the U. S. Census Bureau. The employment statistics are from the U. S. Bureau of Labor Statistics.

To examine the net economic impacts of payday lending on the state economy, we use IMPLAN, an input-output based economic impact modeling system that allows users to trace spending through an economy and measure the cumulative effects of that spending. Building an effective IMPLAN model for these estimations requires identification of changes in direct consumer spending, household consumption due to payday loan borrowing and sales and outputs of the payday loan industry, as well as proper industry classification of payday lenders. The starting point of the economic impacts is called the direct effects. An industry or a firm generates direct effects in terms of employment, income, and revenues through export activity. All types of income including labor income are called value added and industry sales are called output. The direct effects set off iterations of indirect and induced spending. To meet increased demand, firms buy inputs from other industries and stimulate employment and economic activity through inter-industry production. As more workers get hired by the industries that experience demand growth, the increase in employment is accompanied by an increase in labor income which will further induce spending on local goods and services. The size of the economic impact multiplier is negatively related to the propensity to spend on imported goods. IMPLAN multipliers are based on industry level input-output tables created by the U. S. Bureau of Economic Analysis (BEA).

IMPLAN provides data on total industry output, employment, value added, employee compensation, proprietors' income, dividends, interest, rents and indirect business taxes for industries. IMPLAN divides industries into 440 groups which roughly correspond to the four-digit North American Industry Classification System (NAICS).[1] IMPLAN modelling allows the user to carry out economic impact analysis at the national, state, county, city or zip code level. We use the IMPLAN model to measure the state level net economic impacts of the payday loan industry.

The Basic IMPLAN Model Set-up

Payday lenders hire workers, buy goods and services from other industries, and generate tax revenues for local, state and federal governments. On one hand, payday loans may stimulate the state economy through direct, indirect, and induced effects generated by the revenues. On the other hand, these revenues come from payday loan borrowers, who because of the payment of loan interest and fees decrease their spending on goods and services other than payday loans.[2] Since most payday borrowers are under economic stress, we assume that the demand for goods and services in the local economy will decrease by the amount of the payday loan interest and fees. The industry has higher default rates compared to banks and other traditional loan industries. Flannery and Samolyk (2005) estimated that 15.1 percent of loan interest and fees were not collected by the lenders because of the relatively higher default rates in the payday loan industry.

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[1] NAICS is the standard used by federal statistical agencies in classifying U.S. business establishments for collecting, analyzing, and publishing statistical data related to U.S. industry groups.

[2] Following other studies (IHS Global Insight, 2009; Lohrentz, 2013), we assume that payday loans do not provide any economic service for the borrowers.

To exclude the unpaid interests and fees, we multiplied the total interests and fees by 0.849 (1-0.151). Table 1 presents the gross and net interest and fees collected by the payday loan industry in Alabama, Florida, Louisiana and Mississippi. It also shows the industry level employment and labor income used to estimate the direct, indirect, and induced economic impacts of payday loans on the state economies.

Table 1. Direct Impacts of the Payday Loan Industry in FL, AL, LA, and MS

States	Florida	Alabama	Louisiana	Mississippi
Gross interest and fees[a]	$312,651,131	$232,068,288	$181,316,905	$138,117,866*
Losses: 15%[b]	$47,210,320	$35,042,311	$27,378,853	$20,855.798
Net interest and fees[c]	$265,440,810	$197,025,977	$153, 938,052	$117,262,068
Employees per storefront[d]	2.50	2.50	2.50	2.50
Number of storefronts[e]	1,275	1,070	931	1036
Total employment[f]	3,188	2,675	2,328	2,590
Average annual wage[g]	$32,087	$19,987	$19,672	$17,012

[a] Total amount of loan interest and fees (source: CRL, 2013, Appendix 3, page 26).
*We think Florida's interest and fee figures are more reliable as they are based on the numbers provided by the regulator. For other states, they are estimated by the CRL. We found the estimated figure for Mississippi too high and therefore applied Florida's interest and fee loan to volume ratio to find the amounts of interest and fees in Mississippi.

[b] Flannery and Samolyk (2005) estimated that 15.1 percent of loan interest and fees were not collected because of relatively higher default rates in the payday loan industry.

[c] Net loan interest and fees = gross loan interest and fees - 0.151 * gross loan interest and fee (the amount of loan interest and fees not collected because of the high default rate in the payday industry).

[d] Based on storefront level data, Flannery and Samolyk (2005) estimated that, on average, a payday loan store hires 2.5 workers.

[e] Average number of stores per state are taken from CRL report (2013), Appendix 3, page 26.

[f] Total employment=employee per storefront * number of storefronts.

[g] Average annual wages are calculated based on information from Flannery and Samolyk (2005) and www.bls.gov/cew. Average annual wages paid by the industry in the U.S are estimated as $31,000 in 2005 by Flannery and Samolyk (2005). We multiplied this figure by 1.14 to find average annual wages in 2012. Average wages increased by 14 percent between 2005 and 2012 (http://www.bls.gov/cew/ew05table2.pdf and bls.gov.cew, 2012 6-digit industry tables). Average annual wages in NAICS 522291 and 522390 industries were different in the four states. We estimated annual average wages in each state using the following formula: $31,000 * 1.4 * (average annual wage in state$_i$/average annual wage in the U.S.) in 2012, where i indicates AL, FL, LA and MS. As a share of the U.S. average, the average annual wages in NAICS 522291 and 522390 industries were 56.56 percent in Alabama, 90.7 percent in Florida, 55.67 percent in Louisiana, and 54.88 percent in Mississippi.

In the IMPLAN model, the payday loan industry is included in industry 355, nondepository credit intermediation and related activities. The total positive economic impacts of payday lending are estimated by entering the total amount of interest and fees as the change in output for industry 355. However, payday loans account for only a small part of overall activity in IMPLAN industry 355 (Bhutta, 2013). Since payday loan establishments hire fewer workers and pay lower wages, they have smaller income, output and employment multipliers than real estate or nondepository consumer lending services. Therefore, using IMPLAN 355 to estimate the impact of payday lenders can overestimate the actual economic impacts.[3] To make adjustments for the lower wages and smaller employment size in the payday loan industry compared to the other financial industries included under IMPLAN 355, we used the six-digit level NAICS wages and employment per establishment data for industries 522291 and 522390 retrieved from the U.S. Census Bureau.[4]

We used the IMPLAN model to estimate both negative and positive economic impacts on state economies. Interest and fees paid by the payday loan borrowers reduce consumer spending on goods and services and thus have negative economic impacts. For example, in 2013, the payday loan industry collected about $265,440,810 in interest and fees from the payday loan borrowers in Florida. On the negative side, we treat $265,440,810 as reduction in consumer spending. The decline in consumer spending in each income group is directly proportional to the share of payday loan borrowers in that group. The IMPLAN model provides information on the number of households and the total level of consumer spending in nine income groups.[5] Recent studies (CFPB, 2013) documented that payday loans are used by the following income groups: less than $10,000, $10,000 to $15,000, $15,000 to $25,000, $25,000 to $35,000, and $35,000 to $50,000. We used the share of the payday loan borrowers estimated by the Consumer Financial Protection Bureau (CFPB, 2013) to calculate the reduction in spending in the income groups that use payday loans.

The negative economic impact of payday loans is not limited to a one time reduction in consumer spending. Melzer (2011) notes that there is no evidence that access to payday loans mitigate financial distress. Instead, access to payday loans increase the likelihood of difficulty paying bills and delays needed health care. In fact, among families with annual income from $15,000 to $50,000, access to payday loans increases the incidence of difficulty paying bills by 25 percent. Additionally, for adults in these families, loan access increased the delay of needed medical care,

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[3] IMPLAN's industry 355 corresponds to NAICS's 4-digit level industries 5222 and 5223. Compared to the other financial service industries (estate lending, money order issuance or check cashing services) grouped with payday loan, the payday loan industry pays lower wages and, therefore, generates less labor income. A typical payday lender employs two to three workers and has a smaller employment base per establishment (Flannery and Samolyk, 2005 and 2007). The economic impact studies that use industry 355 to represent the level of economic activity generated by payday lenders in the IMPLAN model and fail to make adjustments for lower wages and the lower number of employees per establishment may overestimate the actual economic impacts. We make adjustments to employment and wages in the IMPLAN model by using the data from the Bureau of Labor Statistics (BLS) for industries 522291 and 522390

[4] In the North American Industry Classification System (NAICS) payday lenders are included in industry groups 522291 (non-depository consumer lending) and 522390 (other activities related to credit intermediation). The 522291 group includes unsecured cash loan establishments, and the 522390 group includes credit intermediation establishments that provide check cashing services and money ordering services (Bhutta, 2013).

[5] The nine IMPLAN household income groups are less than $10,000, $10,000 to $15,000, $15,000 to $25,000, $25,000 to $35,000, $35,000 to $50,000, $50,000 to $75,000, $75,000 to $100,000, $100,000 to $150,000, and more than $150,000.

prescription drug purchases, and dental care by a similar proportion (Melzer, 2011). Among low-to moderate-income families, access to payday loans also increases the incidence of bankruptcy by 2.5 percent (Skiba and Tobacman, 2011). As a result, it appears that payday borrowers face more financial difficulty and decrease their consumption of goods and services, other than payday loans.

To account for the reduction in consumer spending caused by financial difficulty, we estimated the level of decline in household consumption attributed to payday loans. We first estimated the total number of payday loan borrowers in each state. According a recent FDIC report (FDIC, 2013, Table B 21), the percentage of households who indicated that they borrowed from the payday lenders was 1.7 percent in the U.S., 2.4 percent in Florida, 3.6 percent in Alabama and 3.5 percent in both Louisiana and Mississippi. For Louisiana and Mississippi, we took the average of those who indicated that they used a payday loan either last year or earlier. A recent report by the Consumer Financial Protection Bureau (CFPB, 2013) shows that 12 percent of the payday loan borrowers had income less than $10,000. Thirteen percent of payday loan borrowers had income in the range of $10,000 to $15,000, and 25 percent had income in the range of $15,000 to $50,000. To estimate the total number of payday loan users among all households in a state, we multiplied the share of households who indicated that they used payday loans by the total number of households in the state. To find the number payday loan borrowers in each income group, we multiplied the share of payday loan borrowers reported in the CFPB (2013) report by the total number of households who used payday loans. Of those with payday loans, we assume that four per cent of them will experience financial difficulty. This is based on a Melzer (2014) study which shows that 24.9 percent of those without payday loan access report hardship while 28.9 percent of individuals with payday loan access indicated that they experience financial difficulty. The four percent difference is statistically significant at the 5 percent level.

The income groups with the higher share of payday loan borrowers also are likely to have a higher share of households in financial difficulty. We assume that the decrease in consumer spending in each income group is proportional to the share of households in financial distress in that income group. Table 2 presents the data used in the IMPLAN model to estimate the negative economic impacts of payday lending through a direct reduction in consumer spending. It shows the reduction in consumer spending in the five income groups between less than $10,000 and $50,000.

Table 2. IMPLAN Model Set-up for Consumer Spending

Alabama	HH less $10k	HH $10-$15k	HH $15-$25k	HH $25-$35k	HH $35-$50k
HH Spending	$8,611,072,515	$5,482,531,447	$14,477,901,895	$14,766,391,286	$21,414,889,304
HH Number	217,647	149,930	275,332	239,599	307,070
HH Payday[i]	8,698	9,423	18,122	18,122	18,122
HH Difficulty[j]	0.0400	0.0629	0.0658	0.0756	0.0590
Spending, Difficulty[k]	$13,765,882	$13,783,330	$38,115,987	$44,673,256	$50,551,806
HH Direct[l]	$23,643,117	$25,613,377	$ 49,256,494	$49,256,494	$49,256,494
Florida	**HH less $10k**	**HH $10-$15k**	**HH $15-$25k**	**HH $25-$35k**	**HH $35-$50k**
HH Spending	$25,851,454,095	$18,008,723,520	$52,007,695,156	$58,900,870,575	$85,897,366,325
HH Number	652,721	492,192	988,607	955,283	1,231,118
HH Payday[i]	22,522	24,399	46,920	46,920	46,920
HH Difficulty[j]	0.0345	0.0496	0.0475	0.0491	0.0381
Spending, Difficulty[k]	$35,679,658	$35,708,678	$98,733,828	$115,720,876	$130,949,009
HH Direct[l]	$31,852,897	$34,507,305	$66,360,203	$66,360,203	$66,360,203
Louisiana	**HH less $10k**	**HH $10-$15k**	**HH $15-$25k**	**HH $25-$35k**	**HH $35-$50k**
HH Spending	$7,251,400,593	$5,141,124,600	$13,414,238,031	$12,618,689,454	$18,768,672,239
HH Number	183,266	140,588	255,097	204,745	269,118
HH Payday[i]	7,854	8,509	16,363	16,363	16,363
HH Difficulty[j]	0.0429	0.0605	0.0641	0.0799	0.0608
Spending, Difficulty[k]	$12,430,971	$12,446,208	$34,417,908	$40,338,966	$45,647,250
HH Direct[l]	18,472,566	20,011,947	38,484,513	38,484,513	38,484,513
Mississippi	**HH less $10k**	**HH $10-$15k**	**HH $15-$25k**	**HH $25-$35k**	**HH $35-$50k**
HH Spending	$5,365,973,086	$3,833,753,311	$9,559,061,029	$8,826,781,854	$12,373,558,177
HH Number	135,097	104,607	181,476	142,970	177,109
HH Payday[i]	4,980	5,395	10,375	10,375	10,375
HH Difficulty[j]	0.0369	0.0516	0.0572	0.0726	0.0586
Spending, Difficulty[k]	$7,912,151	$7,908,922	$21,859,821	$25,621,705	$28,993,759
HH Direct[l]	$14,071,448	$15,244,069	$29,315,517	$29,315,517	$29,315,517

Note: HH Spending and HH Number indicate total household spending and total number of households in income groups less than $10,000, $10,000 to $15,000, $15,000 to $25,000, $25,000 to $35,000, and $35,000 to $50,000, respectively. Of the nine income groups in the IMPLAN model, only households that have income less than $50,000 were examined since those with incomes above $50,000 account for such a small share of payday borrowers (CFPB, 2013). The IMPLAN model shows that the total number of households in AL, FL, LA, and MS were 2,013,519; 7,820,073; 1,870,061 and 1,185,721, respectively in 2013. [i] the number of payday borrowers=share of householders that have payday loans * total number of households *share of payday borrowers in that income group. [j] the share of households in financial difficulty= HH payday/total number of households in the respective income group. [k] the amount of household spending in financial difficulty=HH difficulty * the amount of household spending in the respective income group. [l] the decrease in consumer spending caused by the amount of interest and fees collected from the respective income group. The direct reduction in consumer spending = share of HH that use payday loans * total amount of HH spending in that group.

Table 3 shows the total level of decrease in direct spending used in the IMPLAN model. Payday borrowers decreased their spending because they paid payday loan interest and fees and these payments put them in greater financial difficulty.

Table 3: Direct Changes in Spending and Revenues in the IMPLAN Model

States	Florida	Alabama	Louisiana	Mississippi
Total Fees and Interest*	$312,651,131	$232,068,288	$181,316,905	$138,117,866
Net Fees and Interest Collected**	$265,440,810	$197,025,977	$153,938,052	$117,262,068
Spending Decline due to Financial Difficulty***	$416,792,049	$160.890,261	$145,281,304	$92,296,359
Total Decline in Consumer Spending****	-$682,232,859	-$357,916,238	-$299,219,356	-$209,558,427

*Total fees and interest are based on Appendix 3, page 26 of the Center for Responsible Lending's 2013 report titled "Payday Lending Abuses and Predatory Lending." The data for Florida is based on the information obtained from regulators, while the data for AL, LA and MS were estimated by the CRL (2013). The interest and fees to loan volume ratio in Mississippi was too high when compared to Florida's interest and fees to loan volume ratio. We, therefore, applied Florida's interest and fee loan to volume ratio to find the amounts of interest and fees in Mississippi. The estimated interest and fees in Alabama and Mississippi did not require adjustment.
** Net fees are calculated by multiplying the total fees and interest by (1- 0.151).
***The decline in spending is calculated by estimating the total loss in consumer spending across the $0-$50,000 income groups.
**** The total decline in consumer spending is calculated by adding net fees and interest actually collected.

5. ANALYSIS AND FINDINGS

Payday lenders maximize their profits by lending to frequent borrowers; therefore, they always try to find new borrowers who will use the loans multiple times a year. When someone borrows multiple times from the same store, that customer contributes to the store's profit in two ways: First when the store serves the same customer multiple times it saves on paperwork and search costs. Second, frequent borrowers have lower default rates. This model enables the payday lenders to extract the maximum amount of profit from their borrowers (Flannery and Samolyk, 2005; CFPB, 2013). Payday lenders drain income from the local disposable income base and, therefore, negatively impact the local economy. The positive economic impacts of payday loans are attributed to direct, indirect, and induced spending initiated by the payday loan industry. The net impacts of payday loans in Florida, Alabama, Louisiana, and Mississippi are discussed in the following sections.

5.1. Economic Impacts of Payday Loans on the State Economy in Florida

In Florida, an average payday loan customer receives a payday loan nine times in a year (Veritec, 2012). Payday loan stores make most of their profits from frequent borrowers because they receive a higher return from these borrowers. About 72 percent of payday customers borrowed from only one store in Florida in 2012 (Veritec, 2012).

Table 4 shows the net effects of payday loans in Florida. The industry collected about $265,440,810 in interest and fees from borrowers in the economically vulnerable neighborhoods, where most of the payday loan stores are located. The total reduction in consumer spending in these economically vulnerable communities was $682,232,859. The economic impact of the reduced consumer spending was realized through induced effects in the IMPLAN model. Specifically, the reduction in consumer spending resulted in the loss of 7,420 jobs. The total negative impacts included a $319,416,040 reduction in labor income, a $585,161,629 loss in total value added, and a $918,744,214 decline in total output.

The $265,440,810 in revenues collected by the payday industry through direct, indirect and induced effects created 5,270 jobs, $212,322,935 in labor income, $277,479,677 in total value added, and $537,248,679 total output throughout the state. As shown in Table 4, payday loans reduced the level of economic activity in Florida. The net economic impacts in terms of employment, labor income, total value added and total output were negative. Note that these negative effects exclusively fell on the residents and businesses in the economically vulnerable communities where payday lenders were located.

Table 4. Florida IMPLAN Results

Spending	-$682,232,859 (total reduction in consumer spending)			
Impact	**Employment**	**Labor Income**	**Total Value Added**	**Output**
Direct Effect	0	$0	$0	$0
Indirect Effect	0	$0	$0	$0
Induced Effect	-7,420	-$319,416,040	-$585,161,629	-$918,744,214
Total Effect	-7,420	-$319,416,040	-$585,161,629	-$918,744,214
Revenues	**$265,440,810** (fees and interest collected by payday lenders)			
Impact	**Employment**	**Labor Income**	**Total Value Added**	**Output**
Direct Effect	3,188	$112,436,689	$108,379,967	$265,440,810
Indirect Effect	908	$49,072,373	$77,426,181	$126,912,578
Induced Effect	1,173	$50,813,873	$91,673,529	$144,895,291
Total Effect	5,270	$212,322,935	$277,479,677	$537,248,679
NET EFFECT	**-2,150**	**-$107,093,104**	**-$307,681,952**	**-$381,495,535**

5.2. Economic Impacts of Payday Loans on the State Economy in Alabama

Alabama has seen an influx of payday stores over the past few years (Mathis, 2011). Under Alabama state law such businesses can charge up to 456 percent APR. The average borrower in Alabama receives 8 to 9 payday loans per year, and spends 212 days a year in debt which provides more profit for lenders (Alabama Organizing Project, 2013).

Table 5 shows the IMPLAN results for Alabama. The net economic effects in Alabama are negative in terms of total value added and labor income. Although it appears that the payday loan industry created net positive jobs and output in Alabama, the net effects in labor income and value added are negative. While the industry created mostly lower paying jobs in smaller payday loan establishments, it reduced the number of higher wage jobs in consumer service industries such as local health, retail and financial services, thereby generating a net negative effect on labor income.

As indicated previously, if we do not adjust for lower wages and smaller employment per establishment in the payday loan industry, we will overestimate the actual size of output and employment multipliers. Since the IMPLAN model lumps payday lenders into the same industry group as all other nondepository institutions, the underlying output multiplier for the payday loan industry is the same as the one for larger financial institutions. In reality, payday lending stores hire between two and three workers, while other nondepository institutions have a larger number of employees per establishment. We only made adjustment to labor income by using industry level employment and average wage data reported in Table 1. The negative economic impacts of the reduction in consumer spending are measured only through induced effects. When consumers have less income they reduce their consumption on many goods and services. The changes in

consumer spending are not directly related to the direct or indirect impacts initiated by an industry with a larger output multiplier. Therefore, the estimated negative economic impacts are more accurate than the estimated positive economic impacts.

Table 5. Alabama IMPLAN Results

Spending	-$357,916,238 (total reduction in consumer spending)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	0.0	$0	$0	$0
Indirect Effect	0.0	$0	$0	$0
Induced Effect	-2,923	-$107,238,745	-$204,272,616	-$328,112,507
Total Effect	-2,923	-$107,238,745	-$204,272,616	-$328,112,507
Revenue	$197,025,977 (fees and interest collected by payday lenders)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	2,675	$54,872,769	$47,038,962	$197,025,977
Indirect Effect	616	$30,731,947	$52,649,513	$84,817,164
Induced Effect	496	$18,140,778	$34,511,862	$55,739,341
Total Effect	3,787	$103,745,493	$134,200,337	$337,582,482
NET EFFECT	**864**	**-$3,493,252**	**-$70,072,279**	**$9,469,975**

5.3. Economic Impacts of Payday Loans on the State Economy in Louisiana

In Louisiana, payday loans were a hot topic during the 2014 legislative session as AARP Louisiana, Together Louisiana, and the state's Catholic bishops clamored for changes. All sought a reduction in the current APR which can exceed 400 percent. The payday loan industry struck back by hiring lobbyists and successfully killing attempts to cap their fees at 36 percent interest per year and limit the number of loans per borrower. They argued that the proposed restrictions would put them out of business, depriving consumers of a popular product (Millohollon, 2014). Table 6 indicates that the overall net economic impacts of payday loans in Louisiana were negative.

The IMPLAN results for Louisiana are similar to those for Alabama. The net economic effects are negative for labor income, total value added, and output. However, the net effect for employment is positive. Again, although it appears that the payday loan industry created jobs, the net effect on labor income is negative. The negative effect on labor income results because the industry, through direct, indirect, and induced effects, reduced the number of higher wage jobs in the industries that were supported by consumer spending and created lower wage jobs in the payday loan industry.

Table 6: Louisiana IMPLAN Results

Spending	-$299,219,356 (total reduction in consumer spending)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	0.0	$0	$0	$0
Indirect Effect	0.0	$0	$0	$0
Induced Effect	-2691	-$103,791,436	-$191,754,296	-$309,819,474
Total Effect	-2691	-$103,791,436	-$191,754,296	-$309,819,474
Revenue	$153,938,052 (fees and interest collected by payday lenders)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	2328	$53,283,464	$49,533,942	$153,938,052
Indirect Effect	546	$27,135,309	$43,273,141	$71,958,228
Induced Effect	485	$18,774,951	$34,600,749	$56,020,566
Total Effect	3360	$99,193,724	$127,407,831	$281,916,846
NET EFFECT	**669**	**-$4,597,712**	**-$64,346,464**	**-$27,902,629**

5.4. Economic Impacts of Payday Loans on the State Economy in Mississippi

In 2013, there were 1,014 licensed check cashers in state of Mississippi. However, as displayed in Table 1, we used the store numbers reported by the CRL study (CRL, 2013) in our estimations. Therefore, we may overestimate the direct effect of the payday lending industry on employment in Mississippi by 55 (1,036* 2.5 – 1,014 * 2.5). The net economic impacts in Mississippi appear to be slightly positive in terms of employment, labor income, total value added and total output. These results suggest that, at the state level, the industry created more economic activity by draining income from economically vulnerable communities. The sales or revenues of the payday loan industry are generated by borrowers residing in the economically vulnerable communities. The cost of increased poverty and the size of the wealth-stripping caused by the payments to the payday loan industry were not taken into consideration in this study.

In Mississippi we did not have reliable data on the amount of fees and interest collected by the payday loan industry. We used Florida's industry revenue to loan volume ratio to estimate the total amount of interest and fees in Mississippi because the data for Florida is based on information obtained from regulators, whereas the data for Alabama, Louisiana, and Mississippi are estimated by the CRL (2013). In Florida, the fees and interest are about 10 percent of the loan volume. We multiplied the Mississippi loan volume by 0.1 and estimated the interest and fees of the payday loan industry to be $117,262,068. The net economic effects appear to be slightly positive.

Table 7: Mississippi IMPLAN Results

Spending	-$209,558,427 (total reduction in consumer spending)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	0.0	$0	$0	$0
Indirect Effect	0.0	$0	$0	$0
Induced Effect	-1,691	-$59,411,735	-$115,504,784	-$188,386,077
Total Effect	-1,691	-$59,411,735	-$115,504,784	-$188,386,077
Revenue	$117,262,068 (fees and interest collected by payday lenders)			
Impact	**Employment**	**Labor Income**	**Total VA**	**Output**
Direct Effect	2,590	$57,411,755	$53,233,674	$117,262,068
Indirect Effect	458	$18,740,370	$33,419,817	$56,693,275
Induced Effect	434	$15,234,553	$29,639,768	$48,525,740
Total Effect	3,482	$91,386,678	$116,293,259	$222,481,084
NET EFFECTS	**1,791**	**$31,974,942**	**$788,475**	**$34,095,007**

As noted before, the IMPLAN model overestimates the positive economic impacts of payday loans because IMPLAN industry 355 includes all nondepository institutions. Many of these institutions have larger employment per establishment and higher labor income than payday loan establishments. The larger size of the negative economic impacts in Florida is attributed to the reduction in consumer spending in income groups $15,000 to $50,000 (see Table 2). Proportionally, Florida had more payday borrowers in these income groups than the other three states. Increased financial difficulty, therefore, impacted a larger consumer spending base in Florida than in the other three states. In Alabama, Louisiana and Mississippi, payday loan borrowers have lower incomes and therefore a lower consumer spending base than in Florida where payday borrowers have higher incomes, and hence a larger spending base. Consequently, an "x" percentage decline in consumer spending will result in a larger multiplier effect in Florida than in the other states.

Since payday loan industry revenues are based on the interest and fees mostly collected from low- to moderate-income residents who happen to reside in economically vulnerable neighborhoods, the economic benefits are distributed throughout the state but the economic burdens fall disproportionately on lower income neighborhoods. The industry drains income and wealth from the economically vulnerable communities to generate some positive impacts throughout the state. Regardless of whether the state level net economic impacts are positive or negative, payday loans reduce the income of residents of the economically vulnerable communities, and most likely the cost of increased poverty and financial distress will be borne by the state. In this study, we do not attempt to quantify the costs of increased poverty and financial distress on the state economy. Hence, our study underestimates the size of economic costs in the four southern states.

Payday loans also can have long-term negative effects in a local area. For example, a payday loan customer who pays about $600 per year for short-term payday loans is also losing $600 worth of savings every year. If this money were invested in a diversified portfolio over 30 years, it would create wealth of $75,000 (Fellowes and Mabanta, 2008). Therefore, a small community with 200 payday customers would lose about $15,000,000 in wealth in 30 years. This report, however, is

not focused on estimating this type of wealth-stripping effect.

Payday loans also negatively impact borrowers' ability to earn more income which in turn interferes with their ability to accumulate wealth. As previously noted, rather than mitigating financial distress, access to payday loans increases the likelihood of difficulty paying bills and delaying needed health care (Melzer, 2011). When medical treatment is postponed because of financial difficulty, the health issue may turn into a long-term problem which may interfere with work, and consequently reduce income. Similarly, when a mortgage payment is delayed or car payment is not made on time, the borrower will be in danger of losing his/her house or car which also can interfere with work and earnings and reduce wealth and asset accumulation. Though it is not easy to directly quantify the economic impacts of the increase in financial difficulty caused by easy access to payday loans, empirical studies (Melzer, 2011: CFPB, 2013) indicate that the likelihood of default is increased, not decreased, by easy access to payday loans.

Since most payday borrowers also have lower levels of economic security, a significant share of these customers will be pushed into poverty. Payday loan interest and fees reduce disposable income and may force borrowers into bankruptcy (Skiba and Tobacman, 2011). Consequently, payday loans are expected to increase the share of the population living below the poverty line. Additionally, as payday loan fees drain income from the local disposable income base, payday loan borrowers will reduce the demand for goods and services produced by local businesses. This negative effect on income and jobs will take place through the usual multiplier process. The decrease in local disposable income will reduce the level of savings and, in turn, reduce the level of future wealth creation in the local community.

6. SPATIAL ANALYSIS OF THE LOCATION OF PAYDAY LOAN STORES

The maps below show the distribution of payday stores in Florida, Alabama, Louisiana, and Mississippi per 10,000 or 1,000 persons. Because Florida's total population in 2012 was about 19,317,568 and it is difficult to capture the density of payday lenders per 1,000 persons when the population is this high, we look at the number of payday locations per 10,000 persons. For the other states with populations ranging from about three million in Mississippi to about five million in Alabama and Louisiana, we consider the number of payday stores per 1,000 persons. These different specifications do not change the fact that payday stores are disproportionately located in zip code areas that are heavily minority and where median household income is low to middle range. The maps also suggest a positive correlation between the location of payday stores and the percentage of families living below the poverty line and the unemployment rate.

In Florida, payday loan stores cluster in areas where income ranges from $20,000 to $60,000, with most located in areas with incomes in the $40,000 range. As of July 2014, Florida had approximately 1,277 stores, with over 1,000 located in communities where the income was between $30,000 and $40,000. In addition, 1,200 of the 1,277 stores were located in areas that were more than 30 percent African American and up to 60 percent Hispanic. For example, in zip code 33169, which was about 83 percent African American, 13 percent Hispanic, and had a median household income of approximately $43,270, there were 10 payday stores. Additionally, zip code 32096 (zoomed on the map) had more than five payday stores per 10,000 persons. In this zip code, 30 percent of the population was minority, median household income was $31,037, the unemployment rate was 26 percent, 14 percent of the population was below the poverty line, and the median age was 38 years. (See Table 8 in the Appendix.)

As of March 2014, Alabama had 1,032 payday stores, with the majority (976 stores) located in areas where median household income was between $20,000 and $60,000. Zip code 35214 (zoomed on the map) had 14 payday stores or about two stores per 1,000 persons, a 79 percent minority population, median household income of $42,894, median age of 42 years, a 14 percent unemployment rate, and 14 percent of the population was below the poverty line. Similarly, in zip code 35020, which was 84 percent minority, and had a median household income of $23,698, and a poverty rate of 30.3 percent, there were 11 payday stores. 967 of the 1,032 payday stores were located in zip codes with a minority population of 20 percent or higher. (See Table 9 in the Appendix.)

Our findings for Louisiana were similar to those for Florida and Alabama. As of March 2014, Louisiana had nearly 964 payday stores, with almost 97 percent (932) located in zip codes with median household incomes between $20,000 and $60,000. These areas also had the highest concentration of minorities, some up to 60 percent. (960 stores were located in areas with a minority population of 20 percent or higher.) Zip code 70814 (zoomed on Map 3) is a perfect example of this scenario. With more than 5 stores per 1,000 persons, it was 85 percent minority and had a median household income of $49,609. In many of the areas with high concentrations of payday stores, the poverty rate was above 20 percent in some cases and the unemployment rate was as high as 19 percent. (See Table 10 in the Appendix.)

Finally, Mississippi also showed similar patterns in terms of the location of payday stores. There were about a 1,014 check cashers in the state as of August 2013 of which about 86 percent (898)

were deferred presentment providers. Income and race and ethnicity appear to be major determinants of the location of payday lenders in Mississippi. For example, zip code 39440 (zoomed on Map 4) had a median household income of $32,061 and a 64 percent minority population in 2012. This area in particular had 23 payday stores. The unemployment rate in this area was 9.1 percent and 31.4 percent of the residents were living below the poverty line. Similarly, zip code 39301 was home to 18 payday stores, and had a median income of $31,079 and a population that was 46 percent African American. The poverty rate was 29.9 percent and the unemployment rate was 7.7 percent. In general, we found that payday stores locate in areas where income is between $20,000 and $55,000, with a minority population of 20 percent or higher. In fact, 871 (97 percent) of the 898 payday stores in Mississippi were located in zip codes with a median household income between $20,000 and $60,000 and all of the stores were located in areas with a minority population of 20 percent or higher. These areas also suffer from high unemployment and high poverty levels. Unemployment rates were 8 percent or higher and the percentage of residents living below the poverty line was15 percent or higher. (See Table 11 in the Appendix.)

Analyses of the state maps and payday location and demographic data support previous findings that payday lenders prefer to locate in minority areas with income levels closer to the middle range. In addition, other factors such as poverty levels appear to play a role in lenders' decisions about where to locate. Overall, location statistics demonstrate that payday lenders choose economically vulnerable communities where they continue to strip income and assets from economically and financially unstable individuals and families.

Map 1: Florida Payday Lending Stores per 10,000 people by Zip Code and County

Legend

Payday Lending Stores per 10,000 people

- ☐ < 1
- ☐ 1 - 2
- ☐ 2 - 5
- ☐ > 5
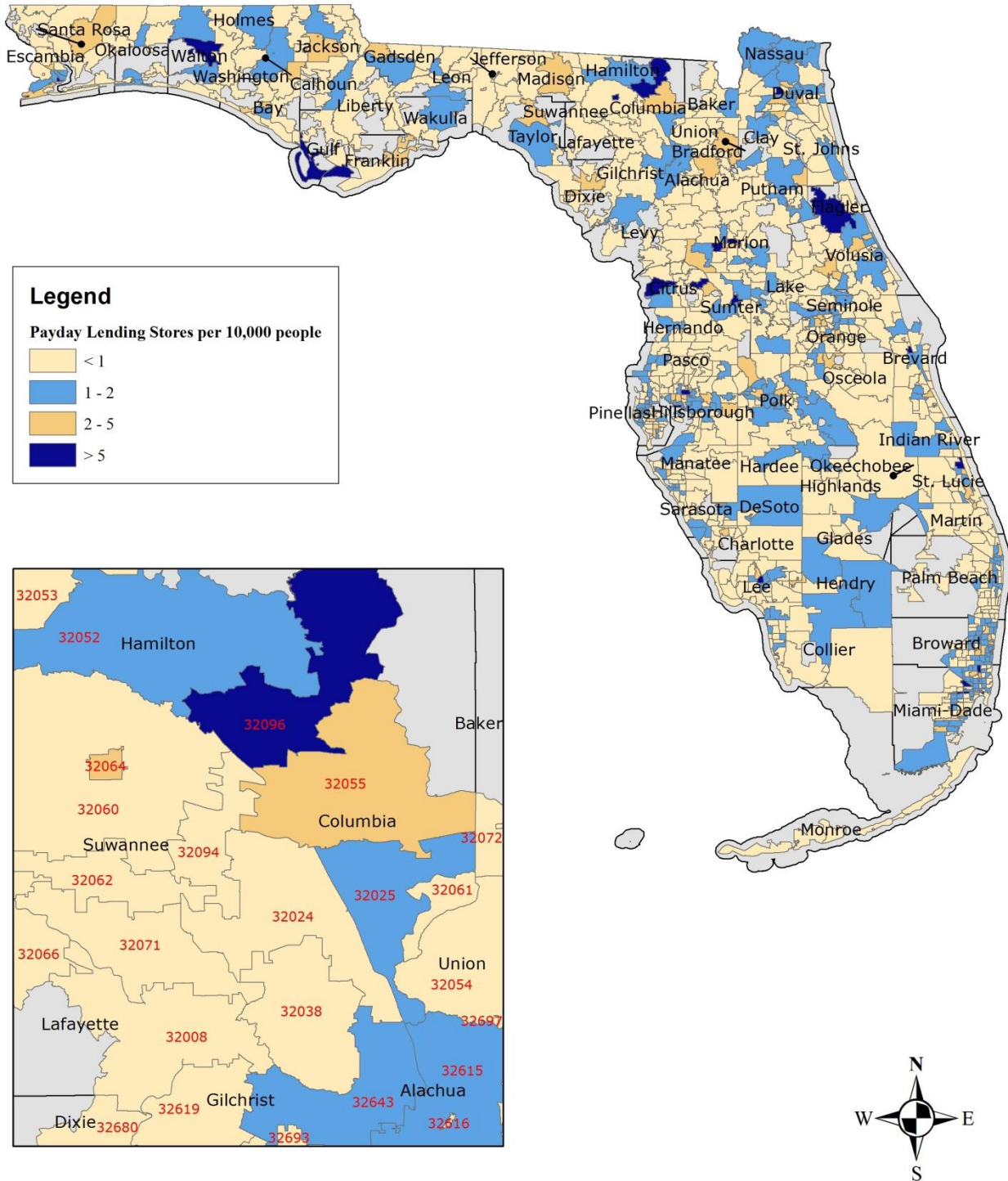
Data Sources
Florida Office of Fiancial Regulation: Money Transmitter Locations/Deferred Presentment Providers July 2014
US Census Bureau: Population Estimates 2012

Map 2: Alabama Payday Lending Stores per 1,000 people by Zip Code and County
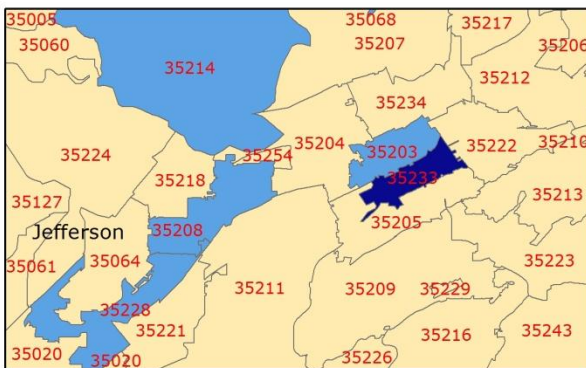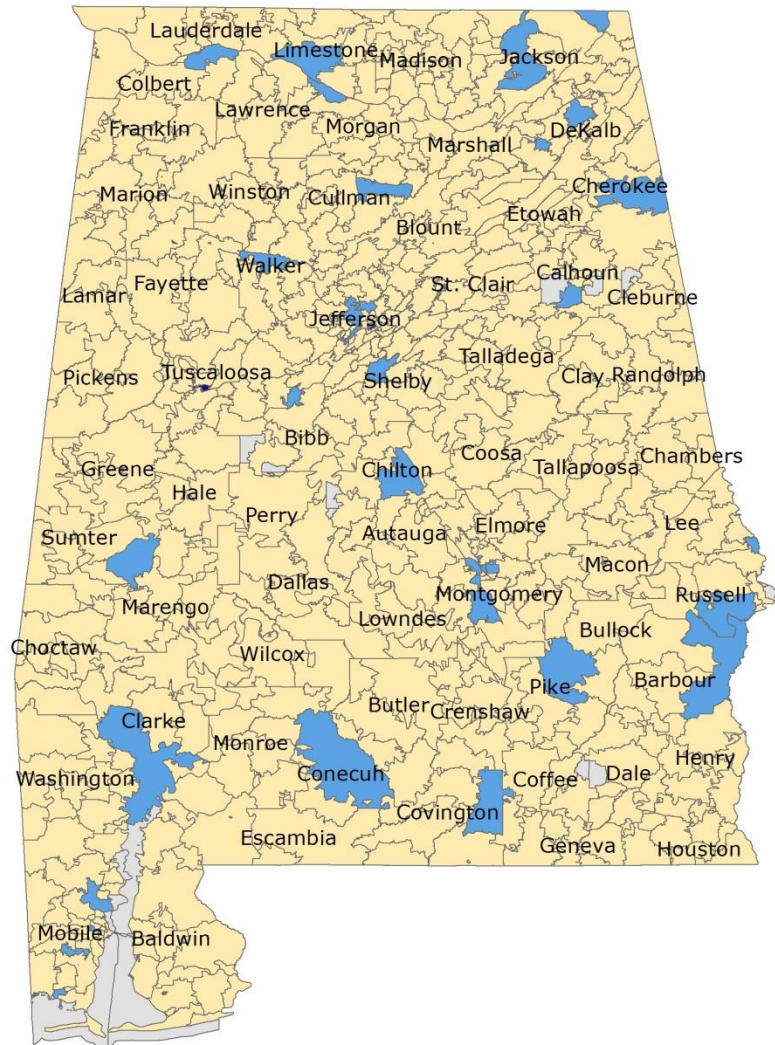
Data Sources
Alabama State Banking Department: Payday Lenders 2014
US Census Bureau: Population Estimates 2012

Legend

Payday Lending Stores per 1,000 people

Paydayper1

	< 1
	1 - 2
	> 2

Map 3: Louisiana Payday Lending Stores per 1,000 people by Zip Code and Parish

Legend

Payday Lending Stores per 1,000

	< 1
	1 - 2
	2 - 5
	> 5

Data Sources
Louisiana Office of Financial Institutions: Payday Lenders 2014
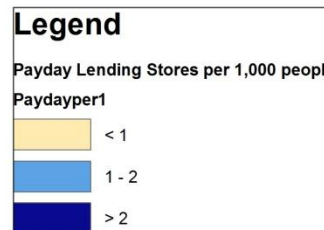US Census Bureau: Population Estimates 2012

Map 4: Mississippi Payday Lending Stores per 1,000 people by Zip Code and County

Legend

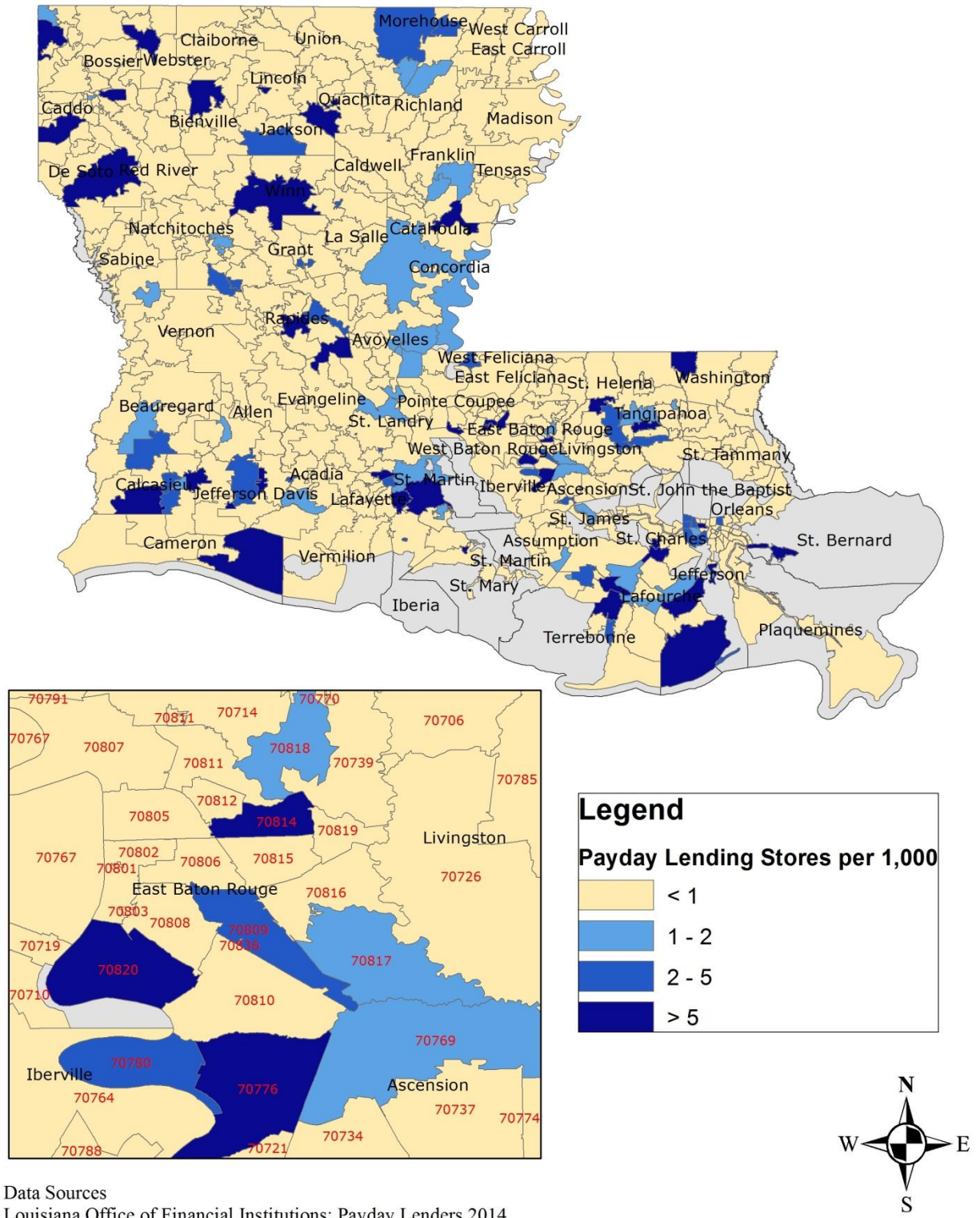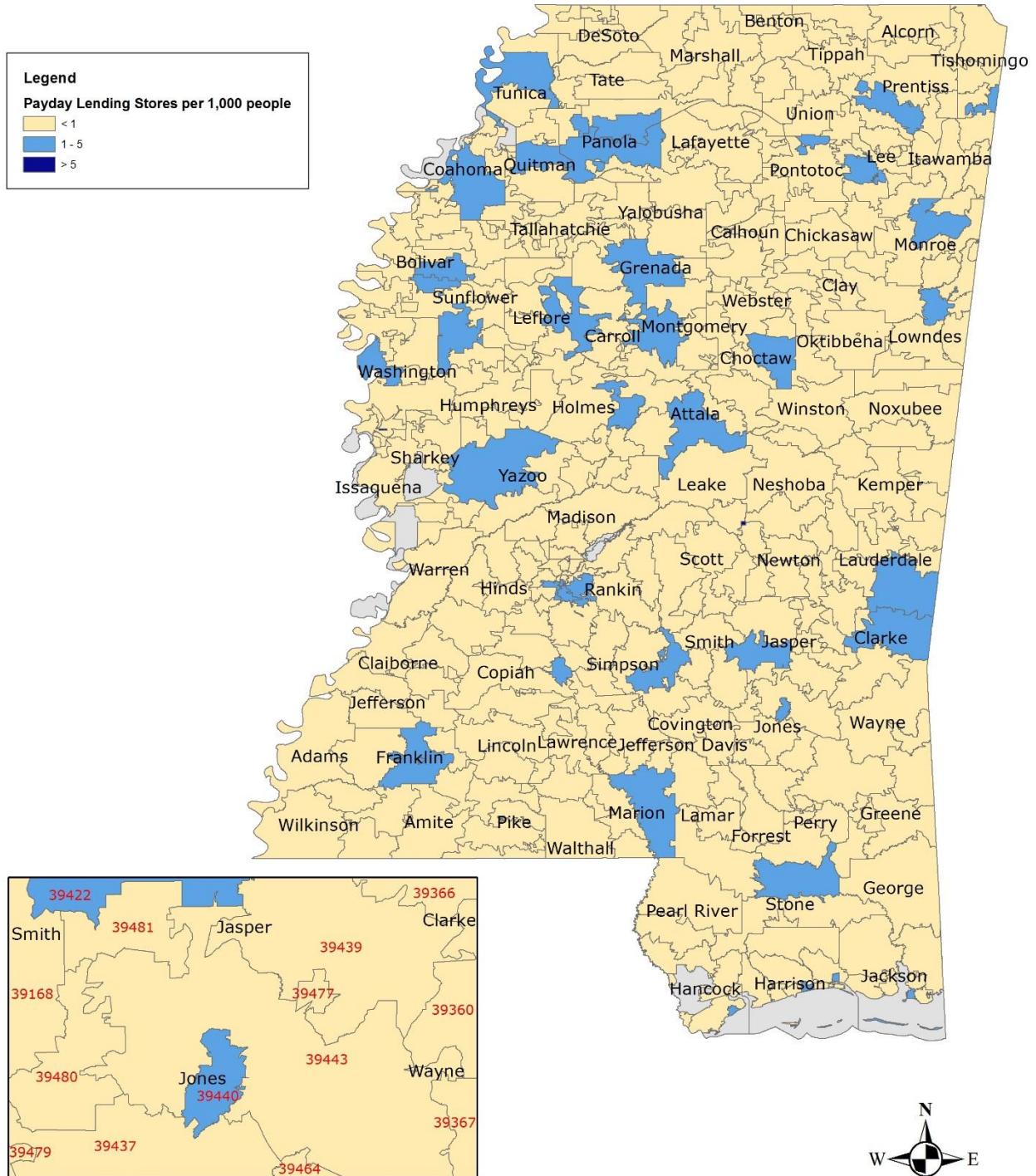**Payday Lending Stores per 1,000 people**
- < 1
- 1 - 5
- > 5

Data Sources
Mississippi Department of Banking and Consumer Finance: Check Cashers/Payday Loan Providers 2013
US Census Bureau: Population Estimates 2012

7. THE STATUS OF PAYDAY LENDING IN MISSISSIPPI, LOUISIANA, ALABAMA, AND FLORIDA

Mississippi

Institutions licensed as check cashers in Mississippi are authorized to cash checks and make payday loans (also referred to as "delayed deposit transactions"). These transactions are authorized by the Mississippi Check Cashers Act and regulated by the Mississippi Department of Banking and Consumer Finance. The law limits outstanding delayed deposit transactions to a maximum of $500 at any one time to counteract the multiple source borrower syndrome. It also caps the fees charged for payday loans at 18 percent of the face value of the check; thus, a customer seeking more than $250 in cash would have to write the check for $121.95 per $100 loan advanced (the chargeable fees for customers seeking less than $250 in cash on the other hand, would be $20 per $100 loan advanced). However, the effective rate here is 21.95 percent in fees for the check which amounts to 572 percent APR on a 14-day loan and 267 percent on a 30-day loan. Finally, the maximum loan term is 30 days and the licensed cash checker cannot renew or extend any delayed deposit check (Consumer Federation of America [CFA], 2014). The CRL (2013) found that as of 2007, Mississippi had the highest concentration of licensed check cashers and payday loan providers in the nation at 1,069 or one check casher for every 1,014 households in the state. Nearly one third of Mississippi's counties had at least one check casher per 800 households, and almost half of the other counties had one check casher for every 1,000 households (Mississippi Payday Lending Factsheet, 2009). The number of bank branches as of March 2014 were 823 (FDIC, 2014) compared to 1,014 check cashers (898 providing payday loans) as of August 2013 (Mississippi Department of Banking and Consumer Finance, 2013).

Louisiana

Efforts in Louisiana to fix some of the problems associated with check cashing and other consumer financial predatory lending issues have been focused on effectively capping interest rates. However, Mathis (2011) indicated that "Louisiana needs to put an end to legalized usury and strengthen its current legislation on the payday lending industry." He notes that Louisiana ranks sixth in the country in the percentage of households reliant on the combination of check cashers, pawnbrokers, and payday lenders to meet family needs, with 23 percent compared to the national average of 18 percent. Additionally, African-American households in Louisiana are twice as likely as white households to use predatory lending such as high-cost financial services and payday lenders at 37 percent compared to 17 percent. Payday lenders are prevalent in every major Louisiana city, with payday loan stores outnumbering banks in low-income neighborhoods, according to a 2009 FDIC study. Approximately 57,000 households (3.2 percent) in Louisiana took out at least one payday loan in 2007. The problem is more pronounced in larger parishes. For example, in East Baton Rouge Parish, the median household income is more than $4,000 higher for those living in *bank neighborhoods* (that is, neighborhoods with access to traditional banking institutions) than for those living in so-called "payday-loan neighborhoods" (Mathis, 2011). Payday-loan neighborhoods in Orleans Parish, on average, are 70 percent African-American, with median household earnings of $16,562 and bank neighborhoods in the parish are 46 percent African-American with median household earnings of $24,137 per year. It appears that payday lending is threatening the economic and financial environment of African-American families in Louisiana who encounter poverty at almost three times the rate of white families in the state. Much

of Louisiana's legislative efforts to counteract payday lending have been unsuccessful (Mathis, 2011).

Payday Lenders in Louisiana are regulated by the Office of Financial Institutions which is responsible for oversight, licensing and enforcement of banks and other alternative financial services including check cashers and pawnbrokers. The Louisiana Deferred Presentment and Small Loan Act of 2000 is intended to provide guidelines and regulation of payday and predatory lending activities in the state. Payday loans are limited by this Act to a maximum of $350 at any one time with a fee no greater than 16.75 percent of the amount borrowed up to $45and an allowable documentation fee of $5 to $10. Although the Act prohibits rollovers, borrowers are allowed to refinance their loans as long as they pay a fee of 25 percent of the loan each time they refinance (Mathis, 2011). If the borrower defaults on the loan, the lender may charge the borrower 36 percent in interest for the first twelve months and 18 percent thereafter, or a one-time charge of $10 or 5 percent of the loan, whichever is greater. Thus, there is very little protection for repeat payday borrowers that cannot afford to repay the loan on time.

Alabama and Florida
Alabama and Florida have regulations similar to those in Mississippi and Louisiana in terms of maximum loan amount, fees imposed and APR. On March 5, 2014, the House Financial Services voted unanimously on a bill that would set up a statewide database of payday loans in the Alabama Banking Department to make sure borrowers do not take out more than $500 in loan amount at any one time. The bill's sponsor Representative Patricia Todd insisted that even though Alabama had a $500 limit on payday loans, it is quite difficult to enforce it without a database. She along with her supporters believed that monitoring when people are getting loans can prevent them from getting trapped in a cycle of high-interest debt. Legislators who have worked on lowering the interest rate as a means of regulation have not had much success. Todd introduced a bill at the start of the legislative session; however, it was stalled in the Financial Services Committee, where six of the nine members had received campaign contributions from the industry or an associated political action committee with amounts ranging from $1,000 to $3,900. Once Todd dropped the interest rate cap and began to focus on the database, her bill started to gain bipartisan support (The Associated Press, 2014). Last year, a similar effort was introduced by Governor Robert Bentley's Banking Department using his regulatory authority to set up a database, but his office was sued by the industry which put the database on hold pending the outcome of the trial. Todd's bill would negate the lawsuit and get databases operating by early 2015. She also planned to give the law a couple years to work before introducing further regulatory laws (The Associated Press, 2014). Unfortunately, this bill did not get final approval from the Alabama House and thus has simply died. An amendment to the proposed bill was introduced by Senator Shadrack McGill (R-Scottsboro) to increase the cap on payday loans from $500 to $1,000 (CRL, 2014). Since these efforts, no further regulations have been introduced in the State.

Unlike Louisiana and many other payday states, Florida has a database to keep track of the number of loans acquired by each individual. Though the state of Florida enacted a law in July 2001 that prohibits outstanding payday advances of more than $500 at any one time and mandates that a borrower can have only one outstanding loan at a time, with no loan rollover, not much has been done by the Office of Financial Regulation to ensure compliance and keep track of such regulation (The Associated Press, 2014).

8. CONCLUSIONS AND RECOMMENDATIONS

Payday lending practices can be predatory, with lenders charging triple digit interest rates and high fees on short-term loans. The prevalence of households borrowing from multiple lenders and the general ease of getting payday loans confirm the general lack of concern from the industry towards borrowers' financial capacity. Given the lack of positive economic impacts that payday lenders bring to Alabama, Mississippi, Louisiana and Florida, it is a wonder why such businesses are tolerated, especially in economically vulnerable communities.

The well-being of the communities where payday stores are located is at stake unless stricter controls on the payday loan industry are imposed. If allowed to continue, the economic and financial stability of residents of the affected communities will be threatened and economic disparity will deepen across the respective states. Furthermore, if these practices continue to spread and the contagion gets larger, especially in today's environment where the economy is still in distress in many areas, individuals will continue to be caught in a debt trap and experience financial and economic instability.

Data from this study, and others referenced herein, suggest that payday lenders and check cashers are quite profitable, making money readily available to keep the contagion growing. This is especially troubling because vulnerable minority and ethnic groups and lower-income residents are disproportionately affected by the negative economic consequences of these operations, as shown from our analyses. Since our findings demonstrate that payday lenders strip money from their customers and the reduced spending on other goods and services strip the economy of potential gains, it is in the best interest of the entire state for the government to take action to limit these predatory practices and at the same time educate the public about the dangers of payday loans.

This paper estimated the net economic impacts of payday lending in Alabama, Florida, Louisiana, and Mississippi. In Florida, payday lenders collected about $264 million in interest and fees from vulnerable communities. However, the net level of economic activity due to payday lending was decreased by about $381 million. In Louisiana, pay day lenders collected about $154 million in interest and fees, and the net economic impacts measured by employment, value added, and output were all negative. Similarly, the net economic impacts of the $197 million in interest and fees collected by payday lenders in Alabama were negative in terms of labor income and value added. The net economic impacts of the $117 million in interest and fees collected by payday lenders in Mississippi were slightly positive. We must note that our input-output model analysis overstated the positive economic impacts of the payday loan industry. IMPLAN industry 355, the multiplier used in the model, applies to the broader group of nondepository institutions that have larger employment and revenues than the payday loan industry. Further research is needed to carry out an economic impact analysis in which the payday loan industry is identified as a separate industry group.

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APPENDIX

Table 8: Select Florida Zip Codes with the Highest Number of Payday Lending Stores

Zip Code	Number of Payday Stores	Median Household Income	Percent Population below Poverty Line	Percent Minority	Median age	Unemployment Rate
32208	7	34419	17.5	81%	40	20.0%
32210	13	44022	17.4	38%	35.8	14.0%
32216	7	46900	13	30%	35.6	8.8%
32218	7	50366	13.7	53%	33.4	11.1%
32771	7	49373	13.1	42%	34.9	12.6%
32808	9	34965	23.4	83%	29.5	18.5%
32822	12	34091	17	70%	31.6	13.7%
32837	8	55735	8.7	50%	34.9	10.3%
32839	8	32680	19.5	69%	31.5	12.4%
33012	9	33654	17.1	97%	43.9	9.4%
33016	7	40448	13.5	95%	37.8	12.5%
33018	7	51672	10.2	97%	39	9.2%
33024	10	50249	12.5	61%	37.4	13.2%
33030	8	30164	30.7	76%	28.7	14.8%
33126	7	32384	18.6	98%	40.6	13.5%
33135	7	20199	33.7	100%	44.4	13.9%
33144	7	34509	19	95%	44.6	17.4%
33157	11	61572	11.5	71%	37.5	10.7%
33165	7	44189	12.8	93%	45.5	7.5%
33166	10	49426	8	76%	38.7	13.2%
33168	7	43555	16.1	91%	34.9	15.6%
33169	10	43270	14.4	95%	32.5	15.4%
33174	8	36777	15.2	95%	42	10.2%
33311	7	30744	26.7	89%	34.1	21.6%
33312	11	47453	14.8	55%	37	13.5%
33313	8	34528	23	88%	34.2	15.2%
33415	7	35550	19.5	61%	35.4	13.9%
33604	9	33881	23	57%	34	15.5%
33612	14	28632	28.4	62%	32.6	21.3%
33614	8	35008	19.7	72%	35.3	11.7%
33615	7	46827	12.6	54%	36.3	13.1%
34741	7	33057	20.3	71%	31.2	12.4%
34744	10	46640	15	59%	37.1	10.0%

Table 9: Select Alabama Zip Codes with the Highest Number of Payday Lending Stores

Zip Code	Number of Payday Stores	Median Household Income	Percent Population below Poverty	Percent Minority	Median Age	Unemployment Rate
35020	11	23698	30.3	84%	39.6	17.1%
35055	13	36692	22.1	9%	36.7	9.3%
35124	13	70425	6.3	18%	37.8	5.8%
35160	10	32846	27	45%	37.4	17.6%
35208	11	32958	22.4	95%	37.2	19.9%
35209	11	43576	17.3	37%	28.4	6.5%
35214	14	42894	17.4	78%	42.1	14.3%
35215	17	42247	20.8	72%	33.3	8.6%
35405	14	44544	19.1	44%	30.4	7.3%
35476	15	33464	25.7	52%	31.3	8.7%
35501	14	37034	22.6	24%	38.7	16.4%
35601	20	36790	24.7	42%	36.1	15.0%
35611	15	39709	17.2	26%	37.9	12.3%
35630	14	29785	30.6	24%	36.2	10.4%
35661	15	48576	14.6	21%	39.2	6.4%
35768	12	36175	17.1	8%	39.7	6.5%
35810	9	36749	18.9	77%	34.9	17.6%
36027	10	33514	25.8	48%	38	13.1%
36081	10	30202	31.5	43%	27.7	9.5%
36105	10	30026	28.8	84%	41	18.3%
36107	13	31159	32.7	58%	31.4	8.0%
36109	14	50531	13	24%	40.7	5.3%
36116	15	42975	24.2	82%	30.8	8.2%
36117	17	61881	9.2	41%	33.8	4.0%
36201	13	24327	33.7	48%	37.6	20.9%
36203	10	50515	12.2	19%	38.5	10.8%
36301	10	37702	20.1	29%	37.7	9.2%
36303	16	39673	21.5	43%	38.1	9.1%
36535	11	41890	21.3	23%	40.1	10.7%
36608	17	44880	18.4	30%	33.6	9.9%
36609	10	41860	16.8	38%	31.9	8.5%
36619	13	53701	11.2	10%	41	6.1%
36701	10	34910	26.4	65%	38.8	15.3%
36867	14	36456	23.4	40%	33.5	9.5%

Table 10: Select Louisiana Zip Codes with the Highest Number of Payday Lending Stores

Zip Code	Number of Payday Stores	Median Household Income	Percent Population below Poverty	Percent Minority	Median Age	Unemployment Rate
70058	14	50657	20.3	66%	34.6	19.3%
70065	11	56634	10.8	36%	38.1	6.3%
70068	14	55296	12.2	54%	34.4	4.5%
70072	13	44982	18.6	47%	37.5	8.0%
70301	10	50522	14.6	24%	35.6	5.3%
70360	15	66537	10.3	19%	37.9	15.1%
70363	13	43714	20.3	33%	31.8	6.5%
70380	12	42202	18.7	27%	39.6	7.2%
70401	17	40495	23.5	44%	29.3	13.2%
70403	13	38939	26.5	41%	33.2	10.0%
70458	11	52591	11.9	19%	39.6	8.6%
70501	12	25273	33.4	69%	35.2	6.3%
70506	11	44522	20.3	30%	31.2	14.1%
70526	12	35009	26.3	26%	32.5	11.2%
70538	10	36058	24.8	48%	38.4	16.5%
70560	19	39441	23.3	41%	34.4	9.6%
70570	12	31424	32.4	60%	35.6	12.9%
70586	10	35140	24.1	33%	36.5	1.2%
70601	22	30070	25.6	68%	36.9	5.3%
70726	16	55677	13.8	10%	33.2	5.5%
70737	21	59159	13.8	27%	34.2	7.3%
70805	12	27653	35.2	93%	28.7	0.0%
70806	25	37058	20.9	51%	34.7	0.0%
70815	15	49155	16.9	54%	33	7.1%
70816	10	49838	13.1	43%	32.2	5.7%
71118	15	47580	11.8	40%	35.4	0.0%
71201	20	39672	23.8	37%	38.9	7.0%
71220	10	31322	26.3	49%	37.8	15.2%
71270	14	34194	30.3	40%	28.1	5.9%
71291	10	50426	12.4	11%	36.6	11.0%
71301	16	32986	27	62%	35.2	2.8%
71303	12	52757	16	30%	37	9.1%
71360	13	43968	17.8	20%	38.2	5.3%

Table 11: Select Mississippi Zip Codes with the Highest Number of Payday Lending Stores

Zip code	Number of Payday Stores	Median Household Income	Percent population below Poverty	Percent Minority	Median Age	Unemployment Rate
38606	14	38997	26.3	40%	32.7	8.4%
38614	12	25793	38.5	77%	32.2	17.6%
38637	13	46765	17.5	37%	31	9.0%
38654	14	69158	5.1	25%	38.1	60.0%
38655	10	43501	23.5	28%	29.9	12.1%
38671	20	51206	14.9	28%	31.7	17.5%
38701	15	29467	33.2	68%	37	3.5%
38732	14	32664	29.2	55%	32.6	26.8%
38751	11	26302	31.8	78%	32.7	8.9%
38801	18	37882	24.5	46%	34.3	12.8%
38834	12	33208	19.9	16%	38.5	9.1%
38901	12	35682	22.5	44%	38.5	11.2%
38930	17	25676	37	69%	35	0.0%
39090	12	33074	28	47%	37.2	16.3%
39120	18	27498	29.3	61%	39.9	32.9%
39157	10	53333	10.3	38%	34.8	13.5%
39180	13	40766	22	48%	37.8	5.8%
39194	12	25293	38.8	67%	34.1	-
39204	18	26161	36.9	88%	27.5	0.8%
39206	12	35234	23.8	90%	32.3	9.0%
39208	19	43788	13.5	28%	34.7	15.7%
39301	18	31079	29.9	47%	34	7.7%
39401	18	26406	37.6	56%	28.3	11.7%
39402	17	54747	15.9	27%	33.3	2.9%
39429	12	32299	26.3	39%	36.9	24.1%
39440	23	32061	31.4	64%	34.9	9.1%
39466	13	40970	20.8	19%	39	11.4%
39507	13	45789	17.5	29%	38.7	6.0%
39567	11	40442	21.1	28%	40.1	0.6%
39601	13	35445	25.1	36%	36.9	20.6%
39648	12	33872	27.7	59%	35.5	6.2%
39705	15	52148	13.4	32%	34.6	13.5%
39759	12	28697	34.3	39%	25.6	11.6%

ABOUT THE HOWARD UNIVERSITY CENTER ON RACE AND WEALTH

The Howard University Center on Race and Wealth seeks to enrich the dialogue and research on asset building, wealth accumulation, and racial wealth disparities. As a resource grantee of the Ford Foundation Building Economic Security over a Lifetime initiative, the Center's goal is to provide ongoing technical assistance and research support to the Initiative's state and regional asset building coalition grantees in developing and promoting policies to reduce the wealth gap and build assets among low-income persons and in communities of color.

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