

Barriers to Neighborhood-Level Economic Growth: Do Payday Lending Operations Prey
on Economically Vulnerable African American Neighborhoods?

Lonnie Hannon III, PhD

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Introduction

Neighborhoods have always been characterized by the consumption patterns of its residents. The presence of certain products, services, and amenities is typically dictated by the consumption habits of residents. Businesses spend a substantial amount of resources locating in areas where demand is high for their products and then administering their products to such markets. The types of products and services offered in a particular area will often reflect the socioeconomic character of residents within a geographically defined region. Thus, businesses that offer products and services that involve direct interaction with consumers will often place substantial emphasis on location. This fundamental process is the essence of a market-based economic system. However, in a responsible society, restrictions are often placed on businesses that do not have the social, financial or health interests of the community in mind although their products may be in demand.

This is especially true in areas where residents have the political, financial, and social capital to limit the presence of entities that are perceived as harmful. Some affluent areas have been successful at restricting fast food businesses like McDonalds; not because their products are not in demand, but because they hurt the profitability of local restaurants and their food is often perceived as unhealthy. Similar situations have been observed concerning Wal-Mart, and other franchised entities.¹

¹ See "Combating Sameness with a Formula Business Ordinance" (2003). Zoning News. American Planning Association. Accessed. January 29, 2012.
http://www.nh.gov/oep/resourcelibrary/referencelibrary/f/formulabusinessregulation/documents/zoningnews_march03.pdf

Low-income and working class neighborhood often do not have the collective human or financial capital to support campaigns against businesses that are potentially damaging to the social and economic functioning of their community. In this situation, businesses that capitalize on the social and economic disadvantage of such neighborhoods face little resistance although their practices may be economically harmful to local residents. Businesses such as payday lending companies locate to areas because of the demand for their services, but many question the costs associated with their presence. Payday lending stores are of special interest because across the country, financial counselors and credit advocates have levied criticisms against these companies due to their lending practices. The payday lending industry has responded by suggesting that they are providing a needed service to residents who have been dispossessed by traditional financial institutions, many of which have been criticized for ignoring the needs of low-income and working class customers.

Given the built in need for payday lending stores to locate in areas where residents demonstrate financial hardships, this study is especially interested in the potential for race- and class-based distinctions. This is warranted by the fact that financial disparities exist concerning race in the United States where African Americans tend to lag behind Whites economically (Census, 2010). Thus, the objective of this study is to explore the potential for social and economic bias associated with race when examining the location of payday lending stores. Are payday lending stores in African American neighborhoods operating in an environment where residents are more socially and economically disadvantaged than those located in White areas? This study

examines neighborhood-level demographic contexts associated with payday lending store locations to provide insights on the above objective.

Literature and Theory

Payday lending repackages the longstanding concepts of the cash advance and check post-dating by combining them into one product. There is little evidence suggesting that employers and personal associates who advanced cash or exchanged money for a check to be cashed at a later date attached high interest rates to the principle. However, the business structure of payday lending companies requires that high interest rates be attached to their products. Payday lending stores usually require the borrower to write a postdated check for an agreed upon fee. The fee is usually written into the payback amount (i.e. a \$50 fee means the borrower will write a \$300 check for a \$250 loan). There is much variation in the annual percentage rate (APR) charged to borrowers, but it is not unusual for lenders to charge fees up to 1000% (Stegman, 2007). Studies suggests that the average rate ranges from 364%-550% (Graves and Peterson, 2005). This model has proven to be remarkably successful across the United States.

The payday lending industry has experienced rapid growth over the last 20 years. It is estimated that at least 22,000 payday loan outlets are currently operating across the United States generating \$27 billion in loan volume (Parrish and King, 2009). Their popularity speaks of the demand for short-term financing by residents who typically have limited financial assets from which to draw during times of need. Furthermore, the rapid growth of the industry is not speculative, but marked by financial success; for example, researchers indicate that loan volume increased from roughly 8

billion dollars in 1999 to between 40 and 50 billion in 2004 (Stegman, 2007; Murray, 2005). Reports also note that in 2004 alone, the payday lending industry generated 6 billion dollars in finance charges (Stegman, 2007; USA Today, 2004).

The practical rationale behind the demand for payday lending is two-fold: for one, payday lenders, like all businesses, make their products accessible to their market base. Payday lending stores are conveniently located, qualification is typically not contingent upon a credit check, and the loan terms are easy (Stegman, 2007; Caskey, 2005). Secondly, payday lenders provide an alternative to residents who have been alienated by traditional banks. Traditional banks are not structured to meet many of the needs of resource-poor residents. They offer fewer short-term loan products, they have limited operating hours, and their fee structure is often confusing. Also, many low-income residents feel that due to their economic status, they receive discourteous service from tellers and managers (Stegman and Faris, 2003).

Target Groups

The typical payday loan customer is employed with a checking account (Stegman and Faris, 2003) making between \$15,000 and \$60,000 annually. Recipients tend to young, female, and a majority have at least a high school diploma (Caskey, 2005). Importantly, there is evidence suggesting that payday lenders target racial/ethnic minorities. Data compiled by the Center for Responsible Lending (CRL) suggests that payday lending stores in California are 8-times more concentrated in predominantly African American and Latino neighborhoods (CRL, 2009).

A detailed study of payday loan recipients in North Carolina revealed that African Americans were twice as likely to receive a payday loan as White residents

(North Carolina Commissioner of Banks, 2001). Likely explanations for higher rates among this group include less access to consumer credit, fewer opportunities to obtain short-term loans from traditional banks, and underemployment (Stegman and Faris, 2003). Additionally, the North Carolina study found that high school dropouts and those who made between \$15,000 and \$20,000 were less likely to have received a short-term loan from a payday lender (Stegman and Faris, 2003).

Interestingly, those in the North Carolina Study who have worked with a credit counselor were more likely to have received a payday loan. This finding speaks not of the education received from counseling, but of the overall credit problems experienced by many residents seeking payday loans. Similarly, those who have bounced at least one check in the previous 5 years were also more likely to have received a payday loan (Stegman and Faris 2003).

Furthermore, loan seekers often undergo a process that involves public-shame tactics where lenders will contact the borrower's family members, coworkers, and supervisor to verify employment, but also as a safeguard against default given that the borrower will likely want to avoid the embarrassment of delinquency. Public shame is also used as a collection tactic. This includes "field-calls" where a representative of the lender will show up at the borrower's or a neighbor of the borrower's residence to attempt collection (Graves and Peterson, 2005).

Problems with the Payday Lending Business Structure

The payday lending business structure thrives on the economic hardships of financially stressed residents. Thus, the success of payday lenders depends on increasing the debt load of individuals already saturated with credit obligations.

Therefore, the success of payday lenders is antithetical to economic development among socially and economically disadvantaged individuals and the communities in which they reside. According to Blank (2008), many of the people who receive payday loans have unstable incomes due to job instability, family problems, and low wages. Unlike many in the middle-class, low-income residents often cannot afford to cut costs given that a substantial amount of their income (55% according to Blank) is spent on vital necessities such as food. Payday lenders capitalize on these circumstances by offering convenient, short-term loans, but with interest rates that in some states reach triple digits. Accordingly, payday lenders, just like any other business, will seek geographic proximity to those they serve. In this sense, the association of payday lenders with disadvantaged neighborhoods suggests that such communities are targeted as a market base. Again, the success of the lenders within these areas depends on consumption of their main product – high interest loans.

Although payday loans may be temporarily helpful to households experiencing tough financial circumstances, research suggests that there is no long-term benefit in doing business with such lenders. In fact, many households that use payday loans tend to have more difficulty paying mortgage and utility bills (Melzer, 2011). Furthermore, research suggests that in working-class communities, higher crime rates appear to be a latent consequence associated with increased payday loan activity within those areas (Kubrin et al., 2011).

Long-Term Debt via Short-Term Loans

Like any business, payday lenders encourage long-term reliance on their products and services. Repeat borrowers are enticed through advertising campaigns

that promise incentives to those who take out multiple loans during a given period (Rivlan, 2010). In many instances, customers are enticed to become “regulars” by being offered discounts on subsequent loans (Rivlin, 2010). Another common strategy used to increase profits is the practice of allowing loans to “roll over.” Loans recipients who do not pay their debt by the specified time are given the option to pay the associated interest for the initial period and roll their principle over, usually for another two weeks until payday. The loan recipient will be responsible for interest accrued during the roll over period.

According to the CRL, 76% of payday loans are repeat loans based on the same principle (CRL, 2010, 2012). In fact, the center reports that after paying off the loan balance, 49% of borrowers will take out a new loan within 24 hours and 87% of such borrowers will take out a new loan within 2 weeks. Studies also report that a high percentage of borrowers “roll over” their loans into larger ones increasing the interest fees required to satisfy the agreement (Graves and Peterson, 2005).

These practices illustrate how payday lenders thrive in environments where they are successful at creating long-term debt obligations via short-term loans. Such obligations diminish the capacity to build assets. Given that payday lenders located in economically disadvantaged areas target a market base with few assets, they appear to have an interest in encouraging reliance on a debt structure that impedes the economic development of asset-poor, working-class communities.

While the ramifications of the payday lending industry on the macro and individual level are documented, few studies examine their association with neighborhood-level socioeconomic factors. Furthermore, there are, at this time, no such

analyses that address factors within Alabama, a state that is among 6 others that have 5 or more payday lending stores per 10,000 residents (CRL, 2012). In addition, the Associated Press reports that 20% of Alabamians have taken out a payday loan (AP January 19, 2012). Furthermore, Alabama has some of the most lenient payday lending regulations in the country. According to the Alabama State Banking Department, lenders can apply as much as 455% APR to loans given to borrowers. The maximum loan is \$500 with one roll over allowed per store visited.² These policies are quite lenient, especially considering that the U.S. Congress caps interest rates for military personnel at 36% (Graves and Peterson, 2005).

Hypotheses

Based on the available literature, this study theorizes that payday lending stores target clientele from socially and economically disadvantaged areas. Emphasis is placed on African Americans given that they have lower median household incomes when compared to their White, Asian, and Hispanic counterparts (U.S. Census, 2010). Using 2009 estimates, Alabama has an African American population of 1,259,362 representing 27% of the total population. In terms of median household income, African Americans in Alabama earn about \$26,722, second lowest only to Mississippi (This figure is also well below the national average of \$34,445 for African Americans).

Like any business, payday lending stores will locate in areas where demand is high for their product. Because of this, payday lenders thrive in environments of social and economic disadvantage. Residents in socially and economically disadvantaged

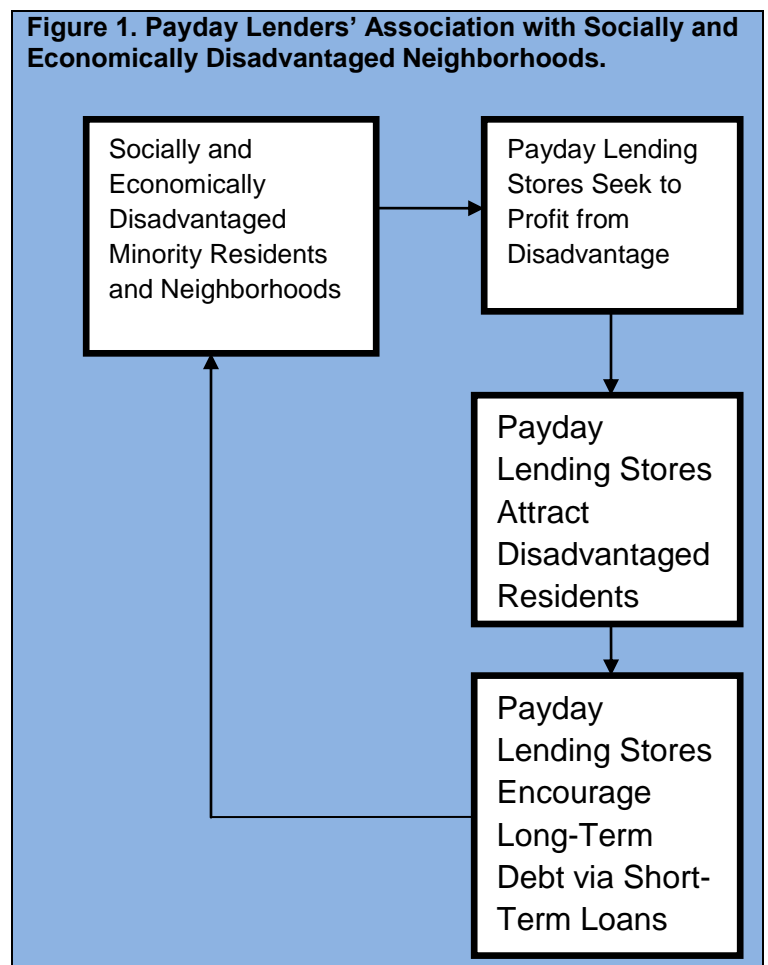
² See http://www.banking.alabama.gov/Applications/Form_Updates_Aug05/adpsa_page/FAQ_DP_Providers.pdf

African American neighborhoods have less access to traditional credit and fewer assets that can be translated into cash. These areas will also have higher rates of economically vulnerable individuals, such as single-mothers. Payday lending stores will take advantage of the demand generated from these weaknesses by targeting African American neighborhoods that exhibit high levels of social and economic disadvantage. Therefore, it is expected that African American neighborhoods where payday lending stores are located will have higher individual measures of economic and social disadvantage than White neighborhoods where stores are located.

Furthermore, residents in African American neighborhoods will exhibit attributes associated with having diminished asset-capacity. Asset-capacity is defined here as the possession of educational or financial resources that can be used to stimulate economic stability or growth. Figure 1 illustrates this process.

The following hypotheses are derived from the expectation that payday lenders have an interest in targeting communities experiencing social and economic disadvantage.

Hypothesis 1. When compared to White, African American neighborhoods where payday lending stores are located will be positively associated



with factors linked to social and economic disadvantage. These factors include:

- A. The percent of single mother households
- B. The percent of residents receiving food stamps
- C. The percent of residents living below the federal poverty line
- D. The percent of income required for rent
- E. The high school non-completion rate for males and females

It is also expected that low-income African American neighborhoods will have fewer financial assets which may exacerbate their economic vulnerability. Because of this, the above factors representing social and economic disadvantage will have a stronger association with African American neighborhoods where payday lending stores exist.

The following hypothesis represents this expectation:

Hypothesis 2. The association between neighborhood racial composition and factors of social and economic disadvantage will become stronger when adding measures of neighborhood-level asset-capacity to the equation, such as homeownership rate, employment rate, and median home values.

Methods

The aim of this study is to assess the association of payday lending store locations with neighborhood racial composition. Attention is focused on the state of Alabama because of its high rate of payday lending stores per capita and its lenient regulations. The approach uses a randomized sample of lending stores.

Sample and Data

A complete listing of payday lending stores located in Alabama was obtained from a data base maintained by the Alabama Banking Department. Every payday lending store in the state of Alabama must be licensed through the Alabama Banking Department. The comprehensive nature of the data base made it ideal for use as a

sampling frame for this study. Payday lending stores were randomized in Microsoft Excel. A sample of 400 stores was then drawn from the sampling frame. Each case and its physical street address were recorded.

Tract level data from the United States Census 2009 American Community Survey were merged into the sample. The study used tracts to approximate neighborhood; hence the terminology referring to neighborhood instead of tracts. Variables from the Census included data used to understand potential correlations between store location and the socioeconomic character of a particular tract. There was a specific interest in variables that reflect social and economic disadvantage as well as asset-capacity.

Variables

The sample of payday lending stores was categorized by neighborhood racial composition. The racial composition for each case containing a store was calculated with “predominant” neighborhoods containing at least 60% White or African American residents. As with the whole sample, predominantly White (n=253) and African American (n=83) neighborhoods were representative of the total racial composition of the state of Alabama (approximately a third of the valid neighborhoods were predominantly African American).

Neighborhood racial composition was dummy coded and used as the dependent variable in the multivariate analysis of this study. Predominantly Whites neighborhoods were coded as 0 and predominantly African American neighborhoods were coded as 1. White was used as the reference category.

Neighborhood-level independent variables for this study included those that measured the association of social and economic disadvantage in relation to stores located in predominantly White or African American neighborhoods. ***The percent of single mothers*** in each neighborhood represented an economically vulnerable group given their status as single-earners responsible for the care of children. This study measured whether there is a racial component to store location relative to the rate of households representing this group. Similarly, the ***percent of households receiving food stamps*** was included to measure the rate of residents receiving public assistance. The percent of households living ***below the Federal poverty*** line was a direct measure of financial hardship. The ***percentage of income spent on rent*** estimated the proportion of a household's income that remains after paying rent. The standard threshold for the percentage of income spent on rent is 30%. Percentages above this amount are believed to be a threat to household financial stability (Schwartz and Wilson, 2007). Finally, the ***percent of males and females with less than a high school education*** for each neighborhood were included under the logic that high school non graduates will face many economic hardships due to their limited attainment of formal education in a society that values academic achievement.

A second category of independent variables was included to examine the asset-capacity of residents for each neighborhood included in the sample. Accordingly, owning a home is a substantial investment that represents one of the largest financial assets that residents possess. Thus, ***homeownership rate*** was included as a measure of financial strength for each neighborhood. Similarly, median home value was included to provide an estimated dollar value for all owner occupied homes in each

neighborhood. Neighborhood-level **employment rate** was also included to assess the percentage of residents working in the labor force. The rate of formal employment is indicative of a neighborhood's overall economic stability.

Descriptive Statistics and Linear Analysis

Sample characteristics were included to provide a general illustration of the cases used in the study. In addition, a linear analysis using slope coefficients for a set of independent factors were calculated using the rate of African American population for each neighborhood as the dependent variable. Factors included in this analysis were described above. To help define the impact of employment and education on asset-capacity, **Employment rate for males and females between the ages of 35-44** and the **rate of residents with a bachelor's degree** were included in this analysis. A multivariate format was not used to conduct this analysis in order to better illustrate the independent association of each factor with the rate of African American population, which is used in this case as a continuous variable. Variables were placed into two categories: 1) those that assessed the association of social and economic disadvantage and 2) those that assessed the impact of neighborhood-level assets. Each slope coefficient was charted in Excel to create a trend line between the two categories.

Multivariate Analysis

Data for the multivariate analysis were analyzed using logistic regression. Neighborhood racial composition was used as the dependent variable. Data were entered into the regression equation in two steps. Step 1 included the factors that measured the association of social and economic disadvantage in relation to stores located in predominantly White or African American neighborhoods. These specific

factors were described in the “variable” section above. Step 2 included factors that assessed the impact of neighborhood-level asset-capacity on the variables examined in Step 1. These factors were also defined above. The logistic regression analysis generated the likelihood (odds) of each independent factor being associated with an African American neighborhood in reference to White areas. Confidence intervals were calculated for each outcome.

Results

Descriptive Results

Table 1 provides sample characteristics for neighborhoods containing payday lending stores. The sample was divided into predominantly White and African American neighborhoods using the previously explained rubric. The descriptive statistics point to distinctions between the two racial groups in terms of social and economic disadvantage as well as differences in the asset-capacity for each group. In reference to social and economic factors, predominantly African American neighborhoods with payday lending stores reported single-mother household rates at more than double that of their White counterparts. In addition, there was a higher rate of males and females who did not graduate from high school. Furthermore, predominantly African American neighborhoods reported poverty rates at more than double that of their White counterparts.

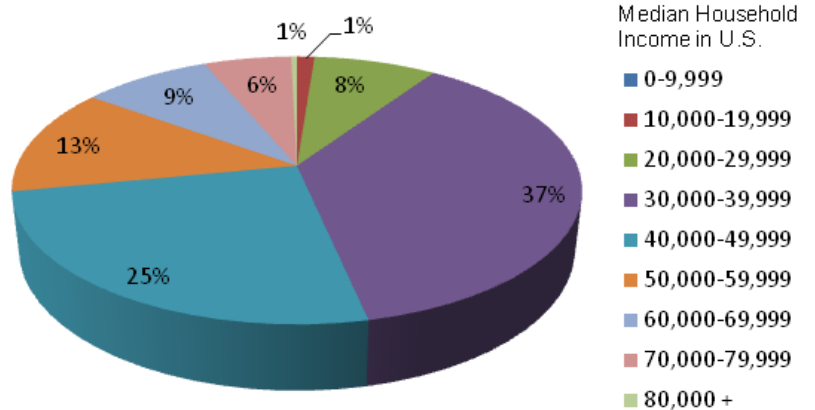
In terms of factors that reflect asset-capacity, African American neighborhoods that contain payday lending stores have lower median household incomes and median home values. Moreover, residents on average expend a higher percentage of their income on rent. African American neighborhoods have lower homeownership rates as

Table 1. Sample Characteristics for African American and White Neighborhoods Containing Payday Lending Stores

Factor	African American (n=83)			White (n=253)		
	Mean (%)	Range (min-max) (%)	Std. Dev. (%)	Mean (%)	Range (min-max) (%)	Std. Dev. (%)
Labor Force Participation	56.61	32-80	10.35	60.50	36-79	7.15
Employment Rate	49.59	23-71	10.47	56.58	26-77	7.71
Homeownership rate	53.01	16-84	15.41	69.78	23-92	12.90
Ratio of Homeowners to Renters	1.41	.20-5.39	.95	3.04	.29-12.07	2.06
Single Mother Households	26.52	14.00-72.00	8.82	11.82	.00-51.00	6.57
Male: Less than High School	25.25	7-54	9.76	17.49	0-44	9.47
Male High School Graduate	38.07	20-56	8.22	30.36	7-54	10.05
Male Associate's Degree	5.01	0-15	3.50	6.43	0-14	3.07
Male Bachelor's Degree or Higher	8.08	0-24	5.47	15.56	1-42	8.94
Male Master's Degree	3.78	0-29	4.57	8.44	0-41	7.27
Female: Less than High School	23.46	8-47	10.62	18.28	1-43	9.23
Female High School Graduate	32.55	17-48	8.04	31.11	10-56	8.35
Female Associate's Degree	6.11	0-16	3.50	7.40	1-22	3.14
Female Bachelor's Degree	9.61	1-21	5.63	13.28	0-41	8.09
Female Master's Degree or Higher	5.63	0-22	4.67	7.87	0-29	5.51
Total Population living Below Federal Poverty Line	31.88	11-62	12.60	14.73	2-48	8.30
Food Stamp Recipients	23.12	5-56	10.95	9.08	0-23	5.17
Median Gross Rent as a Percentage of Income	35.10	24.60-50.00	7.03	28.01	.00-50.00	7.04
Median Household Income (in U.S. Dollars)	\$27,371.16	\$9,396-\$49,214	\$10,652.21	\$43,737.49	\$17,727-\$102,997	\$13,821.01
Median Home Value	\$78,644.58	\$25,200-\$185,600	\$32,943.27	\$119,802.77	\$24,800-\$304,300	\$42,881.51

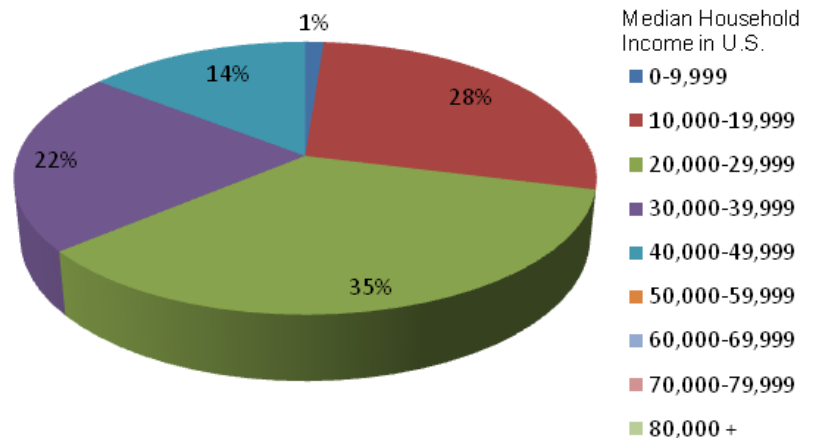
well as lower rates of labor force participation and employment. Furthermore, African American neighborhoods have fewer educational assets, which are reflected in the lower rate of residents with bachelor's and master's degrees.

Figure 2. Percent of Predominantly White Neighborhoods with Payday Lending Stores by Neighborhood-Level Income Categories



Figures 2-5 reinforce the descriptive statistics presented above. Figures 2 and 3 provide percentages of predominantly White and African American neighborhoods relative to their median household income category. Thirty-seven percent of White neighborhoods in the sample have a median household income of

Figure 3. Percent of Predominantly African American Neighborhoods with Payday Lending Stores by Neighborhood-Level Income Categories



between \$30,000 and \$39,000. One quarter of White neighborhoods fall within the \$40,000-\$49,000 range. In fact, 91% of White neighborhoods earn more than \$30,000 annually. In contrast, 35% of African American neighborhoods in the sample report median household incomes of between \$20,000 and \$29,000 annually while 28% earn between \$10,000 and \$19,000. Compared to their White counterparts, only 36% of African American neighborhoods earn more than \$30,000 annually.

Similarly, Figures 4-5 provide a categorical look at median home values for White and African American neighborhoods with payday lending stores. Twenty-eight percent of White neighborhoods in the sample have median home values between \$70,000 and \$99,000. Another 28% have home values ranging from \$100,000-\$129,000. Almost 1/5 of White neighborhoods have home values between \$130,000 and \$139,000. Meanwhile, 53% of African American neighborhoods in the sample have home values ranging from \$40,000-\$69,000. Finally, a quarter of African

Figure 4. Percent of Predominantly White Neighborhoods with Payday Lending Stores by Neighborhood Median Home Values

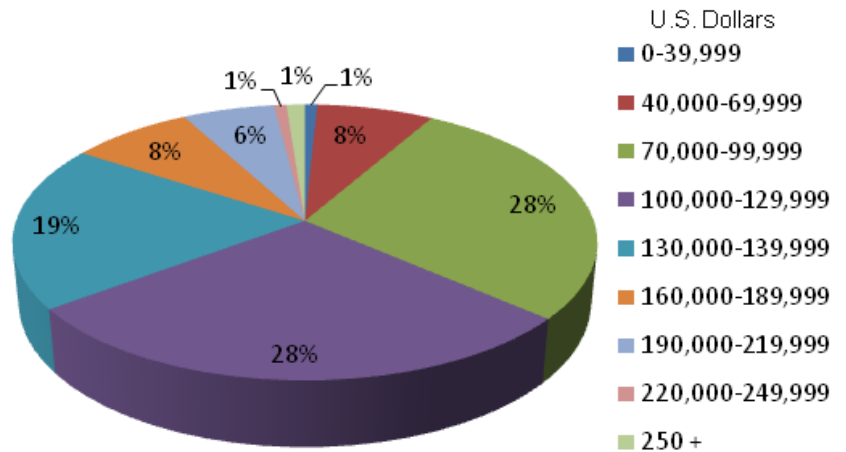
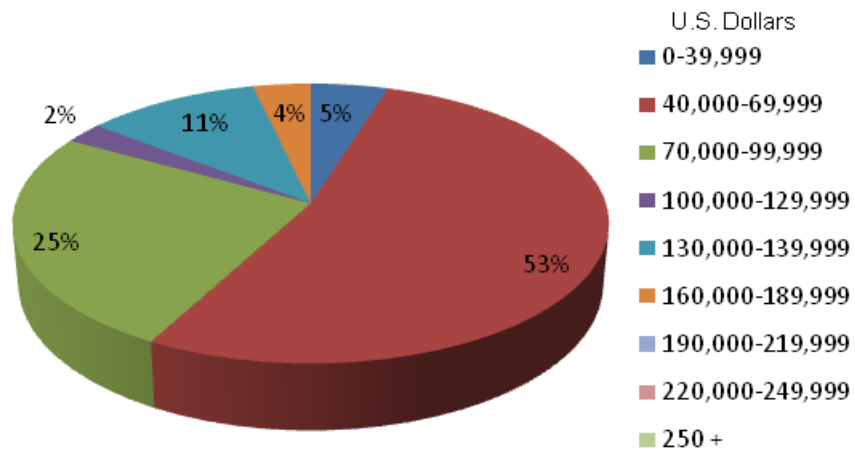


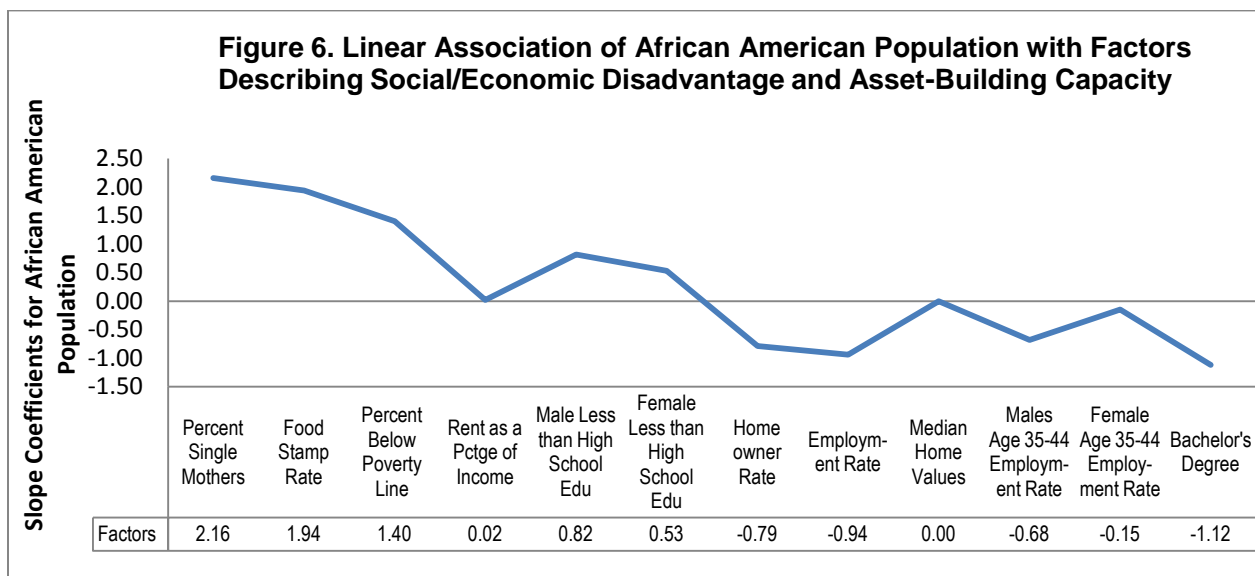
Figure 5. Percent of Predominantly African American Neighborhoods with Payday Lending Stores by Neighborhood Median Home Values



American neighborhoods have median homes values ranging from \$70,000-\$99,000.

Figure 6 provides an illustration of how selected variables of social and economic disadvantage compare to those that reflect asset-capacity. The first six factors are those that represent social and economic disadvantage. The second six represent asset-capacity. The rate of African American population in neighborhoods with payday lending stores is the dependent factor. The chart reflects a downward trend from the social and

economic disadvantage factors to the asset-capacity factors. This suggests that neighborhoods with higher rates of African American population have increased economic and social disadvantage and decreased asset-capacity. For example, the slope coefficient ($b=2.16$) for single-mother households is positive meaning that for every percent increase in single-mothers, African American population also increases. On the other end of the chart, the slope coefficient ($b= -1.12$) for the rate of residents with bachelor's degrees is negative meaning that for every percent increase in residents with bachelor's degrees the amount of African American population decreases.



Multivariate Results

The results for the multivariate analysis are provided in Table 2. The dependent variable for this analysis is neighborhood racial composition. Three factors were statistically significant in the first step. The first significant factor, the rate of single-mother households, was positively associated with the dependent variable confirming hypothesis 1A. For every one percent increase in the rate of single-mothers, the

likelihood of being in an African American neighborhood containing a payday lending store increased by 16%. Likewise, a one percent increase in amount of residents receiving food stamps increased the likelihood of being in an African American neighborhood by 16% confirming hypothesis 1B. Finally, a one percent increase in the rate of females who did not finish high school decreased the likelihood of

being in an African American neighborhood by approximately 9%. Hypotheses C, which examined the percent of residents living below the federal poverty line and D, which examined the percent of income required for rent failed to reach statistical significance.

Table 2. Likelihood of Association with Predominantly African American Neighborhoods				
Factors	Step 1	95% C.I.	Step 2	95% C.I.
Percent Single Mothers	1.160***	1.079-1.247	1.159***	1.068-1.258
Food Stamp Rate	1.161**	1.050-1.284	1.178**	1.057-1.312
Percent Below Poverty Line	1.056	.992-1.124	.982	.907-1.062
Rent as a Percentage of Income	1.047	.983-1.114	1.067	.998-1.140
Male: Less than High School	1.014	.941-1.094	.996	.911-1.090
Female: Less than High School	.912*	.847-.983	.876**	.806-.952
Homeownership Rate			.966	.928-1.005
Employment Rate			.895**	.835-.960
Median Home Values			.987	.969-1.005
	*p<.05 ** p < .01 ***p<.001			

Hypothesis 1E which examined the rate of females with less than a high school diploma was disconfirmed as it exhibited an inverse relationship with neighborhood composition.

Asset-capacity variables consisting of homeownership rate, employment rate, and median home value were added in Step 2. The positive relationship between single-mother households and the likelihood of being in an African American neighborhood remained robust corroborating Hypothesis 2. Moreover, the likelihood of association with a predominantly African American neighborhood when examining the

rate of residents receiving food stamps increased from 16% to 18% when adding the asset-capacity factors, which also confirmed the second hypothesis. This addition also influenced the impact of diploma-less females on the dependent variable. Here the odds of being in an African American neighborhood decreased by about 12 percent with every one percent rise in the rate of females without a high school diploma. Finally, employment rate was shown to have an inverse statistically significant influence. Every one percent increase in employment rate yielded a 10% decrease in the likelihood of being in an African American neighborhood containing a payday lending store.

Discussion

This study presents clear evidence that payday lending stores in African American neighborhoods exist within a context of high social and economic disadvantage and limited asset-capacity when compared to those in White areas. The rapid growth of the payday lending industry may contribute to disadvantage through its practice of encouraging long-term debt via short-term loans. If payday lenders were equitable in their choice of location then the social and economic characteristics between African American and White neighborhoods would be similar. However, this study finds substantial discrepancies between neighborhoods. The data show that residents residing in predominantly African American neighborhoods already exist under precarious economic circumstances, which will not be aided by the payday business structure.

While the payday business structure is not the cause of poverty, it is a contributor. This is especially true in African American neighborhoods, which are often isolated from the assets that lead to economic development such as employment

(Wilson, 1996) and quality formal education (Wilson, 2009). Payday lenders provide short-term financial relief at a cost that amounts to high interest fees and the potential for long-term indebtedness. It is a one-way relationship where payday lenders profit from the economic despair of local residents. This highlights a central point arising from this study that residents in disadvantaged neighborhoods often do not have the human, political, or financial capital to prevent businesses that do not promote the best interest of their clientele from operating.

The economic reality is that payday lenders see financially vulnerable residents as a viable market. The payday lending model creates two major obstacles to asset building: 1) Higher interest rates charged by payday lenders cut further into household revenue thereby reducing the potential for income to develop into assets. 2) Payday lending stores encourage repeat borrowing. This exacerbates condition number one while promoting dependency as customers begin to rely on payday lenders to supplement their income needs. This perpetuates a cycle of indebtedness that hinders asset development among financially vulnerable residents. The aggregate asset-building potential of the neighborhood declines as multiple households are affected. Thus, it can be said that financially, if payday lenders are doing well, then residents and the neighborhood in which they reside are doing badly.

Markets

The literature is in accord with many of the findings from this study. Payday lenders tend to be located in areas where most residents have high school degrees, but there is a significant amount of financially vulnerable females. One such group is single-mothers. The logistic regression and the linear analyses both reveal a positive

relationship between payday lending stores in African American communities and the rate of single mother households.

The precarious economic situation that many single-mothers experience makes them especially vulnerable to predatory lending practices. Single-mothers undertake the financial obligation of providing for children and a home, often without help. Payday lenders know that many single-mothers must maintain employment because of these obligations. The lenders also know that single-mothers, especially those who are low- to middle-income, will have shortfalls between paychecks. The literature as well as findings from this study suggests that payday lenders take full advantage of this situation.

Other direct example of the location bias exhibited by payday lenders is the disproportionate amount of residents from African American neighborhoods containing payday lending stores who are living below the poverty line and receiving food stamps. The descriptive statistics reveal that African American neighborhoods in the sample have more than double the rates of poverty and food stamp recipients as White neighborhoods. Businesses that encourage cyclical debt in neighborhoods already characterized by high poverty contribute to the problem. Residents with little disposable income face increased economic hardship when having to spend a substantial portion of their income on high interest fees. The literature suggests that residents who receive payday loans often have trouble with other living costs such as rent. Data from this study highlights this potential. Renters in African American neighborhoods with payday lending stores contribute an estimated 35% of their income toward rent compared to the 28% spent by White residents. Given that many African Americans have already

crossed the 30% threshold in rent cost, high interest rates and other associated fees only exacerbates their economic disadvantage.

Conclusion

The debate surrounding the legitimacy of payday lending encompasses the broader conflict between unrestricted free-market capitalism and social responsibility. Both are valued principles in a modern democratic society. Social responsibility requires that every citizen maintain a balance between individual pursuits and the common good. Legal, ethical, and moral problems often ensue when individual goals threaten the well-being of the group.

Payday lenders are innovative in their design and execution of a market-based business model that combines the traditional practices of the cash advance and check post-dating. In creating a high-interest fee structure and encouraging repeat customers, the payday lending industry has generated enormous profits. The question is not whether payday lenders have taken advantage of the demand within the free-market, but whether the common good has been compromised in the process.

Data from this study and others suggest that the enormous profits of payday lenders are a function of the economic hardships experienced by working-class residents. In addition, there is sound evidence that the fee structure and the tendency to promote long-term debt obligations may be disproportionately harmful to residents in predominantly African American communities. Furthermore, there is evidence suggesting that payday loans only exacerbate the economic hardships experienced by many recipients. Although patronage of payday lenders is based upon individual choice, the consequences for an entire society must be taken into consideration. There will

always be a demand for extra cash. The goal of a responsible, intelligent, and forward-thinking society is to develop innovative ways of prudently meeting that demand without threatening the common good.

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