Predatory Profiling:

The Role of Race and Ethnicity in the Location of Payday Lenders in California

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Predatory Profiling:
What Are Payday Loans?

- Authorized by California Legislature in 1996
- Small, short-term loan secured by a borrower's personal check
- In California, $17.65 fee per $100 borrowed (459% APR for a typical two-week loan)

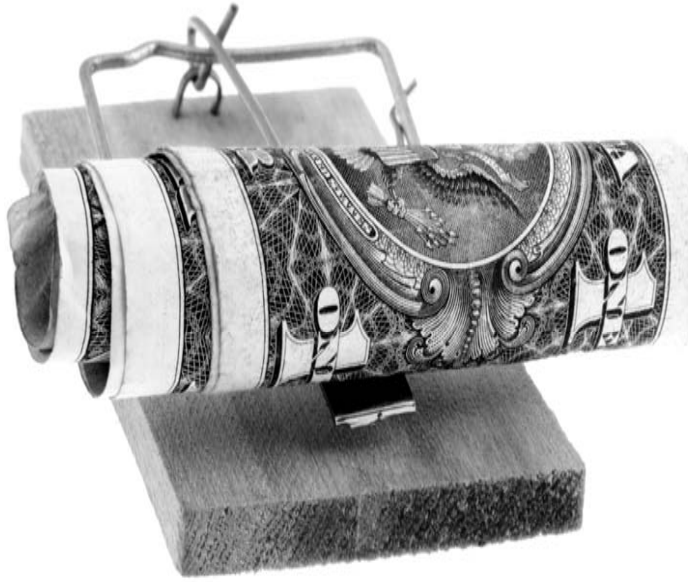
Predatory Profiling:
The Problem with Payday Loans

- Marketed as a quick way to deal with an unexpected expense before payday

- Borrowers often lack the income to repay the loan and cover basic expenses and are forced to take repeated loans

- What was advertised as a convenience ends up being a **debt trap**

Predatory Profiling:
The Problem with Payday Loans



- Average California borrower takes out 10 loans a year (likely on a consecutive basis)
- This debt trap costs the borrower nearly $450 in fees for $255 in credit
- Less than 4% of loans go to borrowers that get just one loan a year

Predatory Profiling:
$64,000 Question

Why are payday borrowers in California disproportionately African American and Latino?

- Do payday lenders cluster in communities of color?
- What are the most important factors for predicting where payday lenders locate?
- Does this differ from other financial institutions, such as banks?

Predatory Profiling:
Key Findings

- Payday lenders are nearly EIGHT times as concentrated in neighborhoods with the largest shares of African Americans and Latinos as compared to white neighborhoods.

- After controlling for income and other factors, payday lenders are still 2.4 times more concentrated in African-American and Latino communities.

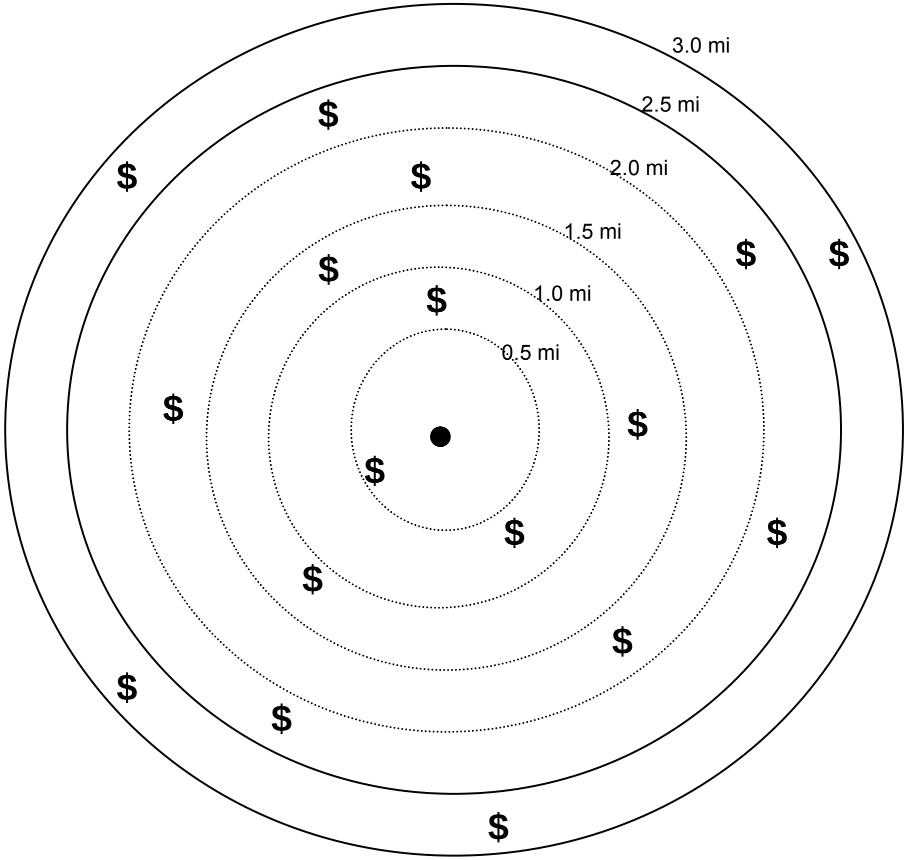
- Race and ethnicity play a far less important role in the location of mainstream financial institutions, such as bank branches.

Predatory Profiling:
Key Finding: Concentration

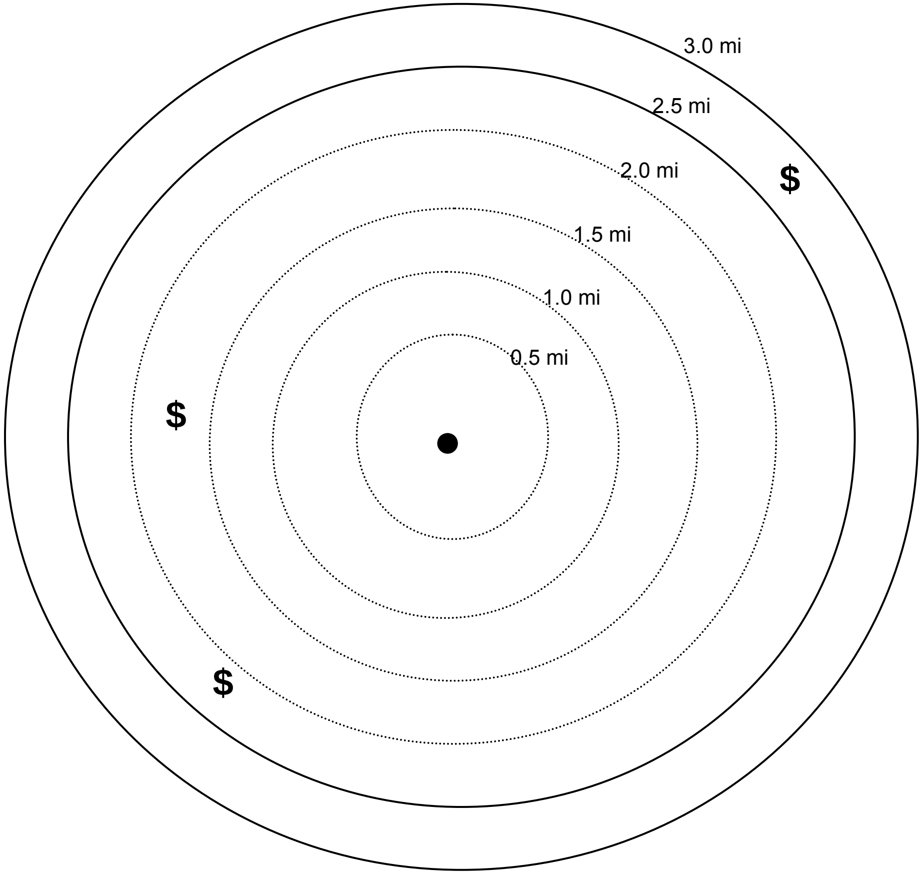
Payday lenders are nearly EIGHT times as concentrated in neighborhoods with the largest shares of African Americans and Latinos as compared to white neighborhoods.

These stores drain $247 million in fees annually from these communities.

Predatory Profiling:
Key Findings: Concentration

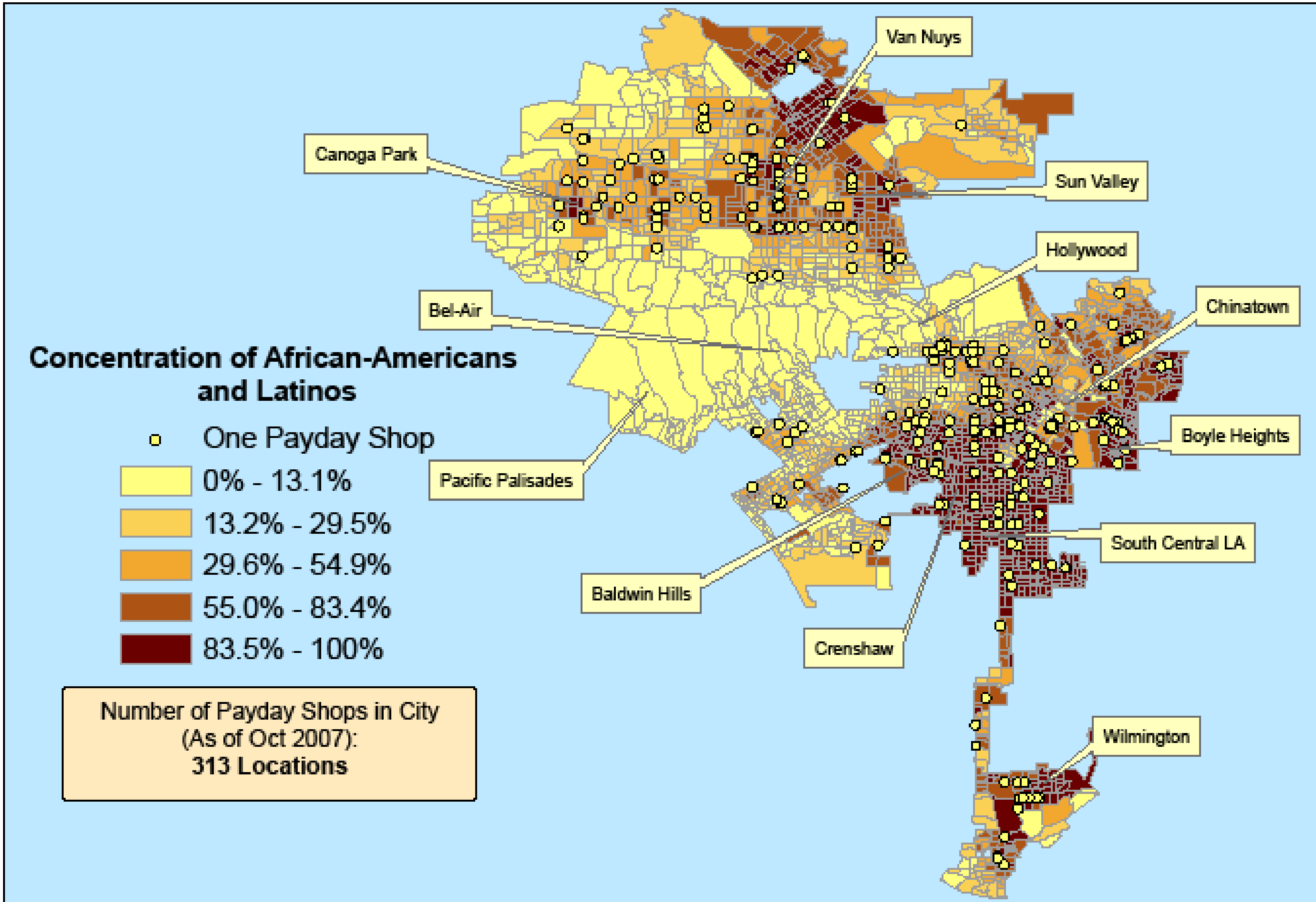


African American/Latino Neighborhood



White Neighborhood

Payday Shop Locations in African-American and Latino Neighborhoods
City of Los Angeles, CA



Center for Responsible Lending
Sources: 2000 U.S. Census; Oct 2007 CA Department of Corporations
Note: Racial concentrations are defined in quintiles relative to the MSA in which city is located.

Predatory Profiling:
Key Findings: Concentration

Isolate the impact of race/ethnicity from other factors:

- Total population (density)
- Share of population age 18 or older (adults)
- Median household income
- Poverty rate
- Educational attainment
- Unemployment rate
- Homeownership rate
- Gender
- Share of population that is non-English speaking
- Total retail employees (presence of retail storefronts)

Predatory Profiling:
Key Findings: Concentration

Even after controlling for income and a variety of other factors, payday lenders are 2.4 times more concentrated in African-American and Latino communities.

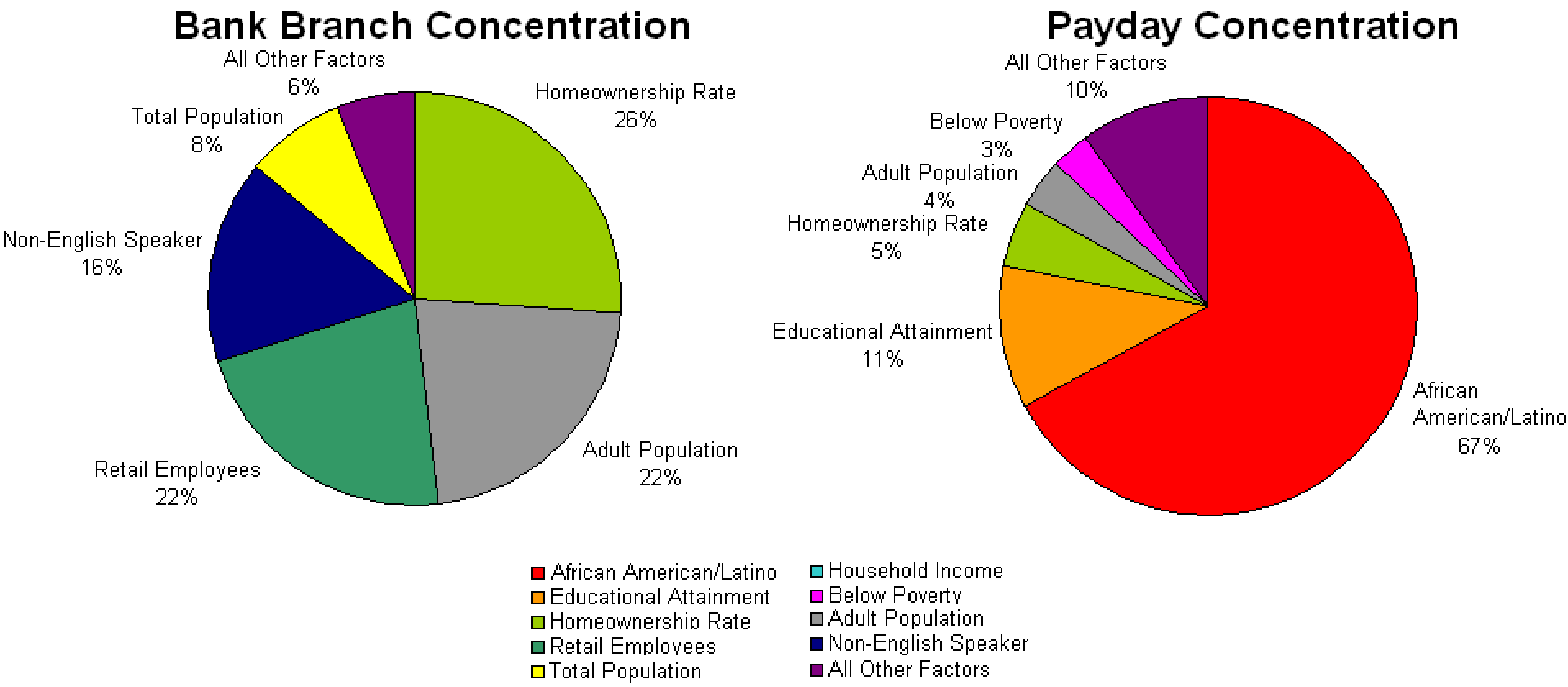
The nearest payday lender is almost twice as close to the center of an African-American or Latino neighborhood as a largely-white neighborhood.

Predatory Profiling:
Key Findings: Location Factors

Race and ethnicity play a far less prominent role in the location of mainstream financial institutions, such as bank branches.

Out of all the neighborhood variables included in our study, more than half of the variation in payday lender location can be explained by race and ethnicity. In contrast, race and ethnicity is a weak predictor of bank branch location.

Predatory Profiling:
Key Findings: Location Factors



Predatory Profiling:
Policy Recommendation

36%

- A comprehensive small-loan rate cap is the only solution that can spring the debt trap
- 15 states, DC and the Defense Department already employ similar caps
- Other solutions supported by industry maintain the dependence on repeat borrowers

Contact

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