# Race Matters

***The Concentration of Payday Lenders in African-American Neighborhoods***

CRL Research Abstract

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This report examines the neighborhood impact of payday lending in North Carolina. Previous research has shown that payday loans, though marketed as short-term emergency credit, in fact trap borrowers in high-cost, revolving debt. Although payday lending was banned by North Carolina in 2001, we have identified 385 payday loan stores that continue to operate openly across the state through affiliation with out-of-state banks in an arrangement known as the rent-a-bank model.

Through a series of empirical analyses, the Center for Responsible Lending finds that North Carolina payday lending storefronts are disproportionately located in African-American neighborhoods.

While the payday lending industry frequently describes its typical customer in detail, discussion of the role of race is noticeably absent. This report helps correct that omission. Our analysis of North Carolina neighborhoods reveals a powerful relationship between the proportion of African-Americans and the concentration of payday lending stores:

- African-American neighborhoods have three times as many stores per capita as white neighborhoods. This disparity increases as the proportion of African-Americans in a neighborhood increases.

- This three-fold disparity remains unchanged even when we control for the neighborhood characteristics of income, homeownership, poverty, unemployment rate, urban location, age, education, share of households with children, and gender.

These findings raise troubling questions about whether these payday lenders are in compliance with federal and state fair lending laws. The Equal Credit Opportunity Act protects minority communities from discriminatory practices in the credit market. Predatory lending in protected communities may constitute discrimination — not because it excludes minorities, but because it targets and exploits them by offering loans with abusive terms and conditions. Since North Carolina has prohibited payday loans, an implicit recognition that the product is abusive, our research suggests that some payday lenders operating in North Carolina may be violating anti-discrimination laws.

Further research is needed to determine whether the disparate impact found here in North Carolina also occurs in other states, especially those where payday lenders have partnered with banks in an attempt to evade the state's legal restrictions on payday lending.

State and federal policymakers should take steps to end predatory payday lending, as it traps borrowers in a cycle of debt and has a disparate impact on neighborhoods historically disadvantaged by unfair lending practices.