Payday and vehicle title lending disproportionately harm communities of color, exploiting and perpetuating the racial wealth gap.

Center for Responsible Lending

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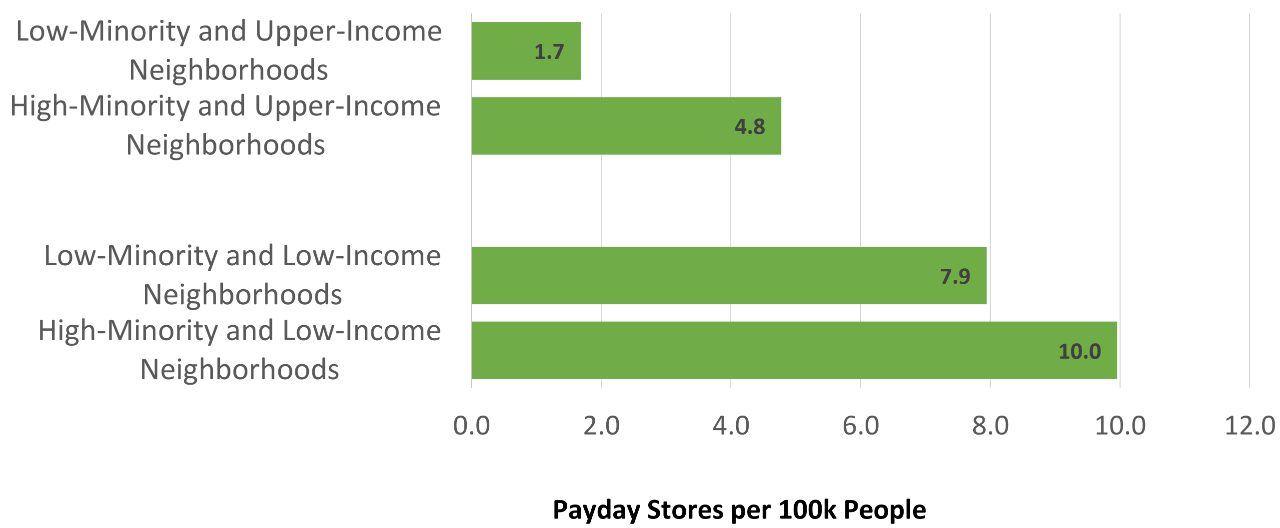
A legacy of racial discrimination in housing, lending, banking, policing, employment, and otherwise, has produced dramatically inequitable outcomes that persist today. Communities of color, often largely segregated due to the history of redlining and other racially exclusionary housing policy, experience higher rates of poverty, lower wages, and higher cost burdens to pay for basic living expenses. Payday loans cause particular harm to these communities.

Payday lenders target borrowers of color, in part by concentrating their locations in communities of color.[1] Indeed, the communities most affected by redlining are the same who are saturated by payday lenders today. Payday lenders in California were found 2.4 times more concentrated in African American and Latino communities, *even after controlling for income and a variety of other factors*.[2] Payday lenders in Florida were also more concentrated in majority black and Latino communities, even after controlling for income, as shown in the chart on the following page.

Florida Payday Store Concentrations by Race and Income, Combined:[3]



Recent studies have also found concentration of payday lenders in communities of color in Michigan[4] and, prior to its new law capping interest rates at 36%, Colorado.[5] Both studies found that more affluent communities of color were more likely to have payday loan stores than less affluent predominantly white communities.[6]

In light of this targeting, it is unsurprising that a disproportionate share of payday borrowers come from communities of color, even after controlling for income.[7] African-Americans are payday borrowers at three times the rate, and Hispanics at twice the rate, of non-Hispanic whites.[8] Vehicle title borrowers are also disproportionately African-American and Hispanic.[9]

The disparity in payday loans is especially significant given that African Americans and Latinos are much less likely to have checking accounts than whites.[10] Since a checking account is typically required to get a payday loan, one might expect the concentration of payday lenders to be lower than in neighborhoods of color than in white neighborhoods, but that's not the case.

Communities of color have historically been disproportionately left out of the traditional banking system, a disparity that persists today. About 17 percent of African American and 14 percent of Latino households are unbanked, compared to 3 percent of white households.[11] Payday and vehicle title loans, with their high association with lost bank accounts,[12] drive borrowers out of the banking system and exacerbate this disparity.

Payday and vehicle title lenders claim their products provide access to credit in communities that have few other options. Subprime mortgage lenders did the same leading up to the 2008 foreclosure crisis, before their practices led to the erasure of three decades of economic progress for households of color.[13]

In reality, payday and vehicle title lending strips borrowers of income and assets, leaving them worse off, while stifling the development of responsible products—a double-edged sword. Permitting their unfair and abusive practices to continue unfettered entrenches a two-tier financial system. One group of consumers has access to the mainstream financial system, while another is further marginalized, relegated to predatory lenders pushing debt traps. By sustaining and exacerbating an existing precarious financial situation, the debt trap reinforces and magnifies existing income and wealth gaps—legacies of continuing discrimination—and perpetuates discrimination today.

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[1] *See*, *e.g.*, Delvin Davis, *et al*., *Race Matters: The Concentration of Payday Lenders in African-American Communities in North Carolina*, Center for Responsible Lending (2005), http://www.responsiblelending.org/north-carolina/nc-payday/research-analysis/racematters/rr006-Race_Matters_Payday_in_NC-0305.pdf (finding that, even when controlling for a variety of other factors, African-American neighborhoods had three times as many payday lending stores per capita as white neighborhoods in North Carolina in 2005); Assaf Oron, *Easy Prey: Evidence for Race and Military Related Targeting in the Distribution of Payday Loan Branches in Washington State*, Department of Statistics, University of Washington (2006) (concluding based on a study of Washington State payday lenders that “payday businesses do intentionally target localities with a high percentage of African Americans.”).

[2] Li, *et al*., *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California,* Center for Responsible Lending (2009), http://www.responsiblelending.org/payday-lending/research-analysis/predatory-profiling.pdf.

[3] Replicated from Brandon Coleman and Delvin Davis, *Perfect Storm: Payday Lenders Harm Florida Consumers Despite State Law*, Center for Responsible Lending at 7, Chart 2 (March 2016). The analysis is based on payday loan locations provided by the Florida Office of Financial Regulation, as of January 2016, reflecting more than 1,100 stores. Two payday lenders—Amscot and Advance America—own nearly 500 of these stores. By comparison, Starbucks has 642 Florida locations.

[4] Delvin Davis and Lisa Stifler, *Power Steering: Payday Lenders Targeting Vulnerable Michigan Communities*, Center for Responsible Lending (Aug. 2018), https://www.responsiblelending.org/research-publication/power-steering-payday-lenders-targeting-vulnerable-michigan-communities.

[5] Delvin Davis, *Mile High Money: Payday Stores Target Colorado Communities of Color*, Center for Responsible Lending (Aug. 2017; amended Feb. 2018), https://www.responsiblelending.org/research-publication/mile-high-money-payday-stores-target-colorado-communities-color.

[6] *Id*.

[7] 82 Fed. Reg. at 54556 (citing FDIC The Pew Charitable Trusts, Safe Small-Dollar Loans Research Project, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* at 9 (July 2012) (finding that, after controlling for other characteristics including income, payday loan usage was 105% higher for African Americans than for other races/ethnicities). Other studies that do not control for income also show disproportionalities. Amanda Logan and Christian E. Weller, *EZ Payday Loans: Who Borrows From Payday Lenders? An Analysis of Newly Available Data*, Center for American Progress (March 2009), summary of findings at page 1 (finding, based on the FRB’s Survey of Consumer Finances conducted in 2007 and released in 2009 payday borrowers are more likely to be minorities); California Department of Corporations, *Payday Loan Study* (updated June 2008), *available at* http://www.dbo.ca.gov/Licensees/Payday_Lenders/Archives/pdfs/PDLStudy07.pdf (finding that, although they represent about one-third of the overall state population, over half of California payday borrowers are African American and Latino); Skiba and Tobacman, Do Payday Loans Cause Bankruptcy?, *supra* (analysis of a database of a large Texas-based payday lender finding that African Americans (who make up approximately 11 percent of the total adult population) made up 43 percent of payday borrowers and Latinos (who make up approximately 29 percent of the total adult population) made up 34 percent of payday borrowers).

[8] Consumer Financial Protection Bureau (CFPB), 82 Fed. Reg. 54472, 54556-57 (Nov. 17, 2017) (citing 2015 FDIC National Survey of Unbanked and Underbanked Households (calculations using custom data tool)).

[9] CFPB, 82 Fed. Reg. at 54557 (citing FDIC National Survey of Unbanked and Underbanked Households) (calculations using custom data tool).

[10] 2017 FDIC National Survey of Unbanked and Underbanked Households, at 3, *available at* https://www.economicinclusion.gov/downloads/2017_FDIC_Unbanked_HH_Survey_Report.pdf.

[11] *Id*.

[12] CFPB found that about half of payday loan borrowers paid a nonsufficient funds (NSF) or overdraft fee. CFPB, 82 Fed. Reg. at 54725. These borrowers paid an average of $185 in such fees, while 10% paid at least $432. *Id.* at 54276. CFPB further found that 36% of borrowers with a bounced payday loan payment later had their checking accounts closed involuntarily by the bank. *Id.*

[13] *See* Prosperity Now and the Institute for Policy Studies, *The Road to Zero Wealth* at 8 (September 2017), https://prosperitynow.org/sites/default/files/PDFs/road_to_zero_wealth.pdf.