An Attack Without Merit

Payday industry pays for challenge to CRL's race research

CRL Comment February 14, 2006

PAYDAY INDUSTRY TRIES TO DISCREDIT CRL RESEARCH... AGAIN

INDUSTRY DOLLARS FUNDED SUPPOSED ACADEMIC RESEARCH

Industry-sponsored critique

A front group for the payday lending industry paid a college professor, Thomas Lehman, to write a pro-payday research report last year. The front group is Consumer Credit Research Foundation (CCRF), whose public relations director told BusinessWeek that CCRF is funded by the payday lending industry. ("This Opinion Brought To You By...", BusinessWeek Online, Jan. 30, 2006.)

CCRF has now sponsored a critique of CRL's "Race Matters" paper, also authored by Lehman.

The critique is the payday lending industry's second attempt to publicly discredit CRL's research on the impact of payday lending on African-American neighborhoods. In April 2005, the Community Financial Services Association (CFSA), a trade association of the payday lending industry, claimed that research by the Federal Deposit Insurance Corporation (FDIC) refuted the CRL findings in "Race Matters." A co-author of the FDIC study, Mark Flannery, wrote a letter to CFSA stating: "I feel that you have incorrectly characterized how our conclusions relate" to the CRL study. (Letter on file with CRL, April 11, 2005.)

African-American neighborhoods have 3 times as many payday lending stores per capita as white neighborhoods.

"Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina," finds the 3-to-1 disparity even when controlling for income and 8 other factors.

Findings hold

"Race Matters" found that African-American neighborhoods in North Carolina have three times as many payday loan stores as white neighborhoods, even when income is taken into account. The CRL study in North Carolina used strong methodology and data to ensure that all relevant factors were considered.

Nothing in the Consumer Credit Research Foundation's new report calls into question the finding that abusive payday loans are a bigger problem in African-American communities.

The harshest accusation against the CRL research is based on a major error on the part of the author, who writes:

© 2006 Center for Responsible Lending
www.responsiblelending.org

> (p7) "One of the basic assumptions of the multiple regression statistical technique used by the authors of the "Race Matters" study is that the dependent variable is "normally" distributed."
>
> (p10) "The dependent variable used in the multiple regression analysis is non-normally distributed and highly positively skewed, severely weakening the findings."

A good critique, if only it were true. Our multiple regression analysis relied on a statistical technique known as "negative binomial regression" that is specifically designed to be used in instances in which the dependent variable is not normally distributed and follows the pattern found in our data. In other words, the critique's premise on p7 is wrong and so is the resulting conclusion on p10. The notion that a negative binomial regression model does not call for a normally distributed dependent variable can be verified by anyone with a working knowledge of statistics.

Other examples of faulty reasoning:

> The CCRF critique states that CRL does not appear to use a random sample, but CRL *surveyed* known payday lending stores in North Carolina. The author of the critique failed to distinguish between the two types of data collection methods, sampling and surveying.
>
> The CCRF critique accuses CRL of omitting variables that might explain why payday lenders locate in African-American neighborhoods. In actuality, CRL controlled for eight variables in addition to race and established that three times the number of payday lending stores are located in African-American neighborhoods as white neighborhoods per capita. Our research documented this phenomenon, establishing the greater impact payday lending has on African-American communities, regardless of why payday lending companies choose to locate in these neighborhoods. (The eight variables controlled for in addition to race were income, homeownership, poverty, unemployment rate, urban location, age, education, share of households with children, and gender.)

Payday loans trap borrowers

A final criticism of CCRF is that in our research documenting the disproportionate impact of payday lending on African-American neighborhoods, CRL leads the reader to believe that “payday lending is a social ill that provides no benefits.” Contrary to the payday lending industry’s claims that their product boosts borrowers to their next paycheck, research overwhelmingly documents that the business model of payday lending is based on repeatedly renewing loans to the same borrowers.

© 2005 Center for Responsible Lending
www.responsiblelending.org

Advance America, the nation's largest payday lender and the largest lender in North Carolina before the Commissioner of Banks ruled it was operating illegally, states that their average borrower renews 8 times a year. This means the typical payday borrower is paying back $800 for a loan of $325.

The terms of the loan produce this "loan-flipping" effect by requiring that the loan be paid in full on the borrower's next payday. Borrowers who are already short on cash rarely make up the shortfall in two weeks or less, and so most are forced to pay another fee, which extends or renews the loan without paying down the principal. Thus borrowers are trapped for weeks, months, or years paying fees on a loan that is never reduced. Nine out of ten payday loans are renewed. Over 90 percent go to borrowers who have five or more loans per year.

About the Center for Responsible Lending

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at **www.responsiblelending.org**.

© 2005 Center for Responsible Lending
www.responsiblelending.org