Payday Loan Reading List

Published on *Show-Me Institute* (https://showmeinstitute.org)

By: Abhi Sivasailam

One problem with the debate over payday loan regulation in Missouri and elsewhere is a lack of sustained focus on data. Regrettably, both opponents and proponents of regulatory legislation within the state seem to cling reflexively to familiar, abstract narratives and consequently fail to engage the public with meaningful evidence to support their assumptions. To alleviate this problem, I am compiling this list of literature — both sympathetic and unsympathetic to the payday loan industry — to enrich the public dialogue. If any of you know of more quality literature on the topic, please add to this post in the comments.

1. Payday Holiday: How Households Fare after Payday Credit Bans (ungated), Donald P. Morgan and Michael R. Strain.

   "Compared with households in states where payday lending is permitted, households in Georgia have bounced more checks, complained more to the Federal Trade Commission about lenders and debt collectors, and filed for Chapter 7 bankruptcy protection at a higher rate. North Carolina households have fared about the same. This negative correlation—reduced payday credit supply, increased credit problems—contradicts the debt trap critique of payday lending."

2. The Economics of Payday Lending (ungated), John P. Caskey, Swarthmore College.

   General overview of payday lending industry and basic issues. Written for a lay audience.

3. Do Payday Loans Cause Bankruptcy? (ungated), Paige Marta Skiba and Jeremy Tobacman.

   "Though the size of the typical payday loan is only $300, we find that loan approval for first-time applicants increases the two-year Chapter 13 bankruptcy filing rate by 2.48 percentage points."

4. Factors Affecting the Location of Payday Lending and Traditional Banking Services in North Carolina (ungated), Mark L. Burkey and Scott P. Simkins.

   Explores the geography of payday loan institutions. "A key finding is that after controlling for many covariates, race is still a powerful predictor of the locations of both banks and payday lenders."

5. The Profitability of Payday Loans (ungated), Paige Marta Skiba and Jeremy Tobacman.

   "Despite charging effective annualized rates of many thousand percent, we find lenders' firm-level returns differ little from typical financial returns. The data are consistent with an interpretation that payday lenders face high per-loan and per-store fixed costs in a competitive market."

6. Quantifying the Economic Cost of Predatory Payday Lending (ungated), Keith Ernst, John Farris, Uriah King:

   "Our analysis of quantitative data reveals that payday lenders collect the vast majority of their fees from borrowers trapped in a cycle of repeated transactions, where borrowers are forced to pay high fees every two weeks just to keep an existing loan outstanding that they cannot afford to pay off."

7. A Comparative Analysis of Payday Loan Customers (gated), Edward C. Lawrence and Gregory Elliehausen.

   "By analyzing the data collected in a national survey of payday customers, this research allows policymakers to better understand what type of consumer borrows from payday lenders, for what purpose, and what the true benefits and costs are. The results confirm a strong demand for payday loans that satisfy a real financial need within a certain segment of the population."

8. Mayday Payday: Can Corporate Social Responsibility Save Payday Lenders (ungated), Carmen M. Butler and Niloufar A. Park.

   "In this article we ask what the best ways are to maximize the wealth of the payday lending industry while limiting the industry's harmful impact on consumer communities? We assert that payday lenders will likely demonstrate greater corporate social responsibility only after there is a change in the laws that govern the industry coupled with industry-wide reform in corporate governance."

9. Restricting consumer credit access: Household survey evidence on effects around the Oregon rate cap (ungated), Jon Zinman.

   "Borrowing fell in Oregon [after interest rate caps] relative to Washington, with former payday borrowers shifting partially into plausibly inferior substitutes: bank overdrafts and late bill payment. Additional evidence suggests that restricting access caused deterioration in the overall financial condition of Oregon households. Overall the results are consistent with restricted access harming, not helping, consumers on average."

10. Consumers' Use of High-Price Credit Products: Do They Know What They Are Doing? (gated), Gregory Elliehausen:

    This paper asserts that consumers of payday loans are sufficiently rational. A caveat, however, is that rationality is a just a process and does not imply that "good" decisions are made.

Some op-eds include:

- In Defense of Usury (gated), by Dean Karlan and Jonathan Zinman
- Congress Takes Aim at Payday Loans (ungated), by Robert DeYoung
- Payday Loan Reform Bad for Borrowers (ungated), by Justin Hauke

The last of those op-eds was written by a former employee of the Show-Me Institute. Perhaps unsurprisingly, my views on payday loans are fairly similar to his. Taking an economic view, I'm concerned that regulatory reform will be unable to limit payday loan harms effectively without driving the market underground. Taking a political view, I view payday loan consumers as sufficiently rational and believe that a government (at least in this arena) has more of an imperative to maintain free, private contracts than to protect the politically weak.

About the Author

Abhi Sivasailam

Read Online

https://showmeinstitute.org/blog/regulation/payday-loan-reading-list#comment-0

Links

[1] https://showmeinstitute.org/blog/regulation/payday-loan-reading-list
[2] http://ftp.ny.frb.org/research/staff_reports/sr309.pdf
[3] https://www.cuany.org/access_files/outreach/Filene_-_The_Economics_of_Pay_Day_Lending.pdf
[4] https://www.law.virginia.edu/pdf/olin/conf08/skiba.pdf
[5] http://www.ncat.edu/~econdept/wp/burkey-payday-092004.pdf
[6] http://bpp.wharton.upenn.edu/tobacman/papers/profitability.pdf
[7] http://www.responsiblelending.org/payday-lending/research-analysis/CRLpaydaylendingstudy121803.pdf
[8] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1120556
[9] http://www.rutgerspolicyjournal.org/journal/vol3issue1currentIssues/Butler_Park_Payday.pdf
[10] http://www.dartmouth.edu/~jzinman/Papers/Zinman_RestrictingAccess_jbf_forth.pdf
[11] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=921909
[12] http://online.wsj.com/article/SB119388104410378595.html?mod=opinion_main_commentaries
[13] http://online.wsj.com/article/SB123966856055415377.html
[14] http://showmeinstitute.org/publication/id.81/pub_detail.asp

Mission Statement

Advancing liberty with responsibility by promoting market solutions for Missouri public policy.

Show-Me Institute

5297 Washington Place
Saint Louis, MO 63108
Phone: (314) 454-0647
Fax: (314) 454-0667

3645 Troost Avenue
Kansas City, MO 64109
Phone: (816) 287-0370

Email: info@showmeinstitute.org

Support Our Work

The Show-Me Institute is a tax-exempt 501(c)(3) nonprofit organization. Make your tax deductible contribution today: http://ShowMeInstitute.org/donate