Shark-Free Waters: States are Better Off without Payday Lending

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Executive Summary

Payday lending is a high-cost loan product that is built on its ability to churn consumers through a cycle of debt, collecting fees for as long as possible. Fortunately, 15 states and the District of Columbia have made a definitive statement to prohibit high-cost payday loans by adopting interest rate caps of 36% or less. The experiences of consumers in payday-free states show that eliminating the payday debt trap brings a host of positive benefits. This report draws on years of research (including academic studies, surveys and focus group results) to outline and articulate the evidence from payday-free states. The experiences of these states demonstrate:

- State payday loan bans **save consumers more than $2.2 billion annually** in fees that would otherwise be paid to payday lenders.
- Payday loan restrictions do not force consumers to use products that cause greater harm than payday loans. Borrowers in states without payday loans employ a **variety of strategies to address a cash flow shortfall at a fraction of the cost of payday loans**.
- In addition to protecting consumers from the high costs of payday loans, state payday lending restrictions also help borrowers by **preventing the long-term harms associated with these loans**. These harms include: increased difficulty paying bills, delayed medical spending, involuntary bank account closure, higher likelihood of filing for bankruptcy, and decreased job performance.
- Finally, there is **broad public support for maintaining the rate caps** in states that prevent the harms of the typical 400% payday loan, both from citizens at large and from former payday borrowers.

Introduction

Payday lenders tout the convenience of meeting a short-term financial need immediately. However, their minimal or non-existent underwriting means that lenders do not assess the consumer's ability to repay the loan. As a result, most loans made are unaffordable – which in fact generates more revenue for the lender than making affordable loans. Unaffordable payday loans lead to repeat refinancing, while causing borrowers to fall behind on other bills. The average payday consumer ends up with 10 loans a year, while paying annual interest rates of around 400%.[1] The vast majority (75%) of payday fee revenue comes from consumers stuck in 10 transactions or more annually. Each year, fees from payday loans strip American consumers of over $4.1 billion.[2] While not the focus of this paper, car-title loans share many of the harmful features of payday loans including a lack of underwriting, a cycle of repeated reborrowing and triple digit annual interest rates. These harmful loans drain approximately $3.8 billion in fees annually in states where they are legal.[3]

Fortunately, 15 states and the District of Columbia have made a definitive statement on prohibiting high-cost payday loans by adopting interest rate caps of 36% or less. Four states – Arizona, Montana, Ohio, and South Dakota – instituted their rate caps by means of a ballot vote, signifying their citizens' direct desire to ban 400% payday loans. Also, the Department of Defense has instituted a 36% fee-inclusive, "all-in" rate cap to protect active duty servicemembers and their families.

It is instructive to look at the experience of states that have effectively banned the payday loan debt trap through strong state law and effective enforcement. The evidence supports that consumers in these states are better off in a number of ways. In states without payday lending, research has found that consumers save money, have a number of safer ways to deal with cash flow shortfalls, experience fewer long-term financial harms such as bankruptcy, and are satisfied with their state's prohibition.

In Payday-Free States, Consumers Save Money

Prior research from the Center for Responsible Lending (CRL) estimates that states without payday and car title lending save $5 billion annually in fees, of which $2.2 billion comes from payday fee savings.[4] Fifteen states and the District of Columbia have interest rate caps of 36% or less. These strong usury caps, coupled with effective enforcement, protect the over 94 million citizens in these states from 400% payday loans. However, in some states with lax enforcement or loosely written statutes, the payday industry has been able to circumvent their usury caps. In Ohio, for example, after voters strongly supported a 28% rate cap in 2008, both payday and car title lenders have exploited loopholes in state law to continue operating, draining over $502 million in fees annually – $184 million through payday loans.[5] To be sure that a state stays payday-free, it must have a strong usury cap with no room for circumvention. Additionally, state regulators can and must actively enforce against lenders making illegal loans, and there are many examples of their having done so.[6]

Research from the Insight Center for Community Economic Development has also shown the broader cost that payday lending imposes on local economies. During 2011, the year of their study, payday lending resulted in a net loss in economic activity of $774 billion nationwide and a net loss of 14,094 jobs.[7] This counters the narrative payday lenders have pushed, claiming payday lending was necessary for credit availability and job creation. Instead, the study proves that fees paid to payday lenders have a more positive economic impact if left in the pockets of consumers.

In Payday-Free States Consumers Have Better Ways to Meet Cash Flow Shortfalls

The experiences of borrowers in payday-free states show that eliminating the payday debt trap does not force consumers to use products that cause greater harm than payday loans. Studies that look at what borrowers do in payday-free states reveal a host of strategies that former borrowers use to meet cash flow shortfalls at a fraction of the cost of payday loans.

One study was commissioned by the NC Office of the Commissioner of Banks (NCCOB) the year after payday lenders were driven from the state by a change in law and subsequent enforcement. The purpose of the study, conducted by researchers from the University of North Carolina at Chapel Hill's Center for Community Capital, was to see what effect the end of payday had on low- and moderate-income households, what options residents had for dealing with financial hardships and whether they considered themselves better or worse off without payday lending. The researchers surveyed 400 low-

and moderate-income consumers in NC and held focus groups of former payday borrowers in order to understand how their collective financial experiences might have changed after the state banned payday lending.[8] They concluded that the absence of payday lending had no significant impact on the availability of credit in NC and identified an array of financial options that low- and moderate-income consumers turned to during a shortfall. These included both formal options, for example the use of a credit card and/or cash advance (21%) and informal financial assistance such as help from friends and family (30%).[9]

Another state, Arkansas, began enforcing its usury cap of 17% against payday lenders to ensure that they could no longer charge the excessive 300% APR on payday loans. The Southern Bancorp Community Partners surveyed 100 former payday borrowers from 42 municipalities across Arkansas in 2015, seven years after the enforcement of the state's rate cap. [10] These former payday borrowers reported that they now build savings and incomes, turn to friends and family, or use credit cards to meet financial emergencies as opposed to costly payday loans.

As in the Arkansas and North Carolina surveys, a survey conducted by the Pew Charitable Trusts confirmed that, generally, former payday consumers would turn to other methods such as borrowing from friends and family or selling personal items if faced with a financial emergency.[11] The most popular alternative, with 81% of surveyed consumers, was be to cut back on expenses to make ends meet. In fact, the majority of respondents opted to turn to non-debt alternatives to payday. In states that restricted payday lending, the vast majority (95%) of "would-be borrowers" chose not to use payday loans in any form (including online and storefront options). [12]

These results are echoed by a 2014 Department of Defense Report that is based in part on a 2013 Defense Manpower Data Center (DMDC) QuickCompass on Financial Issues survey of enlisted servicemembers.[13] This survey explored, among many other things, the "consideration set of options" that servicemembers would be likely to use if they were no longer able to access high-cost credit options (greater than 36% APR products, including payday loans). Only 12% of members reported that they were likely or very likely to be inconvenienced without this access. The four most likely alternatives that servicemembers would turn to in lieu of payday lending were: spend less, use savings, apply for a Military Relief Society loan or grant, and rely more on family/friends.

Beyond the surveys discussed above, a number of studies including some using extensive data sets on many consumers, address the switching (potential or actual) of borrowers to specific financial products when payday lending abuses are curbed. These also show that consumers facing a cash flow shortfall are able to access liquidity in other forms, such as other types of loans or sources of cash. Not all of these are ideal, but they are still far less harmful than payday borrowing.[14]

Mainstream Products (Credit Cards, Lines of Credit, Checking and Savings Accounts). One study found that two-thirds of payday borrowers that also had a credit card in a matched administrative dataset of credit cards and payday loans, had substantial *unused availability* remaining on their credit cards on the day that they took out a payday loan. This foregone opportunity to borrow at lower rates represented average extra interest paid of $200 over a two year period.[15] (Note that other studies have found slightly more than a half of all payday borrowers possess at least one credit card.[16]) Another study found that approximately 65% of payday borrowers with credit union accounts had *available liquidity in their accounts* (checking and savings) and/or on an unused line of credit[17], representing average extra interest paid of $88 over six and a half months.[18] A third study, based on a survey of small dollar credit

consumers (a category that also includes pawn, deposit advance (bank payday loan) and payday installment), found that 19% of these consumers had *unutilized savings* at the time they took out a small dollar loan.[19]

One can conclude from these studies that when payday loans are not available, a substantial portion of former payday borrowers in the range of 20% to 35%, would *immediately* have access to either savings or mainstream credit as an alternative source of liquidity *without applying* for any new credit.[20]

There is also evidence that former payday borrowers may be able to access *new* mainstream credit, perhaps because of improved financial condition combined with an increased willingness to search for new forms of credit after a payday ban. A recent paper examines the substitution of fringe (payday) loans with less costly mainstream credit after the passage of the Military Lending Act (MLA), which made certain loans to the military over 36% illegal. The paper showed that likely military borrowers *showed increased access* to credit card borrowing after the restrictions placed on payday lending by the MLA – credit limits increased by an average of 17-25% on total credit card accounts following passage of the MLA.[21] (Note that many payday borrowers do not qualify for prime credit cards - however, even subprime credit cards carry interest rates that are a fraction of the cost of payday loans.)

Although the research shows that mainstream credit is available to many former payday borrowers, banks can and should be required to do more to ensure that the credit needs of low- and moderate-income consumers and communities of color are responsibly met.[22]

Pawn Shops. A recent study on consumer borrowing after payday bans in several states found that reductions in the number of payday borrowers were offset by increases in the number of pawn shop borrowers.[23] The authors state that this is likely a result of former payday borrowers switching to pawnshop borrowing as a substitute credit product. (Note that payday borrowers are also known to use pawnshops as a complement to payday borrowing when they need cash to make payday loan payments.) Although pawnshop borrowing is one of the more expensive forms of credit available to consumers, it is less costly than payday borrowing and far less likely to trap a consumer in an endless cycle of debt since a borrower can walk away from the loan in exchange for the pawned item.

Tax Refund Anticipation Loans. The tax refund anticipation loan (RAL) was another high-cost product marketed to low-income consumers until heightened regulation of this product in 2013. Weaver and Galperin show a slightly reduced demand for RALs in states where payday was banned relative to neighboring states without bans (using zip-code pairs along borders over the 2006-2010 period).[24] This counterintuitive result is put forth by the authors as evidence that borrowers generally do not substitute RALs for payday loans because RALs cannot be repeatedly reborrowed in the same manner. Only those borrowers that formerly used payday loans on an occasional basis, unlike the vast majority of payday borrowers who are caught in the debt trap for an extended period, would be likely to find RALs to be an adequate substitute. Thus, according to the authors, the reduction in RAL use after payday bans is apparently a reflection of an interruption in the debt cycle of most former payday borrowers and the improved consumer welfare that follows.

Traditional Installment Loans. Installment loans are marketed to subprime borrowers, many of whom may also be targeted by payday lenders. These loans are substantially less expensive than payday loans, though they are certainly not without their own concerns, including: high-rates of repeat lending and rates up to the states' interest rate caps of 36%, as well as add-on products that significantly increase

the effective interest rate. Publicly traded installment lenders alone made $7 billion in loans in 2013.[25] Annual loan volume data from Montana and North Carolina after payday bans has shown that lending volumes from traditional installment lenders increase when they are not crowded out by payday lenders.[26]

Other Products and Services. A number of other sources of emergency liquidity are becoming more prevalent to help cash strapped consumers. These included employer and non-profit employer-based emergency loan programs[27], loans from religious institutions[28], and extended payment plans from suppliers of consumer services such as utility and telecommunication companies[29]. Reputable national credit counseling agencies can also be helpful in contacting creditors and arranging for extended payments at lower interest rates.[30] Additionally, a growing list of local nonprofits and community centers offer emergency debt counseling and financing assistance for such items as rent, transportation, and utilities.[31]

In Payday-Free States, Consumers Avoid Long-term Financial Harms

Several academic studies find evidence of financial harm to consumers when comparing those consumers that reside in locations that have access to payday loans versus those that do not. Melzer finds *payday loan access* increased the incidence of “difficulty paying bills” by 25% for families with annual incomes of $15,000 to $50,000.[32] Other harms included increased delays in medical care, dental care and prescription drug purchases. The author concludes that, rather than helping households meet expenses, payday loans are more likely to create a debt burden that compromises a household’s ability to meet other important expenses. A similar study by the same author found payday loan access was associated with an increased likelihood of using food stamps and decreased likelihood of making required child support payments as well.[33]

Another study found a decrease in the rate of involuntary bank closures (a measure of financial distress) for consumers residing in Georgia counties after Georgia banned payday lending compared to counties in neighboring states without bans.[34] They also found that within states that allow payday lending, counties with more payday lenders per 1,000 residents have higher rates of involuntary bank closures.

Several other studies show findings of consumer harm related to payday use using different methodologies from those comparing “banned” vs. “permissive” states. These lend further weight to the body of evidence that shows that consumers in banned states are better off without payday lending. Skiba and Tobacman studied differences in bankruptcy rates between consumers that were barely approved for a payday loan versus those that were barely rejected (similar credit scores but slightly above and below the lender’s threshold, respectively).[35] They find a doubling in Chapter 13 bankruptcy filings within two years of the first successful payday loan application, with effects stronger on women, minorities, and homeowners.[36] The authors point to bankruptcy as a “cumulative financial outcome” – in this case one that results from a compromise to “borrowers’ financial stability due to repeated payment of finance charges to the payday lender”.

An additional study looks at access of military personnel to payday loans prior the passage of the Military Lending Act. By using within-state variation in access to payday lending over time due to changes in state legislation, Carrell and Zinman found that greater access to payday loans negatively affected job performance and retention.[37] “Access significantly increases the likelihood that an airman is

ineligible to re-enlist...” and “…significantly increases the likelihood that an airman is sanctioned for critically poor readiness….” The authors indicate that these results confirm the Department of Defense’s assessment that payday lending caused significant financial distress among military personnel and a related reduction in job productivity and military readiness.

Further, the CFPB studied the effects of the discontinuation of Deposit Advance Products (DAPs) on consumers’ bank accounts.[38] DAPs were bank-issued payday loans with characteristics and use patterns similar to other payday loans; therefore, they represent a good proxy for non-bank-issued payday loans in research. DAPs were largely discontinued nationwide following supervisory guidance issued to banks by the OCC and FDIC in November 2013. The CFPB looked at DAP user and DAP eligible account holders’ checking account activity for periods before and after discontinuation to see if there was evidence of either sustained negative outcomes or substitution into non-bank payday loans.[39] The study found that DAP users were *no more likely* than non-DAP users to experience increased incidences of overdrafts or NSFs, increased non-bank payday loan usage, or long-term increases in account charge-offs. These results can be used as indirect evidence to counter those who posit that payday borrowers in banned states are worse off because they are more likely to incur expensive bank overdrafts or lose their bank accounts in payday’s absence. Clearly the CFPBs research on DAPs shows that this unlikely to be the case over the long run.

In contrast to the research discussed above, the claims of pro-payday studies looking at consumers in banned states are deeply flawed. One of the most frequently cited studies by the payday industry and their allies was conducted by Donald Morgan and Michael Strain in 2007.[40] The study claims that consumers in Georgia and North Carolina were worse off after their respective payday bans looking at the measures of bounced checks, Federal Trade Commission complaints against lenders and debt collectors, and federal bankruptcy filings. CRL conducted a thorough review of the article and found it to be without merit based on a number of striking shortcomings, including intermingling the data of the two subject states with other states that allowed payday lending, poor controls in the modeling of bankruptcy rates, and lack of consideration of the many other options that payday borrowers turn to rather than bouncing checks.[41]

Payday lenders and their allies also claim that borrowers will migrate to unlicensed online lenders (both legal and illegal) when access to payday loans is restricted either through bans or tighter regulations. [42] A study by the Pew Charitable Trusts demonstrates that these claims, and those of the industry-sponsored studies behind them, lack validity. The survey results show that consumers in states with payday bans are no more likely to use online lenders than consumers in states where payday borrowing is allowed.[43]

A recent paper which looked at Arizona, Montana and New Hampshire, claims that borrowers were more likely to suffer involuntary bank account closures after state payday restrictions were put in place. However, this finding is statistically weak and not reliable when the authors look at closures over a longer time frame (ending June 2013 compared to June 2011). Additionally, the authors do not account for the presence of car title lending in two of the three states (Arizona and New Hampshire).[44] Other research contradicts the paper's finding on involuntary bank account closures, as discussed elsewhere in this paper.

Thorough critiques of numerous studies cited by the payday industry are available on our website.[45]

In Payday-Free States, Consumers Support the Bans

Surveys and focus groups conducted with consumers who had previously used payday loans highlight the feelings of relief and appreciation that these consumers feel after states have banned payday lending. The following quotes come from the previously mentioned focus groups held with former payday borrowers in Arkansas[46] and North Carolina:[47]

- "Much better financially. You don't continue to repeat the vicious cycle." (Arkansas)
- "No, no, no; I think that's [banning payday] a *good* thing!" (North Carolina)
- "Our life is thankfully much more financially stable." (Arkansas)
- "I found that I really could do without them. I work terms with my creditors. They are willing to accept something from you. I have actually paid off debts by a little at a time. I keep more money I the home and not having to pay back loans that triple the amount borrowed." (Arkansas)
- "Keep it out of AR. They should never be allowed to charge more interest than banks do."(Arkansas)
- "I try to plan better for the rainy days. I have learned that there is no quick fix to financial issues." (Arkansas)
- "It aggravated me that I was stupid enough to not ask someone in the family to lend me the money." (North Carolina)

In a survey that accompanied the Arkansas focus groups, the majority of former payday borrowers asserted that banning the payday debt trap had a positive impact on their household and confirmed that payday loans were easy to get into, but a struggle to get out of. Eighty-eight percent of respondents indicated that their lives were "generally better" (59%) or "about the same" (29%) since payday lenders left the state. In the North Carolina study, more than twice as many former borrowers stated that the absence of payday lending had a positive effect on them compared to those reporting a negative effect. In addition, nine out of ten low and moderate income North Carolinians thought payday lending was a bad thing. The following quotes illustrate the negative perception that focus group participants in these states had of payday lenders:

- "They're there basically to rob people that need money … they're the devil."(North Carolina)
- "I started calculating. I'll never get out of it. If you're already struggling, you'll never come out of it." (North Carolina)
- "It was easy to get the money [from payday lenders] but it was hard to get out of it." (Arkansas)
- "Payday lending is not a legit thing and I think it should be illegal in all states, whether it be online or in an actual store." (Arkansas)
- "It should not be allowed. It is a short term fix that leads to a downward spiral financially." (Arkansas)
- "Shut them all down." (Arkansas)

While Arkansas and North Carolina consumers have spoken to the benefits of payday lending bans in their states through surveys, consumers in Montana, Arizona, and Ohio have voiced their disapproval of payday lending through ballot initiatives. In 2008, 64% of Ohio voters approved an interest rate cap of

28% APR, while 60% of voters in Arizona voted against extending payday authorization in their state. In 2010, 72% of Montana voters approved a 36% interest rate cap, reducing the costs of these loans from their previous rates of 300% APR. Likewise in 2016, 75% of South Dakotans voted to cap payday loan APRs at 36%.

The consumer voices in these states are consistent with polling results from multiple sources, viewing payday lending as a harmful product that needs strong regulation. A recent poll of 800 registered voters showed that only 3% had a favorable view of payday lenders— far less than the favorability rating for Wall Street banks (15%) or used car salesmen (16%).[48] The most popular terms used to describe payday lending were "loan sharking" (62%), "a trap" (56%), and "a scam" (49%). Overall, 71% of voters were in favor of a new rules to end the payday debt trap – support that was consistent among Democrats (76%), Republicans (75%), and Independents (71%).

Additionally, LifeWay Research polled 1,000 Christians in 30 states on their view of payday lending. Their survey found that 94% of Christians believe that lenders should only lend at reasonable rates based on the consumer's ability to repay. Also, 80% supported regulation of payday loans, and 77% thought it was sinful to profit from lending that harms consumers financially.[49] The most popular terms respondents used to describe payday lending were "expensive" (62%), "harmful" (37%), and "predatory" (33%).

Conclusion

The documented experience of consumers in states that effectively ban payday lending through strong state law, summarized here, indicates that their citizens are better off in a number of ways. Consumers in payday-free states save money, have numerous ways to deal with a cash flow shortfall (credit and non-credit options), suffer fewer negative financial consequences such as bankruptcy and involuntary account closure, and do not miss payday loans. Furthermore, consumers are consistent in voicing their concerns with the payday product and their desire to see it more strongly regulated. Strong regulation, free of exploitable loopholes, has benefitted the over 94 million residents in the 15 payday-free states and the District of Columbia. A strong federal rule could extend these benefits to consumers on a national scale.

Appendix

Figure 1: Annual Payday and Car Title Loan Fee Savings by State

Rank	State	Estimated Payday Fee Savings	Estimated Car Title Fee Savings	Total Fee Savings
31	Alaska	NA	$12,512,960	$12,512,960
10	Arizona	$167,474,987	NA	$167,474,987
11	Arkansas	$77,504,338	$61,538,452	$139,042,790
16	Colorado	NA	$87,029,287	$87,029,287
12	Connecticut	$74,652,221	$59,273,872	$133,926,093
25	District of Columbia	$16,702,603	$13,261,868	$29,964,471
4	Florida	NA	$432,626,163	$432,626,163
6	Georgia	$284,112,449	NA	$284,112,449
28	Hawaii	NA	$22,962,078	$22,962,078
13	Indiana	NA	$122,076,574	$122,076,574
23	Iowa	NA	$48,825,814	$48,825,814
15	Kentucky	NA	$88,936,566	$88,936,566
22	Maine	NA	$23,123,115	$52,245,423
7	Maryland	$141,016,533	$111,967,142	$252,983,675
8	Massachusetts	$138,378,948	$109,872,899	$248,251,847
9	Michigan	NA	$186,139,890	$186,139,890
19	Minnesota	NA	$81,240,630	$81,240,630
24	Montana	$20,750,969	$16,476,272	$37,227,241
26	Nebraska	NA	$28,919,502	$28,919,502
27	New Hampshire	$27,390,363	NA	$27,390,363
5	New Jersey	$193,192,410	$153,394,794	$346,587,204
1	New York	$440,354,114	$349,641,214	$789,995,328
3	North Carolina	$255,144,890	$202,585,070	$457,729,960
32	North Dakota	NA	$11,151,149	$11,151,149
20	Oklahoma	NA	$80,167,618	$80,167,618
21	Oregon	NA	$67,733,990	$67,733,990
2	Pennsylvania	$272,852,734	$216,645,100	$489,497,834
30	Rhode Island	NA	$19,315,966	$19,315,966
18	South Dakota	$34,354,782	$47,365,934	$81,720,716
29	Vermont	$12,255,264	$9,730,681	$21,985,945
14	Washington	NA	$114,073,005	$114,073,005
32	Wyoming	NA	$9,390,800	$9,390,800
	U.S. TOTAL	**$2,204,234,695**	**$2,826,167,499**	**$5,059,524,502**

[1] Consumer Financial Protection Bureau, *Payday loans and deposit advance products: A white paper of initial data findings*, 2013. http://1.usa.gov/1aX9ley
[2] Standaert, Diane and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, Center for Responsible Lending, May 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_statebystate_fee_drain_may2016_0.pdf
[3] Ibid.
[4] Davis, Delvin, and Susan Lupton, *States without Payday and Car-title Lending Save $5 Billion in Fees Annually*, Center for Responsible Lending, June 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_payday_fee_savings_jun2016.pdf. A chart from this report showing fee estimates by state is reproduced in the Appendix.
[5] Standaert, Diane, and Delvin Davis, *The Buckeye Burden: An Analysis of Payday and Car Title Lending in Ohio*, Center for Responsible Lending, Nov 2015. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_ohio_analysis_nov2015.pdf
[6] Standaert, Diane, and Brandon Coleman, *Ending the Cycle of Evasion: Effective State and Federal Payday Lending Enforcement,* Center for Responsible Lending, November 2015. http://www.responsiblelending.org/payday-lending/research-analysis/crl_payday_enforcement_brief_nov2015.pdf
[7] Lohrentz, Tim, *The Net Economic Impact of Payday Lending in the U.S.*, Insight Center for Community Economic Development, March 2013. http://ww1.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf
[8] In 2001, North Carolina was the first state to close down the payday lending industry when the NC General Assembly allowed authorizing legislation to expire. Large national payday chains continued to operate through partnerships with out-of-state banks, but this practice was ruled illegal in December 2005. By 2006, all payday lenders had left the state.
[9] Center for Community Capital, University of North Carolina at Chapel Hill, *North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options*, Prepared for the North Carolina Commissioner of Banks, Nov 2007. http://ccc.sites.unc.edu/files/2013/08/NC_After_Payday.pdf
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[11] The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*, July 2012.
[12] Ibid.
[13] U.S. Department of Defense. *Report: Enhancement of Protections on Consumer Credit for Members of the Armed Forces and Their Dependents*, April 2014.
[14] National Consumer Law Center. *Stopping the Payday Loan Trap: Alternatives that Work, ones that Don't,* June 2010.
[15] Sumit Agarwal, Paige Marta Skiba, and Jeremy Tobacman. "Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles?" *The American Economic Review, Papers and Proceedings,* 99 (2) (2009): 412-417.
[16] Gregory Elliehausen. *An Analysis of Consumers' Use of Payday Loans.* Financial Services Research Program, no 41, The George Washington University, Washington, DC, 2009.
[17] Some banks and credit unions offer reasonably priced overdraft lines of credit made available to account holders in good standing with rates in the 13 to 19% range. For those account holders that don't qualify, some institutions will make available alternative payday lines of credit (APLOCs) for emergency purposes with slightly higher rates and also charging an upfront fee. Good repayment history on an APLOC can move an account holder to the less expensive overdraft line of credit. See as an example, these products offered at Genesee Co-op Federal Credit Union: http://www.genesee.coop/overdraft-line-of-credit and http://www.genesee.coop/alternative-payday-line-of-credit-aploc
[18] Susan Payne Carter, Paige Marta Skiba, and Jeremy Tobacman. *Pecuniary Mistakes: Payday Borrowing by Credit Union Members*, Pension Research Council WP 2010-32, (2010).

[19] Rob Levy and Joshua Sledge. *A Complex Portrait of Small-Dollar Credit Consumers*, Center for Financial Services Innovation, August 2012.
[20] Upper limit of 35% is authors' approximation: multiplying 66% of payday borrowers with substantial credit card liquidity (see note 15) by an average 54% of all payday borrowers that have a credit card (see note 16).
[21] Roman Galperin and Kaili Maricio. *Tough Times Borrowing: Effects of Fringe Lending Regulation on Credit Standing, Search, and Access,* April 2016.
[22] For example, overdraft lines of credit should be offered to customers lower on the credit spectrum. Credit union PAL loans and bank accommodation loans could also be expanded. The Community Reinvestment Act should be modernized to require that all banks provide responsible small dollar credit.
[23] Neil Bhutta, Jacob Goldin, and Tatiana Homonoff. *Consumer Borrowing After Payday Loan Bans, July* 13, 2016. (Note: the states studied were Arizona, Montana, and New Hampshire.)
[24] Andrew Weaver and Roman V. Galperin. *Payday Lending and the Demand for Alternative Financial Services,* Federal Reserve Bank of Boston, Community Development Issue Brief 4, 2014.
[25] See "Alternative Financial Services: Innovating to Meet Customer Needs in an Evolving Regulatory Framework", Stephens Inc. presentation from February 27, 2014 at CFSA Solutions conference.
[26] NC: Center for Community Capital, University of North Carolina at Chapel Hill, *North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options*, Prepared for the North Carolina Commissioner of Banks, Nov 2007. http://ccc.sites.unc.edu/files/2013/08/NC_After_Payday.pdf and MT: credit unions in Montana increased marketing of their small dollar loans as the 36% rate cap was being established there and saw significant increase in those loans. http://www.cujournal.com/news/lending/cus-skeptical-about-expanding-colorados-payday-loan-law-nationwide-1023571-1.html
[27] See for example the Community Loan Center of Dallas, a CDFI that provides funding and support for local employers for making responsible emergency loans to employees of up to $1000 for 12 month at 18%. http://www.clcofdallas.org/
[28] See this Washington Post article, "Churches step in with alternative to high-interest, small-dollar lending industry" from January 9, 2015. Available at: https://www.washingtonpost.com/news/get-there/wp/2015/01/09/churches-step-in-with-alternative-to-high-interest-small-dollar-lending-industry/
[29] For an example, see these payment plans available from Consumers Energy: https://www.consumersenergy.com/uploadedFiles/CEWEB/SHARED/AssistancePrograms.pdf
[30] For the types of services that are offered, see: https://www.nfcc.org/
[31] See the Nerdwallet website at: https://www.nerdwallet.com/payday-loan-alternatives?page=1&sort_key=loan_amount
[32] Brian T. Meltzer. "The real cost of credit access: Evidence from the payday lending market." *The Quarterly Journal of Economics"* 126, no. 1 (2011): 517-555.
[33] Brian T. Meltzer. "Spillovers from costly credit," August 2014. http://www.kellogg.northwestern.edu/faculty/melzer/papers/spillovers%20from%20costly%20credit_08_13_14.pdf
[34] Dennis F. Campbell, Asis Martinez-Jerez, and Peter Tufano. "Bouncing out of the banking system: An empirical analysis of involuntary bank account closures." *Journal of Banking & Finance* 36, no. 4 (2012): 1224-1235.
[35] Paige Marta Skiba and Jeremy Tobacman, "Do payday loans cause bankruptcy?" *Vanderbilt Law and Economics Research Paper* 11-13 (2011).
[36] On average, successful first-time applicants apply for 5.1 more loans than rejected first-time applicants in the 12 months following the first application, representing an additional $1,600 in loans and $300 in interest payments.
[37] Scott Carrell and Jonathan Zinman. "In harm's way? Payday loan access and military personnel performance." *Review of Economics and Statistics* 93, No. 2 (2011): 700-713.
[38] CFPB, *Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products,* June 2016.
[39] DAP eligible account holders, like DAP users, had beginning period accounts in good standing, and fulfilled the other requirements for DAP eligibility such as recurring direct deposits. Unlike DAP users however, the DAP eligible group did not use the product.

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[40] Donald P. Morgan and Michael R. Strain, *Payday Holiday: How Households Fare After Payday Credit Bans,* Federal Reserve Bank of New York Staff Report, November 2007.

[41] See CRL's more detailed critique at: http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-morgan-critique-12-10.pdf

[42] See: https://www.nonprime101.com/wp-content/uploads/2015/02/Report-2-Amendment-0130152.pdf

[43] The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*, July 2012.

[44] In Arizona (the most populous state included in this analysis) payday lenders migrated post-ban to another predatory loan product: car title lending. The failure of the model to account for this confounding factor is particularly problematic, given that these lenders in many cases take access to borrower bank accounts in addition to their car titles. See: http://consumerfed.org/wp-content/uploads/2016/01/160126_wrongway_report_cfa-cei.pdf

[45] See: https://www.responsiblelending.org/research-publication/critiques-research-focused-payday-lending

[46] Covington, Meredith, and Jennifer Johnson, *Into the Light: A Survey of Arkansas Borrowers Seven Years after State Supreme Court Bans Usury Payday Lending Rates*, Southern Bancorp Community Partners, April 2016. http://southernpartners.org/assets/sbcp_policy-points-vol-43-payday-lending_20160628.pdf

[47] Center for Community Capital, University of North Carolina at Chapel Hill, *North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options*, Prepared for the North Carolina Commissioner of Banks, Nov 2007. http://ccc.sites.unc.edu/files/2013/08/NC_After_Payday.pdf

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