

DROWNING IN DEBT

A Health Impact Assessment of How Payday Loan Reforms Improve the Health of Minnesota's Most Vulnerable

Executive Summary



“In many cases, these businesses are capturing people who are at their most desperate and sticking them with exorbitant interest rates that only add to their misery and misfortune. That’s unacceptable to the Governor.”

– Molly Pederson, Minnesota Governor’s Office

Socioeconomic trends in the United States have mired all but the wealthiest Americans in a culture of debt. In the average household, consumer debt has tripled since the 1980s and is now more than twice as high as household income. But the burden is most severe in low-income communities and communities of color, where many people don’t qualify for conventional bank loans or credit cards. When they face a financial shortfall many turn to payday and other high cost lenders.

These predatory institutions make short-term loans of several hundred dollars to anyone with an income, a checking account, and valid identification. Repayment is typically due in two weeks – plus hefty fees and staggering levels of interest: Charges to borrowers each year, from the largest payday lenders in the state, amount to an average annual percentage rate (APR) of 252%. More than eight in 10 borrowers in the state are unable to repay on time. Most pay only the interest and renew the loan, an average of 10 times, with fees and interest piling up each time it’s rolled over.

There were virtually no payday loan stores in the United States until the 1990s when the industry started seeking exemptions from state laws that banned lending money at unreasonably high interest rates (otherwise known as usury laws). Today, the payday loan industry markets its loans as a boon to people with a temporary financial shortfall and limited options to secure funds.

In reality, payday loans are not usually taken out to meet emergencies, but to cover rent, utilities, food and other routine living expenses. The industry takes unfair advantage of economically vulnerable Americans on the financial brink, increasing inequities in income, wealth, and health. Payday loans aggravate problems in mental health, employment, the borrowers’ family lives, and in their already-struggling communities.

“When I needed money I had nowhere to go and they qualified me, but at the same time, the interest rate was so high. So even though they kind of helped me, they exploited me at the same time, because of the interest rate.”

– Louise, borrower

COMPELLING EVIDENCE OF HARM

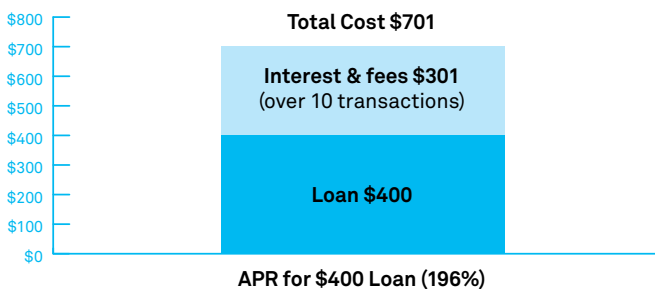
This Health Impact Assessment (HIA) looks at the compelling evidence of the harm caused by payday loans to the health and mental health of borrowers, their families, and their communities. It shows that reforms to payday lending – including elimination of the practice in the state – will help slow the drain on individual and community resources, reducing stress and preventing further harm to health and well-being.

This report is meant to inform the debate over legislation expected this year in the Minnesota Legislature that would set limits on the interest rates payday lenders can charge. The U.S. Consumer Financial Protection Bureau, or CFPB, is also expected to make public new, tighter regulations on the industry this year, although states will retain authority over interest rates. Fourteen states and the District of Columbia do not have payday lending in these locations, either due to a low rate cap of 36 percent or less or because of other regulations. And the U.S. Department of Defense views the industry as so damaging to its military personnel and their families that they too capped payday and other similar loan products at 36 percent APR. Undersecretary of Defense David Chu, at a hearing of the U.S. Senate Banking Committee, stated *“The issue is predatory lending, getting people in over their heads. . . These people are taking military people into a debt load that they cannot sustain.”*

Nationally, with close to 17,000 payday storefronts, twelve million borrowers pay \$7.4 billion in interest and fees annually. In Minnesota in 2014, 72 licensed storefronts and Internet lenders made more than 385,000 loans, totaling almost \$150 million, to about 50,000 borrowers. And that number has been steadily increasing over time. A CFPB study found that the interest and fees on unpaid loans that are rolled over total \$3.5 billion a year nationwide.

In Minnesota, the average loan amount is \$390, with borrowers averaging 10 loan transactions a year. The figure below illustrates that on a \$400 loan – close to the state average – at its APR of 196%, a borrower accumulates interest and fees of \$301 over those ten transactions.

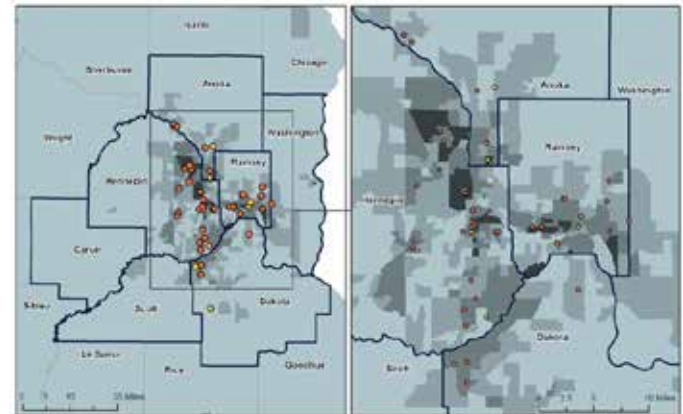
How much does a payday loan *really* cost in Minnesota?



A DISPROPORTIONATE BURDEN

The average payday borrower earns about \$30,000 and would be unable to repay a \$400 payday loan on time based on the cost of living in the state. Payday storefronts are most likely to be located in communities with higher proportions of people of color, people with lower income, and lower levels of education, immigrants, and renters. An analysis of Census tracts shows that African-Americans are twice as likely as Minnesotans as a whole to live within 2.5 miles of a payday loan store. Analysis also showed that in the counties where interest and fees per person were highest, the majority of these were also counties that have a higher African American population.

Twin Cities Metro Area Payday Loan Storefronts and the Percent of African American Residents, Minnesota, 2009-2013



Data source: Minnesota Department of Commerce and the U.S. Census, American Community Survey, 2009-2013 5-year average



This should not come as a surprise. There is a long history of overt and covert social policies – for example through mortgage and homeownership restrictions and through redlining – that converged to create less income and wealth for people of color broadly, and African Americans specifically. Payday lenders take advantage of these racial inequities in income and wealth by targeting certain borrowers, ultimately magnifying their financial strain.

This loss of income, or wealth drain, exacerbates existing inequities between white and African American Minnesotans, who also have higher rates of infant mortality, obesity, diabetes, heart disease, and breast cancer. Based on annual data reported to the Department of Commerce, the reform coalition Minnesotans for Fair Lending estimated that between 1999 and 2014, payday loan fees and interest drained more than \$110 million from communities statewide – more than \$13 million in 2012 alone.

“The things that I find hard to find in North Minneapolis are grocery stores, banks, and gas stations. Even in Brooklyn Park, you have the northern part of the city and you have the southern part of the city; most of the banks you will see in the northern part of the city where it’s predominantly a Caucasian community and in South Brooklyn it’s a predominantly minority community, and there are food deserts, there are no banks, there are the check cashing places, and there are liquor stores.”

– Denise, borrower

Obviously, this wealth drain directly affects health and well-being: Higher income and wealth are among the strongest predictors of good health, and poverty is one of the most harmful to health. People with higher incomes live longer, get more education, have access to better health care for themselves and their children, eat healthier food, live in safer neighborhoods and enjoy many other benefits that contribute to good health. Falling ever deeper into the cycle of debt makes it impossible to save money or accumulate other resources that could lift people out of poverty.

But the indirect effects are just as harmful. Being in debt and worrying about whether you can repay a loan is extremely stressful, both on borrowers and their families. Chronic stress, particularly financial stress, has profoundly negative effects on health, including cancer, heart disease, stroke, diabetes, hypertension, ulcers, and compromised immune function. A mother’s stress during pregnancy is linked to premature birth, and stress during childhood and adolescence contributes to compromised mental and physical health. Stress can lead to depression, psychological and behavioral disorders, substance abuse, and suicide. Indeed, data reveal that the majority of Minnesota counties with a payday loan store rank in the bottom half of the state for health outcomes such as premature death and self-rated health.

“Every two weeks I was just paying interest. And I think I got frustrated with it because knowing that the interest you’re paying really isn’t even close to what you took, and by the time you know it, you paid more than what you took from them. . . It eats you up, really, and it’s very stressful to deal with that—not knowing where you’re going to live next, or how you’re going to come up with your rent—yeah, it doesn’t really help much.”

– Mercy, borrower

The negative effects of the wealth drain brought about by payday loans also spill over from borrowers and their families to the communities the industry claims to serve. The presence of payday lenders in

a community is associated with financial hardship and crime, putting vulnerable communities at greater risk of poverty and disinvestment. The loss of disposable income limits community members’ purchasing power, decreasing the demand for local businesses and services. The billions of dollars paid annually in fees and interest on payday could have been invested in communities, bolstering their economies and creating jobs – for example, the \$13 million drained from Minnesota communities in 2012 could have amounted to over 56,000 trips to grocery stores.

And this drain is not inevitable. Many borrowers ultimately pay off their loans in the same ways they would to overcome a shortfall in the absence of payday loans – through cutting back on expenses, delaying bills, or borrowing from family or friends. Payday loans are an incredibly expensive diversion for borrowers, their families, and communities.

“It’s a difficult industry . . . We want to help people pay off their debt, but the payday loan businesses make it difficult by placing many barriers to repayments. For example, some only accept cash, others don’t let a third party pay it off. . . It’s clear to us that they don’t want to get paid because they don’t want that lender-borrower relationship to end. The industry is making more money off of borrowers by keeping them as customers.”

– Meghan Olsen Biebighauser, Interim Director, Exodus Lending

CONCLUSION & RECOMMENDATIONS

“They [lenders] say, ‘We are providing a service to people who need money. Without these loans where would people go?’ We respond – if someone is drowning you don’t throw them an anchor. These loans are marketed as a quick-fix, one-time emergency service, but they’re not used that way. They’re used for everyday expenses and they trap people in long-term debt. So instead of relieving a crisis, they perpetuate crisis over and over for people who are already struggling.”

– Gynnie Robnett, Americans for Financial Reform

This report supports the findings of many researchers that both national and state regulations are needed to prevent the payday loan industry from taking advantage of the most vulnerable Minnesotans, thereby increasing economic insecurity and income and racial inequities. Payday lending further threatens the health of borrowers who experience financial strain, and worsens existing health inequities by trapping people and communities who are struggling to make

ends meet in a cycle of debt and stress that extends beyond borrowers to their families and communities.

Stronger regulations on payday loans would help protect more than 50,000 Minnesotans and their families from these impacts. But regulations alone won't eliminate the problems. Therefore, we recommend:

- The Minnesota Legislature should take concrete steps to ban the practice of payday lending in the state. Tighter lending standards, restrictions on how many times a loan can be rolled over, and interest rate caps would protect borrowers from the worst abuses of payday and would help reduce the harm of payday lending to borrower health. *However, the absolute greatest benefit to health and equity would be the elimination of the payday lending industry altogether.* Doing so would stem the significant wealth drain from communities and increase the likelihood that borrowers access more safe and affordable financial services.
- In response to the significant economic and racial inequities that persist in the state and underlying financial distress experienced by payday borrowers – and others who are financially insecure – the Minnesota Legislature should take steps to address the broader problems of poverty and low incomes, such as protecting and creating jobs, providing worker protections such as paid family leave and sick leave, increasing affordable housing, and improving education in communities that have historically been disinvested in.
- Public and private sector financial service providers, including banks, credit unions and community-based financial service providers, should invest in innovative ways to meet the need for affordable small dollar loans and encourage financial planning, savings, and credit building.
- State and local agencies that fund economic development activities should organize community workshops and forums that address financial strain, debt, stigma and mental health, and empower community members to advocate for payday loan reforms and other economic security policies.

For the full Health Impact Assessment report, which expands on the Executive Summary and includes full research citations, please visit www.humanimpact.org.

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About Us

Human Impact Partners works to transform the policies and places people need to live healthy lives by increasing the consideration of health and equity in decision-making. For more about HIP, visit www.humanimpact.org.

ISAIAH, a faith-based coalition of more than 100 member congregations in Minnesota, works to advance economic and racial justice throughout the state. For more about ISAIAH, visit: www.isaiahmn.org.

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