What’s Race Got to Do With It? Pay Day Lending

Overview
Payday loans typically carry annual percentage rates of 300 to 500 percent and are due in a lump sum, or balloon payment, on the borrower’s next payday, usually about two weeks later. These loans are advertised as quick fixes for unexpected expenses, but repaying them consumes more than a third of an average borrower’s paycheck, leading to repeated borrowing for an average of five months of the year.

While some analysts argue that the federal government's proposal to regulate payday loans is detrimental to consumers, policy change may be necessary to keep communities of color from falling into cycles of debt. The Center for Responsible Lending, in partnership with LaRaza, analyzed a decade of data related to Florida’s payday lending practices. These businesses have collected $2.5 billion in fees since 2005, according to the report.

Payday loan businesses are mainly located in minority communities, according to the report. The center found that areas where minorities lives are more than twice as likely to have a concentration of these stores. There were about 8.1 stores per 100,000 people in African American and Latino communities while neighborhoods that are predominately white had a four to 100,000 ratio.

Nationwide, 12 million people take out payday loans each year, according to the Pew Charitable Trusts. These loans, typically small amounts of money borrowed at a high rate of interest, are meant to be repaid when the borrowers receive their next paycheck. To qualify for a loan, borrowers need a checking account and proof of income. Lenders do not assess whether or not the borrower has the ability to actually repay the loan.

“For customers who find themselves in desperate or emergency situations, a payday loan can seem like a lifesaver,” the council wrote in its blog post. “The reality is that these lenders trap their customers in an unending cycle of debt.”

However a recent study by the Urban Institute states “Financial regulations can help protect consumers from harmful practices, but their benefits must be weighed against their potential to drive potential innovators from the market, unnecessarily restrict consumers' access to credit, or, worse, push consumers toward other more harmful products.”

Questions to Consider
What is the role of policy to ensure predatory lending is curbed while maintaining availability of credit to low income minority communities?

What are the other underlying issue that make minority communities targets for predatory lending which policy might help mitigate?