Do We Know What We Think We Know About Payday Loan Borrowers? Evidence from the Survey of Consumer Finances

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The field of social work is becoming increasingly savvy regarding the financial lives of people, but despite seeming conclusive and resolved, knowledge about payday loan borrowing is still nascent. To understand it more thoroughly, this study employed descriptive and inferential multivariate quantitative methods using cross-sectional secondary data from the 2013 Survey of Consumer Finances (n = 6015). Results revealed that many of the simple differences found in descriptive analyses of demographic characteristics no longer predict differential payday loan borrowing when controlling for other characteristics. Contrary to prior research, results showed that payday loan borrowers are not more likely to be female, younger, unmarried, lower income, or Hispanic. They are, however, more likely to be African-American, to lack a college degree, and to live in a home they do not own. Recipients of social assistance were approximately five times more likely (OR = 5.2) to be payday loan borrowers than those who did not receive social assistance. The absence of statistically significant differences in the proportion of payday borrowers in income quintiles is notable. This

paper contributes to addressing the Social Welfare Grand Challenge of building financial capabilities.

Key words: payday loan, payday lending, financial capabilities, consumer finances

Over the past quarter century, the field of social work has become increasingly savvy regarding the financial lives of people. Among others, the works of Karger (2005), who introduced the field to the perils of the fringe economy, Stoesz (2014a) who linked personal financial services and the political economy, and Sherraden (1991), who suggested that people who are poor can and do save money given the right supports, have been instrumental in starting and maintaining the conversation about how poor people manage their money and what types of institutions either help or hinder financial stability. Their work paved the way for an emerging subfield of social work known as Financial Capabilities and Asset Building (FCAB). The American Academy of Social Work and Social Welfare (n.d.) has deemed FCAB to be one of the twelve "Grand Challenges" of Social Work for the 21st Century (Sherraden et al., 2015).

It is against this backdrop that there has been a surge in seeking understanding about individual economic behavior as well as the landscape of rapidly evolving financial services. One financial service that seems to have captured our attention is the field of Alternative Financial Services, and specifically payday lending. The past ten years has seen a steady stream of research, reports, and media stories regarding the locations of payday lenders, characteristics of payday loan borrowers, merits and wickedness of payday loans, and resultant policy prescriptions. A rapidly changing environment, however, demands the question, "Do we know what we think we know?" about payday loan borrowing? This study updates the body of previous research, and utilizes a nationally representative database to describe payday loan borrowers and predict the use of payday loans.

Payday Loans

Payday loans are a way to borrow small amounts of money without a credit check. In general, they are small short-term cash loans up to $500 or so that are repaid on the borrower's next payday (Consumer Financial Protection Bureau [CFPB], 2013b). Almost any adult with a checking account and job or other source of income (like social assistance or Social Security) can qualify for an initial payday loan. The borrower writes a post-dated check and is given cash minus a fee that is charged for the transaction, typically $15 per $100 loaned. At the end of the two weeks, on the borrower's "payday," the lender cashes the check, and recoups the loan plus the fee (CFPB, 2013b).

Payday loans are an expensive way of borrowing money: interest rates charged by payday lenders are typically 390% APR (annual percentage rate) for a two-week loan. Lenders justify this rate in two ways. First, people with poor credit histories pose an increased risk of default, and this risk is offset by high interest rates (Duffie & Singleton, 2012). Second, lenders argue that using an APR to describe the interest paid on a payday loan is misleading, since these loans are meant for short-term purposes only (Check 'n Go, 2017). Using a service like payday loans or a check-cashing service can be much more expensive relative to income and/or assets for someone who is poor than for someone who has more resource flexibility. For example, paying a fee of $45 to borrow $300 for two weeks from a payday loan translates into an annual percentage rate (APR) of 390% (26 weeks x 15% = 390%). While payday loans are intended to be short-term, 60% of borrowers take out 12 or more loans per year, which means that a typical borrower pays back $793 for a $325 loan (Rivlin, 2010).

The history of payday lending is short but substantial. Before 1990, there was no organized payday lending in the United States, but that quickly changed as the financial services sector liberalized in that decade. During this time, a financial innovation known as *securitization* was applied to all forms of consumer debt, which enabled a host of high-interest subprime loan products to be made available to the public (Hyman, 2012). In just fifteen years, the number of payday lenders grew to be over 22,000, more than the number of McDonald's, Burger King,

Sears, J.C. Penney, and Target stores combined (Karger, 2005), and this number is holding steady today (Bourke, Horowitz, & Roche, 2012). Given this rapid expansion during a time of increasing hardship for low-income households (Stoesz, 2014a), it is notable that there was no state regulation on payday lenders before 1995 (Caskey, 2003). Currently, the practice is legal in 38 states, with restrictions on the terms of payday lending in 11 of these states (National Conference of State Legislatures, 2015).

Payday lenders tend to be located in low- and middle-income neighborhoods, especially neighborhoods with a high migrant or a military population (Apgar & Herbert, 2006). An extensive study on the geographic location of 15,000 payday lenders shows that they are concentrated around military bases (Graves & Peterson, 2005). The zip code that encompasses Camp Pendleton Marine Corps Base, for example, has more payday loan businesses than any other zip code in California. Estimates of the number of military families who have taken out a payday loan range from 7%–25% (Henriques, 2004). Pentagon Federal Credit Union representatives say that soldiers and their families have increased financial stress because of deployments, status changes that cause gaps in pay, low pay compared with civilians, and gaps in financial literacy (Stevens, 2007). The U.S. Department of Defense criticizes these lenders who prey on personnel, most of whom are young recruits and are financially inexperienced, and assert that "predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force" (Department of Defense, 2006, p. 9).

There is considerable popular and academic debate regarding the merits and detriments of payday lending. Some scholars have outlined the multiple facets of this debate, specifically regarding the extent to which payday lending is predatory or "evil" (Bertrand & Morse, 2011; Stoesz, 2014b), welfare-enhancing or deteriorating (Lim et al., 2014b), and an expression of economic inequality (Redmond, 2015). As part of the literature that describes the exploitation of poor people by the fringe banking industry (Baradaran, 2015; Caskey, 1994; Squires, 2004), stories abound of people becoming inextricably caught in a debt trap with multiple payday loans, or "rolling over" loans, i.e., taking out one to pay off another, over and over until money just

seems to bleed openly from the (usually low-income) individual (Karger, 2005; Rivlin, 2010). As such, other scholars have outlined steps that might be taken by individuals, communities, and in the policy arena to ameliorate the problem (Caplan, 2014; Kirsch, Mayer, & Silber, 2014; Squires, 2004; Stoesz, 2014b). That said, there are claims in the popular media that payday loans "are good for millions of people" (Isaac, 2013, n.p.) and that they might not be "as evil as people say" (Dubner, 2016). Some scholars have even argued that payday loans may actually help people who have encountered a natural disaster (Morse, 2009).

Reliable data on the general extent of payday loan borrowing is fairly established. The cross-sectional Survey of Consumer Finance suggests that the prevalence is growing, as 2.4% reported taking out a payday loan in 2007, 3.9% in 2010, and 4.2% in 2013 (Board of Governors, 2014a). Payday loans remain the choice of last resort for those in need, according to the most recent Survey of Household Economics and Decision making, meaning that consumers will explore and utilize other borrowing opportunities before taking out a payday loan (Board of Governors, 2016). Stegman (2007) estimated that 5% of the U.S. population has used a payday loan. Personal stories of payday loan borrowing can inform us about the experience of individuals (Coclanis, 2001; Karger, 2005), but the question remains, who borrows and why do they borrow? The accurate portrayal of payday loan users is key to our understanding of the payday loan phenomenon, yet scholarly evidence is not as deep or as wide as one might think.

Among highly-cited peer-reviewed articles, several studies offer descriptive insight regarding payday loan borrowers, but suffer from major limitations. Karger's (2005) case-study research shows that payday loan borrowers are mostly people who are economically marginalized, though resource-constrained people in the middle class can also borrow. Stegman (2007) asserts that borrowers tend to be concentrated in African American neighborhoods, but these results are extrapolated from research conducted by a non-profit organization in North Carolina and are not generalizable. Lawrence and Elliehausen (2007) conducted a telephone survey of payday loan users and described borrowers as younger than non-borrowers, but did not examine race except in the case of frequent users, where

they found that race was not a factor. Barr (2009) found that people who overdrafted on their bank accounts were five times more likely to use payday lenders. Despite their limitations, these studies form the foundation of knowledge upon which claims are made regarding payday loan borrowers.

Building the field further, more rigorous methods have been employed to understand borrower characteristics. A secondary analysis of the 2009 Current Population Survey shows that payday loans are used to replace lost income and meet basic needs, and researchers conclude that they are associated with a reduction in food insecurity (Fitzpatrick & Coleman-Jensen, 2014). In a multivariate analysis on Chapter 7 bankruptcy cases, it was found that home ownership and household incomes higher than the median income, two key economic indicators of middle class status, were associated with less usage of payday loans (Lim et al., 2014a). Another analysis of the same dataset suggests that the amount of student loan and medical debt were associated with more money borrowed from payday lenders (Bickham & Lim, 2015) which is consistent with Ansong, Chowa, and Grinstein-Weiss' (2013) findings that future orientation is muted in the absence of assets and leads to less economic stability. Birkenmaier and Fu (2016) found that a substantial portion of people with strong financial knowledge and behaviors are users of alternative financial services, of which payday lending is a component.

Policy centers and government entities have conducted substantial research on payday loans, though this research is entirely descriptive and suffers from predictive power. A Center for American Progress analysis of the 2007 Survey of Consumer Finances showed that people who used payday loans tended to have less income, assets, and wealth and be single women, people of color, young people, and those with less educational attainment (Logan & Weller, 2009). This finding, referenced considerably in the consumer finances literature (see Xiao, 2016), however, was the result of a univariate analysis of demographic characteristics, and did not control for interactions among these demographic or financial characteristics. In work by Pew, a random-digit dialing, bilingual survey was conducted by an independent research firm and findings confirmed previous findings on race, education, income, marital status,

but not gender (Bourke et al., 2012). The Federal Deposit Insurance Corporation's Survey of Unbanked and Underbanked Households (FDIC, 2013) provided descriptive statistics on borrowers, finding that African Americans, Latinos, people who are young, and people with low incomes are the most common users of payday loans. Using data from payday lenders themselves, the Consumer Financial Protection Bureau (2013a) found that borrower (not household) incomes were most commonly in the range of $10,000–$40,000.

Research on people who receive government benefits and their use of payday loans is even sparser. Stegman and Faris (2005) examined credit use and credit impairment among 610 Temporary Assistance to Needy Families (TANF) recipients. TANF recipients were 70% less likely than other low-income families to have a bank account, and half of TANF recipients were unbanked. However, Stegman and Faris also found that TANF recipients did not differ significantly in financial services behavior in comparison with other low-income families and did not have any more significant debt, chronic borrowing behavior, or use of payday or pawnshop loans.

A conclusion from a close examination of research across academic and non-profit realms on payday loan borrowing shows that knowledge on this subject is still in nascent form, despite seeming conclusive and resolved.

Theoretical Framework

The theoretical framework through which we examine the use of payday loans is shaped by the concepts of sustainable livelihoods and social exclusion. A *sustainable livelihood* is the ability and resources to sustain life in a given society and is an approach to understanding day-to-day economic behavior. It is contrasted with theories that consider economic behavior, and in particular borrowing, across the life course (see Ando & Modigliani, 1963; Baek & DeVaney, 2010; Friedman, 1962/2002; Modigliani & Blumberg, 1954). Scoones (1998) stated that a livelihood is sustainable "when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, while not undermining its natural resource base" (p. 5). Seefeldt (2015) found that very poor households borrowed to

maintain their livelihood, often with financially devastating consequences. To the extent that payday loans are a resource of last resort, they serve as a coping mechanism to maintain a sustainable livelihood in an environment of stagnant wages, income volatility, and the shift of financial risk onto the household (Gosselin, 2008; Hacker, 2008) that comprise the economic context for all but the most affluent Americans.

Social exclusion is a conceptual framework used to understand poverty and social fracturing. Developed in Europe, it describes disintegrating social cohesion and increasing marginalization that leads to inequality, disadvantage and deprivation (European Commission, n.d.). Conceived of as relational in nature, it describes how individuals and groups become detached from mainstream human-capital promoting social institutions. In addition to people who are economically marginalized, groups of people, based on race, ethnicity, or other marginalizing status, also experience social exclusion. In fact, social exclusion has strong overlaps with institutionalized racism, especially considering how Phillips (2011) finds it operating on the micro, mezzo, and macro levels, and this concept may be a key in operationalizing institutionalized racism. Financial exclusion is a facet of social exclusion, when groups of people do not have access to mainstream financial institutions or are targeted by alternative lenders, such as the payday loan industry.

Study Purpose

As illustrated in the literature review, a significant limitation to the current body of literature regarding payday lending borrowers is that it is largely descriptive and fails to illuminate any relationship between the receipt of social assistance and payday borrowing among people seeking financially sustainable lives. This study provides current descriptive and predictive information from one of the premier personal finance datasets available, the Federal Reserve Board's Survey of Consumer Finances (SCF). This research investigates the following questions:

1. Do the demographic and financial characteristics of payday loan borrowers differ from non-borrowers?

2. Controlling for demographic and financial characteristics, what are the predictors of payday loan borrowing among groups of interest to policy makers?

3. What are the reasons that borrowers give for taking out a payday loan?

4. Are recipients of social assistance more likely to be payday borrowers than non-recipients?

Method

Sample

The 2013 SCF, which was released to the public by the Board of Governors of the Federal Reserve System in 2015 and is the most current data available, includes a range of demographic and personal finance characteristics from 6,015 U.S. households. The SCF includes financial information obtained from U.S. households on issues such as income, pension, spending, debt, and the use of financial services. The rationale for using the 2013 SCF to collect information on payday borrowing is that the SCF is a dataset of choice for researchers who study financial capability, especially changes in debt (Bucks, Kennickell, & Moore, 2006; Bucks, Kennickell, Mach, & Moore 2009; Duca & Rosenthal, 1993; Kennickell & Shack-Marquez, 1992). Sampling for the SCF is conducted in a two-step process: first, an area-probability sample is drawn that is nationally representative; secondly, a supplemental sample is drawn from tax-return records and is added to the first sample. Weighting procedures assure that the dual-frame sampling procedure results in nationally-representative estimates of households of varying financial capability and complexity (Kennickell, 2007).

Variables

The outcome variable of interest for these questions is the yes/no answer to the survey question, "During the past year, have you (or anyone in your family living here) taken out a 'payday loan,' that is, borrowed money that was supposed to be repaid in full out of your next paycheck?" (Board of Governors, 2014b).

To answer the first and second research questions, this analysis—consistent with prior descriptive literature—considers race, gender, education, marital status, work status, household size, income and age as demographic variables that may inform the likelihood of payday loan borrowing. In the SCF, race is treated as four groups: white, black, Hispanic and "other", which includes Asians, Pacific Islanders, Native Americans, as well as people who claim two or more races/ethnicities or do not answer the question at all. For our analysis, education is identified as receiving a college degree. Marital status is single or married. Work status includes three possibilities: those with full-time employment; those with part-time employment; and those without any employment. Age is included as a continuous variable, along with age squared to account for any curvilinear relationship with payday borrowing. The natural log of income is used when controlling for income to account for a high positive skew associated with high-income households. Regarding financial characteristics, the analysis considers eight dichotomous personal finance-related variables: homeownership; ownership of a credit card; denied credit during the past 5 years; more than 2 months late in repaying loans/mortgages; spends more than income; spends the same as income; ability to borrow $3,000 from friends or family; and receipt of social assistance. Social assistance, as measured by the SCF, includes the receipt of benefits from any of the following: Supplemental Nutrition Assistance Program (SNAP); Temporary Assistance for Needy Families (TANF); and/or Supplemental Security Income (SSI).

The third research question is investigated by examining responses to the payday loan follow-up question, "Why did you choose this type of loan?" Respondents who indicated that they or a household member had received a payday loan in the preceding 12 months selected from 12 possible motives for borrowing. The fourth question—whether recipients of social

assistance are more likely to be use a payday loan—is addressed by incorporating the binary social assistance variable in the regressions as an explanatory variable.

Design

To answer our research questions about payday loan borrowing, descriptive and inferential quantitative methods were employed using cross-sectional secondary data from the 2013 Survey of Consumer Finances, using STATA (version 14) statistical analysis software (StataCorp. 2015).

Procedure

After obtaining IRB waivers from our respective institutions, we analyzed a sample of 6,015 households from the 2013 SCF using Stata (Version 14.1). Consistent with all recent descriptive reports on payday lending from other nationally-representative data (e.g., Bhutta, Goldin, & Homonoff, 2016), a relatively small 4% (3.7% unweighted; 4.2% weighted) of households indicated having taken out a payday loan in the past year (Board of Governors, 2014a).

Like other surveys, the SCF suffers from missing data, particularly when participants are asked numerous questions about sensitive financial information and behavior. Unlike other surveys, the Federal Reserve provides researchers data that are prepared for multiple imputation procedures. The SCF uses a multiple imputation technique which results in five *implicates* of its 6,015 households which are combined using repeated imputation inference method (RII) to derive an estimate and adjust the variance around that estimate that accounts for the uncertainty introduced by any missing values. As opposed to single-imputation techniques, which fill in missing data points with a single imputed value, multiple imputation replaces the missing values with several values that have been created using a stochastic process to mimic the sampling distribution of the missing values (Montalto & Sung, 1996). As recommended by the Federal Reserve, we used all five implicates of the SCF when calculating point estimates and their associated variances using Rubin's RII (Montalto & Sung, 1996).

Moreover, as recommended in the SCF Codebook (Board of Governors, 2014b), all standard errors are further adjusted to account for households' unequal probability of selection due to the SCF's complex sample design. These sample design adjustments are made via the use of 999 replicate weights provided by the Federal Reserve for use in a bootstrapping routine that adjusts variances for the dual-frame sample design (Board of Governors, 2014b; Center for Financial Security, 2015). All results presented here are weighted to reflect the U.S. population, with standard errors that adjust for both missing data and sampling design.

To address each of the research questions, descriptive estimates of key variables used in our analyses are first described, along with bivariate tests for differences between those who did, and did not, receive a payday loan. Then, multivariate logistic regression models estimate the likelihood of payday loan borrowing conditioned on a host of standard sociodemographic characteristics as indicated by the contemporary theoretical and descriptive literature. Finally, we conducted a post-hoc multivariate logistic regression analysis to estimate the likelihood of payday loan borrowing by recipients of social assistance that shows interactions on variables of interest.

Results

Demographic and Financial Characteristics of Payday Borrowers

The estimated 5.1 million U.S. payday borrowers, or 4.2% of households, were spread across all income quintiles as follows: the lowest income quintile (4.4% of respondents); the second quintile (6.6%); the third quintile (4.5%); the fourth quintile (3.9%); and the highest income quintile (1.2%). Chi square tests did not indicate any significant differences in payday borrowing rates among the income quintiles ($c^2(4) = 3.913$, $p = .42$). When treated as a continuous variable, however, borrowers' mean income of $45,372 was significantly lower than non-borrowers' mean income of $89,869.

A descriptive analysis shows that borrowers are disproportionately female; African-American; Hispanic; poorer; unmarried; less educated; younger; and recipients of social assistance

than non-borrowers. Payday loan borrowers inordinately report spending more or the same as their income, but do not have credit cards to the extent reported by non-borrowers. Payday loan borrowers disproportionately reported being denied credit as well as being more than two months late paying bills and loans. This group also reported being unable to rely on friends or family for financial assistance to a much greater extent than their counterparts who do not borrow from payday lenders. There were no differences between borrowers and non-borrowers by family size or by the number of hours they work per week, regardless of work status. Descriptive characteristics of the payday loan borrower sample are reported in Table 1.

Predictors of Payday Borrowing

Results from the logistic regression analysis predicting payday loan borrowing reveals that many of the simple differences found in the descriptive analyses of demographic characteristics are no longer predictive of differential payday loan receipt when controlling for other characteristics in the model. Taking into account the range of demographic and financial behavior factors used in this analysis, payday loan borrowers are not more likely to be female, younger, unmarried, lower income, or Hispanic. Payday loan borrowers are, however, more likely to be African-American, lack a college degree, and to live in a home they do not own. The multivariate model also offers insights into the precarious financial situation of payday loan borrowers. Payday loan borrowers are more likely than non-borrowers to live without certain other financial safety nets that allow one to smooth consumption, such as credit cards or the ability to borrow money from family or friends, and they have a greater incidence of being denied credit in the past. Across demographic groups, borrowers are more likely to be late paying bills, spend more or the same as their income, and report the receipt of publicly-financed social assistance (SNAP, TANF, and/or SSI). Regression results are displayed in Table 2.

Table 1. Weighted Frequency distribution of payday loan borrowers, non-borrowers, and full sample, 2013 SCF (N=6,015)

Variables	Payday Loan borrowers (n=225)		Non-borrowers (n=5,790)		Full Sample	
	P[a]	M	P[a]	M	P[a]	M
Age		43.9***		51.4		51.1
Annual household income		45,372***		89,869		88,064
Household size		2.7†		2.4		2.4
Race						
Black	34.9***		13.8		14.7	
Hispanic	14.4**		10.4		10.5	
Other	2.3†		4.7		4.6	
White	48.4***		71.1		70.2	
Sex						
Female	39.6***		27.5		28.0	
Male	60.4***		72.5		72.0	
Work Status						
Full time	64.4		58.1		58.4	
Part time	7.5		9.0		8.9	
No work	28.1		32.9		32.7	
Homeowner[x]	33.6***		66.6		65.4	
Married[x]	33.2***		49.8		49.1	
College Degree[x]	19.2***		41.5		40.6	
Social Assistance[x]	25.4***		12.2		12.7	
Household spending						
Spends > income	41.7***		16.4		17.5	
Spends = income	45.7**		38.2		38.5	
Spends < income	12.6***		45.4		44.0	
Owns credit cards[x]	42.4***		70.8		69.6	
Previously denied credit[x]	55.3***		17.4		18.9	
Previously defaulted on loans[x]	27.9***		5.8		6.7	
Can ask friends/family for $3,000[x]	38.3***		65.9		64.8	

†p≤..10. * p ≤.05. **p≤.01. ***p≤.001. Note: Statistical tests of difference completed on un-weighted sample via repeated imputation inference technique (RII) with all five implicates. [a]P = weighted proportion of sample. [x]Dummy coded, 1 = yes, 0 = no.

Table 2. Results of the Logistic Regression Analyses Predicting Payday Loan Borrowing (N = 6,015)

Predictor	Model 1				Model 2			
	b	SE	X2	OR	b	SE	X2	OR
Demographic variables								
Age	0.048	0.22	2.16	1.048	0.049*	0.021	2.31	1.051
Age (squared)	-0.001**	0.000	-2.64	0.999	-0.001**	0.000	-2.82	0.999
Income (log)	0.331***	0.092	3.61	1.389	0.386***	0.093	4.17	1.468
No. in household	-0.080	0.062	-1.30	0.924	-0.078	0.063	-1.24	0.926
Full-time work	0.318	0.230	1.39	1.368	0.278	0.224	1.24	1.316
No paid work	0.400	0.247	1.62	1.483	0.410	0.255	1.61	1.499
Rents home[b]	0.618***	0.149	4.15	1.855	0.986***	0.168	5.88	2.685
Married	-0.181	0.180	-1.00	0.835	-0.101	0.187	0.54	0.903
Black[c]	0.487***	0.137	3.56	1.627	0.798***	0.149	5.35	2.220
Hispanic[d]	0.010	0.160	0.06	1.008	-0.077	0.157	-0.49	0.925
Other[a]	-0.429	0.370	-1.16	0.655	-0.490	0.373	-1.31	0.615
Male	-0.102	0.156	-0.66	0.906	-0.174	0.179	-0.97	0.844
No college degree	0.631***	0.155	4.07	1.882	0.639***	0.164	3.90	1.897
No credit card	0.641***	0.173	3.69	1.894	0.489**	0.203	2.41	1.626
Spends more than income[c]	1.447***	0.183	7.92	4.258	1.533***	0.215	7.14	4.640
Spends the same as income[c]	0.801***	0.184	4.35	2.228	0.916***	0.209	4.39	2.497
Is late paying on loans	0.793***	0.133	5.96	2.205	1.136***	0.166	6.84	3.130
Has been denied credit	1.196***	0.117	10.18	3.309	1.185***	0.135	8.79	3.271
Cannot borrow money from friends or family	0.551***	0.104	5.29	1.734	0.656***	0.133	4.94	1.925
Receives social assistance	-0.101	0.190	-0.53	0.904	1.656**	0.587	2.82	5.224
Social Assistance *spends more than income					-0.423	0.321	-1.32	0.657
Social Assistance *spends same as income					-0.639	0.346	-1.85	0.529
Social Assistance *black					-1.056***	0.260	-4.06	0.348
Social Assistance *male					0.124	0.272	0.46	1.129
Social Assistance *no credit card					0.690	0.402	1.72	2.005
Social Assistance *late on loans					-1.154***	0.363	-3.18	0.306
Social Assistance *denied credit					0.004	0.269	0.01	1.010
Social Assistance *no family help					-0.524	0.284	-1.84	0.593
Social Assistance *rent					-1.290***	0.344	-3.75	0.275
constant	-10.009	1.139	-8.79	0.000	-11.008	1.188	-9.27	0.000

Note: As recommended by the Board of Governors of the Federal Reserve System (2014b), statistical tests of difference were completed on the weighted sample with standard errors adjusted for both missing data (via repeated imputation inference technique with all five implicates) and complex sample design (via bootstrapped standard errors using the SCF's publicly-available replicate weights). [a]Reference group: "white." [b]Reference group: "owns home." [c]Reference group: "spends less than income." All categorical variables coded 0 = no, 1 = yes. Most figures rounded to the nearest thousandth.
* p ≤.05. **p≤.01. ***p≤.001.

Social Assistance and Payday Borrowing

Based on the first regression model's results and the evidence of the correlates of payday lending available in the literature, a second model that incorporated several alternative empirically-driven interactions was specified to more fully understand the relationships among demographic and personal finance characteristics, the receipt of social assistance, and payday loan borrowing. The interaction model revealed that recipients of social assistance were approximately five times more likely (OR = 5.2) to be payday loan borrowers than those who did not receive social assistance. Interactions indicated that recipients of social assistance who were African American were approximately 65% less likely to use a payday loan; those who were late paying their bills were approximately 70% less likely to borrow; and those who were not homeowners were more than 70% less likely to be payday loan borrowers.

Rationale for Payday Borrowing

Payday loan borrowers reported a variety of reasons for taking out the loan. Respondents were read a list of twelve reasons, and they chose their primary motive for borrowing. Table 3 shows these twelve reasons in rank order. Eighty-three percent of the sample identified one of four primary reasons to borrow from a payday lender (for an emergency expense, because the loan was convenient, to pay other bills or loans, or because it was identified as the "only option" for the borrower). Over a quarter of people reported that they (or a family member) needed the loan for an emergency, and nearly a quarter said that the payday loan was primarily used because it was a convenient option.

Discussion

Although the bivariate comparisons seemed to confirm the results of prior studies (Barr, 2009; Logan & Weller, 2009), the significance of several demographic factors was not sustained in the regression models. Most notably, after accounting for the host of demographic and financial characteristics in our models, payday loan borrowers were not more likely to be

Table 3. Ordered Ranking and Proportion of Reasons Given for Payday Loan Borrowing, 2013 SCF

Reason	Ordered Ranking	Proportion[a]
Emergency	1	26.8
Convenience	2	24.1
Pay other bills/loans	3	18.6
"Only option"	4	13.1
Buy medicine/medical payments	5	5.3
Help family	6	2.9
Pay utilities	7	2.5
Pay rent	8	2.2
Buy food	9	1.5
Vehicle expenses other than gas	10	1.5
"Christmas"	11	1.0
Buy gas	12	0.5
Totals		100

Note: n=225 (5.08 million weighted) [a]Weighted proportion of sample.

female, younger, unmarried, lower income, or Hispanic, which is contrary to findings of other descriptive research. It is possible, however, that our use of the household as the unit of analysis, rather than the individual borrower, obfuscates these relationships. The likelihood that one is a payday loan borrower is higher, however, if the household respondent is African American, lacks a college degree, rents their home, or receives social assistance, which sustains several claims made by previous researchers. That said, the introduction of the social assistance interaction term shows that African Americans who received social assistance were actually less likely to have been borrowers, suggesting that the interplay among race, social assistance, and borrowing is nuanced and researchers must consider the role that means-tested government support plays in lending.

African American use of payday loans may be explained by the history of exclusion by mainstream financial institutions and the legacy of redlining. Since the 1930s, African Americans have been systematically denied access to credit (Gordon, 2005); and redlining, the banking practice of denying loans based on

racially defined neighborhoods, was a common practice until the 1970s (Aalbers, 2014). More recently, redlining accusations have been leveled against retail services (Kwate, Loh, White, & Saldana, 2013) and credit card companies (Cohen-Cole, 2011). As recently as September, 2015, the U. S. Department of Justice and the CFPB imposed fines on a New Jersey bank in response to allegations of redlining (Heitman, 2015).

Recipients of social services, although clearly not the only people living on the economic fringe, are also more likely to make use of payday loans. Receipt of social assistance was a significant predictor of payday borrowing once it was included as an interaction term. However, three variables (African American, late on loans, and renter) that interacted with receipt of social assistance were associated with a lower likelihood of payday borrowing. African American racial identification, when joined with social assistance, predicted a significant decrease in the likelihood of payday borrowing. The risk of default on debt and other obligations, or eviction due to non-payment of rent, may be higher for recipients of social assistance, but their financial behavior seems to suggest an understanding that payday borrowing is not a long-term solution to inadequate resources.

While the primary reasons for payday borrowing by respondents were for emergencies and other necessities, the next most commonly reported reason was convenience. Considering that age and income were both predictors of payday borrowing in this sample, when joined with the high ranking for convenience, this data suggest a shift in the clientele for payday loans. Payday borrowers do exist among the young, poor, single, women, people who receive welfare and others in precarious financial situations who are living on the economic fringe, but to this customer base have been added an older and higher earning clientele utilizing payday loans as an additional mechanism for income smoothing. In this context, the absence of statistically significant differences in the proportion of payday borrowers in income quintiles is notable. Our analyses suggest that TANF recipients, like other consumers, may be rational actors who borrow as much as they think they can afford to pay back, and piece together a safety net from the various income-generating possibilities available (Kindle & Caplan, 2015).

When people need to make budget decisions between competing necessities (e.g., rent, medical bills, food, or car repairs), some may be helped by the availability of short-term payday loans. Only 46% of American households reported cash on hand to deal with an unexpected $400 financial need, 31% of respondents admitted that they had no means of dealing with such an event, and 4% admitted they would use a payday loan, deposit advance, or overdraft (Board of Governors, 2016). Surprisingly, even 19% of households with incomes over $100,000 a year did not have $400 in cash to deal with an unexpected need. When other sources of credit are unavailable, payday loans can be a short-term solution to lack of money, primarily because of the simplicity and ease of qualifying for the loan.

As with all consumer credit offerings, regulation is necessary to prevent lender abuse. The recent proposal to regulate and eliminate consumer debt traps, which would apply to payday lending, would require payday lenders to weigh the borrower's capacity to repay and require a minimum 60 days between loans (CFPB, 2016). Alternatively, the proposed regulations would protect borrowers by requiring the lenders to extend the loan for 90 days with monthly payments reducing the principal each month with full payment due at termination or providing a no fee extended payment period after 90 days (CFPB, 2016). If passed, this would mark the first national regulation enacted for the civilian population; regulations, starting in 2006 and strengthened in 2015, already exist in the U.S. for military personnel and their families (John Warner National Defense Authorization Act, 2006; United States Department of Defense, 2015). Regulations may decrease consumer access to payday loans to some extent, but sensible regulations like these may sustain the continuing existence of the payday loan industry and protect payday borrowers, while maintaining what has become a valuable source of credit. Unfortunately, at the time of this writing, Financial CHOICE Act of 2017 has passed the U.S. House of Representatives, and if ratified by the Senate, would take away CFPB's ability to regulate the payday loan (and car title loan) industry (HR 10, 2017).

Over the last two decades, the payday loan industry has matured and perhaps become mainstream. The literature is conflicted about whether or not payday loans improve or depress

the well-being of individuals, though it is clear that the field of social work should be aware of the practice itself (Lim et al., 2014b). While it is beyond the scope of this paper to weigh in on this debate, this research provides the fields of social work and social welfare with an understanding of payday loan borrower characteristics, and contributes to our shared work in addressing the Grand Challenge of building financial capabilities.

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