CHAPTER 1

Introduction

Jerry Buckland and Brenda Spotton Visano

Overview of the Book

Customers of payday lenders and other providers of Fringe Financial Services (FFS)[1] are people who can least afford to pay the higher cost of these alternative loans, check cashing, and payment services; those with less income are paying considerably more than the non-poor for basic banking services. A growing number of Canadians have been turning to higher-cost financial services from these non-deposit-taking firms despite the widespread availability of mainstream banking services in Canada. Recent surveys suggest that users of payday loans turn to these services because they are denied adequate credit services from traditional banks (see Box 1.1).

[1] "Fringe financial services" is one of many terms used to describe this category of business. Other common terms include alternative financial services, fringe banking, and high-cost/interest financial services.

J. Buckland
Menno Simons College, Canadian Mennonite University,
Affiliated with the University of Winnipeg, Winnipeg, MB, Canada

B. Spotton Visano (✉)
Department of Economics, School of Public Policy and Administration,
York University, Toronto, ON, Canada

© The Author(s) 2018

J. Buckland et al. (eds.), *Payday Lending in Canada in a Global Context*,
https://doi.org/10.1007/978-3-319-71213-0_1

Box 1.1 Targeted surveys of Canadian payday loan users

In the spring of 2016, the Association of Community Organizations for Reform Now (ACORN) Canada (an independent national organization of low- and moderate-income families) undertook a survey of Canadian payday loan users (Fantauzzi 2016).

> The survey finds that the majority of the 268 respondents turn to high interest financial services such as payday loans as a last resort because they are denied adequate credit services from traditional banks.
>
> According to the respondents, payday loans and cheque cashing services are the most in-demand alternative financial services:
>
> - A little more than half (52.3 per cent) say they have used an alternative financial service to obtain a payday loan;
> - Half (50 per cent) of those who used an alternative financial service told ACORN they did so to cash a cheque…
>
> Just under half (45.3 per cent) of respondents said they visited a high interest financial service provider because they had no overdraft protection available on their bank accounts.

The results of the ACORN survey differ, in some cases considerably, from the Financial Consumer Agency of Canada's (FCAC) recent survey of payday loan users (2016). Where 43–45% of the respondents to the ACORN survey had no access to a credit card or to a line of credit, of the respondents to the FCAC survey, 65% had no credit card and 88% had no line of credit. ACORN respondents used payday loans that were conveniently located (12.5%), and 90% FCAC respondents reported using payday loans because they were the "fastest or most convenient" option. Many respondents to both surveys used these loans to pay for expected, necessary expenses of housing and utilities (33% of ACORN respondents, 41% of FCAC respondents). When food is included, 63% of the ACORN respondents were borrowing just to cover basic living expenses.

The growth of the FFS sector has been remarkable in terms of both its geographic scope and the variety of products and services on offer through storefronts and online. This growth is one manifestation of "financialization"—a process that sees a marked increase in the value of financial services and financial products relative to the non-financial output of an economy. In this particular dimension, financialization is prima facie evidence of a form of financial exclusion. The existence of a large group of Canadians financially excluded by virtue of using FFS and thus being "underbanked" raises serious social justice concerns.

In the first seven chapters of this book, we provide a wealth of evidence about how the payday loan industry functions in Canada and its effects on its customers. We tell you who the customers are and how they feel about their situation. We show the financial and operational nature of the payday loan companies, both storefront and internet lenders. We explain the options to payday lending that exist in the mainstream financial services and show what they lack. We summarize other research work, particularly from the United States. We explain how the legal and regulatory environment operates and analyze the ethics of regulation.

In Chap. 8 we summarize our findings and argue for regulators, banks, and credit unions to implement strong actions to reduce financial exclusion in general and the harm that payday loans in particular can cause. We recommend an outright ban on payday loans accompanied by the mainstream offering an expanded menu of short-term loans at more reasonable rates and other services to ensure Canadians are receiving the basic financial services they need to manage in the modern economy. If the political will to ban payday lending is lacking, we offer alternatives including a limit on fees to $15 per $100 borrowed and options for installment loans instead of payday loans that require full repayment on the due date.[2]

The Payday Loan Industry in Canada

There are over 1400 payday loan outlets in Canada today, and there were virtually none in the mid-1990s. Prior to the mid-1990s, there were check cashers. Once check cashers, including National Money Mart, added payday lending to their services, this became their principal product and even led them to being renamed payday lender from check casher. We estimate the national payday loan market to be $2.3 to 2.7 billion face value of

[2] All references to dollars ($) are in the currency of the country in the context. References to US companies, statistics and regulations are in US$ unless stated otherwise. References to Canadian companies, statistics and regulations are in CD$.

loans per year. The majority of payday loan outlets are located in Ontario, with 800, and it is estimated that they issue $1.1–1.5 billion in loans each year in that province (Deloitte 2014, p. 1).

Data on the Canadian payday loan industry are, however, limited. There is little by way of official data, and private sources have dried up. Until recently the two largest payday lenders, National Money Mart through its parent company DFC Global Corporation and Cash Store Financial,[3] owner of the Cash Store and Instaloans, were publicly traded so that there were some data on their size and trends. Dijkema and McKendry (2016) reinforce a common narrative that based on outlet numbers, the industry grew rapidly in the early and mid-2000s and growth slowed by the early 2010s (p. 27).

Surveying the limited data available on payday lender financial performance, Buckland (2012) concluded, "[t]he data … demonstrate the strong, if somewhat bumpy financial performance of the larger fringe banks" (Buckland 2012, p. 139). The bankruptcy of Cash Store Financial and DFC Global Corp sale to private equity firm Lone Star Funds mean that there are very limited data available to analyze this industry in Canada. The last date for which there are data available for DFC Global Corp and hence for Money Mart is March 31, 2014. These data demonstrate growth in total revenues and payday lending, a decline in check-cashing revenue, and a small rise in revenue from other sources, from 2009 to 2014. Although many payday lenders offer other financial services like preloaded debit cards, money transfers, gold purchases, advances on tax refunds, currency exchange, and more recently pawnbroking, these contribute only a small portion of total revenue, more than half of which comes from payday loans and most of the rest from check cashing.

A consolidation process, or process of "corporatization," has been occurring among payday lenders in Canada as evidenced in the early 2000s beginning with the rapid expansion of National Money Mart Inc. and Cash Store Financial, and somewhat more recently Cash Money and Cash4You. Cash Store Financial has since gone out of business, but Money Mart has at least half the market and the top five chains have 65% of the outlets and a greater percentage of the loan volume. Chapter 4 provides a more detailed history of the industry and its present status: corporate concentration, stores by province, and financial performance.

[3] Cash Store Financial was originally called Rentcash and included also a rent-to-own division. The rent-to-own division was spun off as a separate company, Easyhome, and the payday lender was renamed.

The Payday Loan Product and Its Usage

As a very short-term (2–3 week) consumer loan, payday loans offer consumers convenient access to cash advance against their next paycheck. The costs of these loans are considerably higher than the costs of similar credit from a mainstream bank or credit union. In the past decade, regulations have imposed rate caps that have, in most sub-federal (provincial and territorial) jurisdictions, constrained the fees payday lenders can charge, but the cost of a payday loan remains more than ten times the cost of these same funds obtained from a line of credit or a credit card cash advance.

Data on payday lending in general, and repeat loans in particular, for Canada are more limited than in the United States because of fewer national surveys that include relevant questions and a lack of data available from government regulators. Using the 2005 results of an FCAC-sponsored survey undertaken by Ipsos-Reid, it was found that 52.4% of respondents who reported taking out a payday loan at least 12 times per year had household incomes of less than $30,000. This proportion declined as income rose: just over 40% of respondents with household incomes between $30,000 and $50,000 and around 5% for respondents with household income over $50,000 (Buckland et al. 2007, p. 33). Drawing on more limited data from the 2009 Canadian Financial Capability Survey, Simpson and Bazarkulova (2013) find evidence that repeat borrowing is more common among poor- and modest-income and asset-holding Canadians as compared to the non-poor (Box 1.2).

Box 1.2 Vignette

Judy ran into serious family financial problems and lost her ability to get regular credit. She turned to the local branch of a payday loan chain and handled her first loans successfully. Then she borrowed $1300 and was unable to repay all of it on the due date. The branch cashier accepted a small repayment, and for a while Judy repaid $100–200 per payday. Twice the payday lender debited her bank account unexpectedly; since there were insufficient funds to cover the debits, the debit was NSF (non-sufficient funds), for which Judy was charged substantial NSF fees. Then one payday she arrived at the branch, and in her words: “I made $100 payment, was supposed to be $200 but could not afford this; teller called manager to approve

this and manager approved if entire remaining balance was paid next pay day; I informed teller that I would not be able to afford that and she stated 'You can only pay what you can pay so agree to it and pay whatever you can next time you come in.'" Up to this point, Judy had repaid $1100 on this loan. The next payday she was unable to pay anything. The payday after that she arrived at the branch to make another payment and the branch denied it unless she promised to repay the entire loan the next day. At this point Judy still did not have a loan statement from the payday lender to determine what had been charged on the loan.

In subsequent attempts to pay, the branch refused to accept anything, refused to give her a statement of the loan, and gave her a phone number which she discovered was the number of the lender's law firm. Judy tried calling the payday lender's head office instead, but no one answered the phone and no one answered the messages she left. Two days later she received a threatening letter from the law firm that demanded payment of almost $3000, inclusive of "legal and administrative fees." The letter stated that the amount owing on the loan itself was $1687.90. Through a friend, Judy contacted one of the authors of this book and received some information, including a link to the legislation governing payday loans in her province. She was finally able to get the loan record from the store and discovered the actual amount owing on the loan was $722.63, which means she had been charged $522.63 in fees on the original loan of $1300, plus an additional $952.27 that the law firm claimed on the loan itself before adding its own charges. She wrote to the law firm and enclosed a check for $722.63. She cited the legislation and insisted on her rights and refused to pay anything more than that. She has not heard from them again, and her personal affairs have improved as she has been able to avoid payday lenders since this experience.

British Columbia's payday loan regulator, Consumer Protection BC (2016), finds in the 2016 reporting year that the average customer took out five loans and over 57,000 customers borrowed six or more times in the year. Over 4000 customers took over 15 loans in the year. The average

loan size was $460, and the percentage of loans the lenders wrote off was 4.4% (see Chap. 4, Appendix 4.3). Nova Scotia's regulator noted that, for Nova Scotia in 2013–14, 52% of all payday loans were repeat loans of some type, and, of those, 30% received eight or more loans: "It is estimated that these borrowers, which total about 5000 individuals, received an average of 13 loans each in addition to initial loans" (Service Nova Scotia 2015).[4]

Privacy Issues

Ensuring that client information remains private is an important consumer protection issue in Canada. If client information is shared with others it might be used for other purposes including compromising the client's identity and/or finances.

Generally speaking, a feature that fringe banks have accented in their services, as compared to mainstream banks, is client anonymity. To open a mainstream bank account clients are required to submit personal information such as two forms of acceptable personal identification, and to access certain types of loan products, a credit bureau check will be undertaken. Fringe banks have lower standards, are more flexible regarding personal identification requirements, and they do not undertake credit checks for a payday loan. Clients of fringe banks have more anonymity than do clients of mainstream banks. Indeed, greater anonymity is one factor that explains some people's use of fringe banks.

Nevertheless, privacy issues arise with payday lenders and in particular with online payday lending. Payday lenders require information such as the client's bank account number and sample statements, employment payroll statements, and in some cases the client's Social Insurance Number.

Some of the risks that the consumer faces involve lenders, lead generators, or others gaining unconstrained access to the client's bank account; use of the client's references for harassment purposes; use of client data as one point in creating a database to target consumers for other products (Denise Barrett Consulting 2015). A recent Canadian report highlights the complexity of protecting one's privacy in regards to online payday lending:

[4] No other provinces have reported data on payday lending and it does not appear that they are collecting the information that Nova Scotia and BC collect.

> [A] customer cannot be sure she is dealing with the same company if she returns to a web site. Domain names become available to be sold to new owners, making it difficult for consumers to know if they are dealing with the same entity. Besides not knowing who or where the lender is located, difficulty in enforcing consumer protection laws or compliance with state licensing requirements, these financial transactions expose consumers to identity theft and loss of privacy and control over personal financial information. All Internet payday loans involve transmitting bank account numbers, social security numbers, name and address, and extensive other personal information to a distant lender. (Fox and Petrini 2014, p. 12, cited in Consumers' Association of Canada (Manitoba) 2015, p. 9)

In its review of privacy concerns related to payday lending, CAC Manitoba found evidence of abuse on the part of some web-based lenders and noted that the majority of online payday loan consumers it surveyed did not read the lender's privacy policies (Consumers' Association of Canada (Manitoba) 2015, p. 20). Respondents noted that privacy policies were long, difficult to understand, and repetitive.

In addition to interviewing online payday loan clients, this study examined seven online payday loan websites and assessed them vis-à-vis requirements associated with the Canadian Personal Information Protection and Electronic Documents Act (PIPEDA). The examination found compliance with the guidelines varied across lenders and a number of concerns were identified including not requesting client consent to use personal information; ambiguity regarding how lead generators share information; requiring clients to provide Social Insurance Numbers when this may be contravening PIPEDA; and using client information to promote other products when this is not allowed in Manitoba regulations.

Regulation of Payday Lending

Regulation of payday lending involves benefits and costs to businesses, consumers, and government. In the case of potentially harmful products, a minimum level of regulation is justified to protect consumers from harm. This is the route that has been taken by most Canadian provinces as well as many US states. The purpose of this regulatory approach is to enable payday lending to operate within certain accepted standards, for example, disallowing rollovers, outlawing fees above certain caps. The state of

Colorado has been more prescriptive by requiring the payday loan industry to move toward a more traditional longer-term and installment loan product. The province of Québec and some US states have regulations that disallow payday lending, basing the justification presumably on the argument that regulations cannot modify the product sufficiently to prevent social harm. Each of these approaches have strengths and weaknesses and the evidence is mixed about which approach is superior but arguably the strongest evidence supports at least a moderate regulatory approach associated with the approach in Canada with the exception of Québec or the approach taken by the state of Colorado. The more restrictive model in Québec may be justified but without more data and analysis it is hard to make a conclusion.

A Roadmap to the Book

The question of why financial consumers turn to these fringe financial services has been the subject of recent study. In the latter part of this first chapter, we survey the existing literature, much of it from the United States but increasingly from other countries including the United Kingdom, South Africa, Australia, and Poland, in addition to Canada. While the US banking system is considerably different from that of Canada, many of the social justice issues in the American research hold important lessons for other countries, or at least point to some of the questions that need to be asked.

Surveys of users on the reason for their use of payday loans differentiate between why users need access to immediate cash and why, when they need that cash, they turn to a payday loan. As Wayne Simpson and Khan Islam (Chap. 2) note, however, surveys such as the Financial Consumer Agency of Canada's 2016 survey of a non-random sample of payday loan borrowers recruited respondents from among payday loan clients and so did not allow for a comparison of payday loan consumers with non-consumers. Simpson and Islam draw instead on data from two iterations of the Canadian National Survey of Financial Capability to present information about the characteristics of the payday loan customer and their use of payday loans. Simpson and Islam present a "big picture" perspective on who uses payday loans in Canada. Investigating such questions as what is the income and asset position of the typical borrower, how many payday loans per year are commonly taken out, and why do people take

out payday loans, Simpson and Islam find that payday loan clients tend to be concentrated near the bottom of middle-income and the top of low-income Canadian households, relatively asset-poor, younger, unmarried, are often repeat borrowers with the average number of loans per year having increased between 2009 and 2014.

Interestingly, Simpson and Islam find evidence to suggest that while payday loan clients are financially vulnerable they are not from the poorest quarters of society and unexpectedly, employment status is not a significant factor affecting payday loan use. Simpson and Islam note that, in terms of income, between 2009 and 2014 the payday loan client now resembles more closely the income characteristics of the non-payday loan client. The level of assets and liabilities of payday loan clients is lower than that of non-clients, but now one-quarter of payday loan clients fall into the highest asset category, households having more than $100,000 in assets. They also find that more payday loan clients were relying on a payday loan not from a paycheck but rather from other income sources such as social assistance.

Exploring consumer characteristics more closely, Jerry Buckland (Chap. 3) analyzes the results of a small-scale survey, a semi-structured interview, and a focus group completed with payday loan clients. Buckland's in-depth small-scale analysis complements the analysis of national surveys undertaken by Simpson and Islam. Buckland's survey revealed reasons why people use payday loans including "push" factors such as deteriorating income and employment status, lack of small loan product available at mainstream financial institutions, and poor credit record and "pull" factors including convenience of payday loan services and familiarity with them from one's friends and family members. Buckland's participants demonstrated an awareness of the relatively high fees of payday loans, but two-thirds of them did not know the annual interest rate associated with their payday loans.

In a focus group, participants provided mixed reactions to a comparison of the common Manitoba payday loan with two other similar products: Vancity Credit Union's Fair and Fast Loan and the common installment loan available from payday lenders in the state of Colorado, United States. When considering the choice between a one-time only payment of the higher cost of Manitoba payday loan and the alternative lower-cost (in terms of Annual Percentage Rate), longer-term, installment repayment options of the Vancity and Colorado options, most participants preferred the lower fees of the alternatives, but the group was split in

terms of their preference for a one-time two-week repayment contract versus longer-term and installment repayment option with some also concerned that a larger loan such as Vancity's Fair and Fast Loan could put them further into debt.

Repeat borrowing was quite common (one-quarter of Buckland's survey respondents took out ten and more loans per year) and associated with chronically or acutely low or negative net income. Buckland's evidence supports the concern that the considerably higher cost of the payday loan risks creates a financial dependency that can spiral down into a debt trap especially for those on a low income. The pressure to borrow again, often to repay the previous loan, increases with each new payday loan taken. Via this rollover loan process and the resulting higher threat of a debt trap, those financially excluded by virtue of being underbanked become increasingly so.

Indeed, from his analysis of the firm's side of payday lending, Chris Robinson (Chap. 4) argues that for the payday lender to succeed, firms need these customers who take out many loans per year. Examining the industrial organization, revenues, costs, profitability, and the effects on the payday lender's finances of regulation to date, Robinson makes a strong financial argument for capping lending rates at $15 per $100 loaned (for a term of less than 1 month). While the business of payday lending as it currently operates in the storefront segment of the industry is an inefficient way to deliver small loans, Robinson argues that the rate ceilings are high enough for the larger chains to still earn a considerable profit. Robinson examines the internet segment of the payday lending industry but the lack of publicly available information prevents any in-depth analysis. His meticulous financial investigation and calculations do suggest that there is virtually zero contribution to profits from the internet lending side of the business of at least one large retail chain.

The social justice concerns raised by our examination of the consumers combined with the excess profits exposed by the analysis of the businesses raise critical ethical questions. Chris Robinson and Denys Robinson (Chap. 5) examine ethical issues in the delivery of payday loans and the implication this has for justifying government regulation of the industry. Focusing on the consequences for the borrower as the criterion against which they will assess exploitation, they conclude the business is exploitative in its effects despite not intending to be so. They argue that the harmful consequences of the payday lending business model justify state intervention to reduce that harm and appeal to a broader corporate social

responsibility argument for additional justification for regulation of the industry.

The significant presence of payday lenders in a country with as well developed a banking system as Canada begs the question as to why FFS consumers are not using mainstream banking services. Where Buckland's research suggested there may be some "push" factors barring access to mainstream services, Brenda Spotton Visano (Chap. 6) examines this question in more detail. While bank account ownership in Canada is very high, there are some vulnerable Canadians who do not have a bank account and many more who do not use the one they have. Spotton Visano argues that there are six general barriers to mainstream banking and that these barriers partly explain the use of payday loans. These barriers are limited financial literacy, attitudinal barriers, difficulty in opening a bank account, the high cost of using a bank account, distance from mainstream banking services, and lack of trust. Spotton Visano then examines the regulations that have been put in place to build financial inclusion that includes, among other things, the requirement that banks publish annual public accountability statements and that they provide bank accounts for anyone with adequate personal identification. Other initiatives to address financial exclusion include the use of prepaid benefits cards, loan schemes for people unable to access credit, and community banking models. She notes that people in remote locations often lack access to banking. She ends with an assessment of the postal savings bank as a structural way to address financial exclusion. For its reach into bank "deserts" particularly where the barrier created by the absence of a bank branch or credit union is considerable for many rural and remote communities, she concludes that the reintroduction of the postal savings bank may well be an old idea whose time has come again.

Regulations designed to promote the financial inclusion of Canadians in mainstream banking are complemented by a patchwork of regulations governing payday lending. Katrine Dilay and Byron Williams (Chap. 7) examine the current structure and recent developments in payday lending regulations in Canada. Following a description of the regulation of small loans prior to the advent of payday loans, they summarize the major regulatory changes occurring in 1981 when the earlier legislation was repealed and substituted by an addition to the Criminal Code that criminalized lending at rates above 60% per annum. When the introduction of the considerably higher-cost payday loan in the early 1990s posed a regulatory challenge to the legislated usury limit, the federal response was to exempt

these loans in 2008 in jurisdictions (provinces and territories) that implemented sub-federal payday loan regulations. The result was a relatively decentralized regulatory patchwork quilt, akin to the situation in the United States, and different from the more centralized regulatory regimes in the United Kingdom and Australia.

Dilay and Williams argue that payday loan regulations in most of Canada recognize its potentially harmful nature but intend to enable "efficient" producers to provide their product at a price at or below the price cap in a way that minimizes harm to the consumer. The chapter examines the salient elements of the payday loan regulations that vary somewhat across jurisdictions but most often address price caps, borrowing limits, disclosure, enforcement, and financial literacy. In the face of dynamic changes to the industry and increasing pressure from online lenders, regulations are still very fluid. Rather than advocating for any ideal regulation, Dilay and Williams argue for an open consultation process, such as the process of public hearings undertaken in Manitoba wherein all the affected stakeholders can participate in deliberations.

Survey of the Literature

Payday lending is a mature industry and one that faces chronic challenges associated with critics' claims that the product harms its customers through location strategies, high fees, repeat loans, and now new problems associated with internet payday loans. The literature on payday lending is quite preoccupied with the investigation into the question of whether payday loans benefit consumers. More recently it has also explored the impact of different types of regulation on the industry and its consumers (discussed below). The literature considers the size and changing nature—for example, corporatization—of the industry. The literature is concerned with long-standing issues such as repeat borrowing and privacy and newer issues such as online payday loans. Finally the literature increasingly connects payday loan use with issues such as corporate marketing, bounded rationality, and consumer "tunneling."

Recent Studies and Their Sources

Payday lending has its origins in the United States, and while it has expanded into other countries, the United States continues to be something of the epicenter of the industry. This is because some of the large

US payday lenders have gone international and because the US market is so large. A consequence of this is that the literature on payday lending is the densest in the United States. This literature is helpful to our understanding of payday lending in Canada; however, given the different history, polity, and socio-cultural situation in the United States, results from American studies on payday lending are not directly relevant to Canada.

Prior to the 2000s there were some major studies in the field of financial exclusion, most importantly John Caskey's 1994 *Fringe Banking*, Gregory Squires and Sally O'Connor's 2001 *Color and Money*, and Andrew Leyshon and Nigel Thrift's 1997 *Money/Space*. These are important studies and their scope is quite wide, examining a combination of issues that one might argue fall within the general heading of financial exclusion.

But, reflecting the growth and ongoing concern regarding payday lending, we have seen in the past three years the publication of several books examining the general field (Buckland 2012; Soederberg 2014) and focused studies on payday lending including two books: Carl Packman's 2014 *Payday Lending: Global Growth of the High-Cost Credit Market* and Mehrsa Baradaran's (2015) *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy*.

In addition, tied to the aftermath of the sub-prime mortgage crisis's impact in the United States, there has been a deeper examination of its financial service sector including payday lending by the newly minted Consumer Financial Protection Bureau and the major 2013 study by the Pew Charitable Trusts, the four-part *Payday Lending in America* report. The Pew reports involved a number of methods including a nationally representative survey and a series of focus group meetings.[5]

[5] The Pew Charitable Trusts research project consists of four separate reports on different aspects of payday lending: borrower characteristics, how borrowers choose and repay loans, payday lending regulations, and internet payday lending. The research methodology involved several steps: inserting payday loan questions within an omnibus survey (containing questions on several topics); a follow-up survey with respondents that indicated in the omnibus survey that they had used payday loans; and focus group discussions with a subset of the follow-up survey respondents (Pew Charitable Trusts 2012, p. 31). A total of 49,684 people were involved in the omnibus survey, a total of 451 people were surveyed in the follow-up survey, and there were 10 focus groups. The number of respondents in the follow-up survey represents 0.9% of the omnibus respondents, but this level is consistent with other surveys that seek to include low- and modest-income households because they are more difficult to reach, by telephone, than middle- and non-poor people, because they have fewer or no phones. Moreover, a small share of the US population actually uses payday loans.

Focusing on payday lending in the United States, Baradaran sees payday lending as a manifestation, like sub-prime mortgages, of an unequal economic system that hurts poor people and harms democracy. She quotes US President Barak Obama:

> If you lend out money, you have to first make sure that the borrower can afford to pay it back … We don't mind seeing folks make a profit. But if you're making that profit by trapping hard-working Americans into a vicious cycle of debt, then you got to find a new business model. You need to find a new way of doing business. (Baradaran 2015, pp. 126–127)

Baradaran's book examines the history and current reality of the payday loan phenomenon and advances the position that the postal service should reintroduce the postal savings bank to provide small loans. Packman (2014) provides an international perspective by examining payday lending in several countries. He presents a political economy analysis of the rise and expansion of the payday lending model. He concludes that the payday loan model does more harm than good, "The business model of payday lending … has not been designed primarily to improve the financial situation or future financial capability of its borrowers, and in a high number of instances it has been shown to do the opposite, therefore the general perception of the industry being predatory appears correct" (Packman 2014, p. 135).

Pew Charitable Trusts engaged in a major research project on payday lending in the United States which covers a number of practical and important issues regarding the economics of payday lending, the impact of payday lending on consumers, and it offers an important series of recommendations to improve the payday lending product (Pew Charitable Trusts 2012, 2013a, b, 2014).

Industry Dynamics

Payday loans were first popularized in the United States in the 1990s and in Canada in the 2000s. The concept is much older than that; payday loans were available in a different form in the United States in the early twentieth century (Caskey 2012; Baradaran 2015) and available from some employers since then and today. The recent wave of growth is linked with the underlying process of financialization—a process linked with contemporary economic growth and globalization—*which is the expansion of financial motives and increase in the number and size of financial products.*

In the 1990s more of the literature focused on the geographic location of these lenders. This literature established in many jurisdictions including Canada, the United States, and the United Kingdom that payday lenders often locate in low-income neighborhoods (Brennan et al. 2011; Prager 2014; Leyshon et al. 2006). Recent geographic location studies include Barth et al. (2015) and Simpson and Buckland (2016). These studies confirm that fringe banks are located largely in low-income neighborhoods.

Corporatization is another descriptor of changes taking place in the fringe bank market in that companies that offer payday loans and other transactions services are dominated by growing chains with a proliferating number of services. Geographically, the corporate fringe bank model continues to spread to the United Kingdom, Europe, Australia, New Zealand, and South Africa. The industry also continues to grow in countries where it has already been established. The industry in the United States is now worth US$100 billion and has grown at 10% annually through the 1990s so that US payday lenders now lend around US$40 billion per year (Baradaran 2015, p. 122), supplying 12 million Americans with payday loans (Pew 2013a, p. 4).

The origin and center of the payday loan industry is the United States. Caskey's 1994 seminal study identifies the growth of *fringe banks* but not payday lenders per se. At that time check cashers were rapidly growing in importance and numbers, and payday loans were just beginning to be offered, often by the check cashers.

Caskey identified the growth of fringe banks at that time including check cashers and pawnshops. For the pawnshops this was a reversal from previous years, when they were declining. Packman notes that by outlet numbers payday lenders shot up in the 1990s and early 2000s in the United States from approximately 10,000 in 1999 to 12,000–14,000 in 2001 to 20,000 by 2005 (2014, p. 27), suggesting a growth in the industry. Packman notes that by 2005 US payday loan volume hit US$40 billion per year.

If the supply of outlets and nonbank loans is growing, it would make sense that so is the demand. Drawing on a national survey in 2009 and 2011, Mills and Monson (2013) found that US families' reliance on nonbank credit increased. Seven million households, or 6% of the total, used nonbank credit in the 12 months ending in June 2011 (Mills and Monson 2013, p. 4). Overall reliance on four types of nonbank credit—payday loans, pawnshop loans, rent-to-own agreements, and refund anticipation loans—increased from 11.8% in 2009 to 14.2% in 2011 (Mills and Monson

2013, pp. 1–2). Pawnshop loans were the most widely used, and the proportional increase in payday loans was the greatest at 42%.

Corporatization

Corporatization is the consolidation of business operations within one large company that takes advantage of economies of scale and scope. This has occurred to pawnbroking in the United States in the past and is well under way with payday lending in Canada.

In terms of contemporary pawnshop dynamics, Caskey notes that pawnbroking in the United States declined from 1930 through 1970 due to the Great Depression, restrictions on consumer spending during World War II, and, from the 1950s, growing access for middle classes to mainstream bank credit (Caskey 1994, pp. 27–28). Caskey notes that from the mid-1970s, "these fringe banking industries grew explosively" (Caskey 1994, p. 36). By the mid-1980s, he notes the "corporatization" of the pawnshop model through the appearance of chain-based pawnshops in lower-middle-class suburban neighborhoods (Caskey 1994, p. 53).

Chains were established by Cash America Investments, which later purchased a pawnshop chain in the United Kingdom to become an international pawnbroker, and made its Initial Public Offering in 1987 with shares valued at $6.67 that were, as of August 2015, trading for $22.55 (Caskey 1994, p. 54). Then, in 2016, Cash America merged with First Cash Inc. to operate under the First Cash label. First Cash is now primarily a retail merchandiser with a large portion of its business in second hand goods, including items from pawn loans that were never repaid, a large pawn operation and a much smaller payday loan business. This corporatization process involves the establishment of a corporate structure, the bundling of a series of similar services into a core offering, and the creation of store chain. This corporatization process has occurred with other fringe banks in the United States, including Advance America, Ace Cash Express, Cashland, and DFC Global Corp.

Corporate fringe banks extend beyond the United States and Canada in part through the operations of American-based multinational fringe banks such as DFC Global Corp, which, besides its unit in Canada, has operations in the United Kingdom and seven European countries.

Online Payday Lending

Online payday loans are a relatively new means of delivery. Given that storefront payday lenders sometimes deposit loans and receive repayment for loans electronically, it is not surprising that some existing payday lend-

ers have established online delivery as an added channel and that new players focusing strictly on online payday loan processing have entered the market.

In terms of the industry's size, Packman (2014), citing Stephens Inc., estimates the online payday lending industry increased from US$2 billion in 2006 to US$4.3 billion in 2012. The size of the online payday loan market in Canada is difficult to estimate, but one study estimated it to represent 10% of the total Ontario payday lending market (Deloitte 2014, cited in Denise Barrett Consulting 2015, p. 20). Another study estimates the internet payday loan market to encompass one-quarter of all payday loans in the United States in 2012 (Pew Charitable Trusts 2012), while the most recent information suggests that share has already increased to one-third of the market (Zibel 2015, cited in Denise Barrett Consulting 2015, p. 21). The Australian online market is estimated to be one-third of its total (Denise Barrett Consulting 2015, p. 21). The UK's Financial Conduct Authority estimates online payday lending represents 80% of the total (Denise Barrett Consulting 2015, p. 20). One indicator of growth comes from DFC Global, parent company to National Money Mart. DFC Global reported a doubling of its revenue from this source in a two-year period, representing 15.4% of its revenue in 2011 and 33.0% in 2013, followed by a dramatic decline in the first nine months of 2014 (DFC Global Corp. 2014). See analysis in Chap. 4 that suggests the internet business may be facing serious headwinds, particularly in Canada. Unfortunately, no one has reliable current data.

There are limited data on the characteristics of online payday lending clients. Regarding Canadian online clients, a National Money Mart respondent noted that their online clients tend to be younger and better off than in-store clients:

> Online trends younger, to people who are more comfortable with e-commerce as a safe platform. It also trends slightly higher in income. But many of our online customers are also in-store customers." He added that online consumers are service sensitive, not price sensitive. "Ease and speed of service trumps price. That's a general rule of all e-commerce." (Denise Barrett Consulting 2015, pp. 21–22)

Research in the United States also finds that online borrowers are more likely than in-store users to be younger and have higher income and a college degree (Pew Charitable Trusts 2012, p. 28). This study also

determined that almost three-quarters of payday loan clients rely exclusively on in-store loans, 16% rely on online exclusively, and 4% of clients use both avenues to obtain loans (Pew Charitable Trusts 2012, p. 27).

Unique Issues of Online Loans

Asymmetric Information

Online payday lending is associated with many of the same issues and concerns as in-store payday lending with some additional concerns. Most importantly, given the fact that the online lender can be based anywhere in the world, regulation is challenging. As research in Canada found, this concern is particularly associated with unlicensed payday lenders. So what do prospective consumers know about them? The prospective client would have more difficulty as compared with a local storefront lender, undertaking an analysis of the online lender.

And what do lenders know about prospective borrowers? With access to information about their income and bank account, they can, of course, make assessments of the client's likelihood or repayment. One US study noted that online lenders use sophisticated analyses to assess prospective borrowers (Pew Charitable Trusts 2014, p. 4). A US study found that online payday lenders rely on specialty credit reporting companies such as Teletrack (CFA 2011, p. 3). Pew Charitable Trusts research found that online lenders are more selective than in-person lenders and they face higher loan losses. Some online lenders reject 80% of applicants, while in-store lenders' average rejection stands at 20%.

Costs Differ for Online Versus Storefront Loans

Pew Charitable Trusts estimated that the cost of providing a loan is lower for online lenders, but that loan losses are more than double: 17% for storefront lenders and 44% for online lenders (Pew Charitable Trusts 2014, p. 5). Pew Charitable Trusts also estimates that Annual Percentage Rate (APR) for online loans at 652% is almost double of the APR for storefront loans, at 391%.

"Lead generators" are an important element of the online loan industry. They "serve as intermediaries connecting Canadian borrowers to worldwide lenders" (Denise Barrett Consulting 2015, p. 20). Lead generators are companies with websites that identify potential payday loan clients and then direct them to payday lenders, receiving a fee for doing so. According to another study these lead generators are paid up to US$110–125 for qualified referrals (Consumer Federation of America

2011, pp. 1, 9) and therefore clearly add to the cost of the payday loan. In the United States, lead generators, internet search ads, and TV/radio advertisements are used to promote payday lending (Pew Charitable Trusts 2014, pp. 6–7).

Online Lenders Less Likely to Follow Regulations

Denise Barrett Consulting (2015) examined online payday lending available to Canadians by analyzing websites and talking with key informants. They found that some online lenders are licensed and some are not and that this distinction effectively predicted whether the lender followed provincial regulations or not.

US research came to a similar conclusion, that unlicensed lenders are the most abusive (Pew Charitable Trusts 2014, p. 27). The results pointed to particular concern about online lenders that required the prospective client's bank account number, passwords, and security question responses "that would give lenders direct access to the borrower's bank account," without giving the client information about the lender (Pew Charitable Trusts 2014, p. 6).

The US study found that online payday lenders sometimes do not disclose where they are physically located, sometimes disclose it as another country (e.g., British West Indies), and sometimes disclose it as another state within the United States (CFA 2011, p. 5). These companies may indicate that they are subject to their local—and not the client's local—laws. The report found that there are a growing number of online lenders who claim exemption from state laws due to tribal sovereignty (CFA 2011, p. 1).

Troublesome Consumer Practices

Pew Charitable Trusts found that there are more complaints—at a 10:1 ratio—to the Better Business Bureau about online as compared with storefront loans (Pew Charitable Trusts 2014, p. 18) and that there are more threats from online lenders and associates toward clients unable to repay the loan, as compared with in-store loans (Pew Charitable Trusts 2014, p. 10). "I had the law office call me. …He tells me I have to get my attorney, and he says we will come to your job, and we'll arrest you" (Online borrower quote, Pew Charitable Trusts 2014, p. 11).

The Pew Charitable Trusts research also found that prospective online clients might receive several payday loan offers based on one request. Pew Charitable Trusts notes that this might be because of the high cost

of obtaining names from lead generators so that the lead generators and their clients resell names and contact information to other online lenders: “I’m getting texts, and I’m getting phone calls, and I’m getting emails, and I’m getting all of this stuff” (Online borrower quote, Pew Charitable Trusts 2014, p. 13).

Almost one-half of online borrowers reported that their bank accounts were overdrawn due to payday lender’s charges, which is double the rate reported for in-store loans (Pew Charitable Trusts 2014, p. 13). Another one-third of online consumers complained of unauthorized withdrawal of funds from their checking account (Pew Charitable Trusts 2014, p. 14). Twenty-two percent of online borrowers either closed or had their bank account closed to prevent the lender from withdrawing more funds (Pew Charitable Trusts 2014, p. 16).

Repeating Online Loans

Studies in the United States have found that online lending is often structured for the loan to be repeated for more than one pay cycle (CFA 2011, p. 9; Pew Charitable Trusts 2014, p. 8). In some cases online payday lenders can make it difficult to pay off the loan by creating the default to not pay off the loan. Sometimes online payday loans are structured to encourage repeat borrowing by only withdrawing interest and not principal charges for several paydays:

> MyPaydayLoan.com permits borrowers to extend loans with no limit as long as the finance charge is paid every due date. Nationwide Cash automatically rolls over the debt four times, withdrawing the finance charge each time without reducing principal. On the fifth and subsequent paydays, Nationwide Cash withdraws $50 of principal plus the finance charge. Using this payment method, the online lender collects $750 in finance charges ($150 over five paydays) on a $500 loan before the debt is reduced to $450. (CFA 2011, p. 9)

Pew Charitable Trusts found that 31% of online borrowers engaged in payday loans that were automatically extended by withdrawing the fee and not the principal on payday (Pew Charitable Trusts 2014, p. 8).

Do Payday Loans Benefit Consumers?

The vast majority of payday loan impact studies have been undertaken in the United States. John Caskey (2005, 2010) engages what he terms “the

big question" regarding payday lending, and that is, do payday loans benefit the borrowers? He argues that answering that question is complicated by the mixed empirical evidence and by ideological differences. Ideological tensions relate to assumptions about human nature such as whether people are rational, and about how well markets serve low-income and low-asset people. In his review of around one dozen impact studies, Caskey concludes that the answer to the "big question" is, so far, ambiguous due in part to these ideological tensions:

> These quasi-experimental studies reflect substantial and careful empirical work, but, in my view, they do not provide a reliable answer to the big question: Do payday lenders, on net, exacerbate or relieve customers' financial difficulties? For one, some of the studies find access to payday lending is beneficial and some find it harmful. But more important, the results of each of the studies are simply suggestive; that is, they are based on at least one of two strong assumptions that may well not be true and therefore cast doubt on the reliability of the results. (Caskey 2010, pp. 25–26)

In a study completed since Caskey's review, Bhutta (2013) examines experiences of consumers in states and times in which payday loans are available and in which they are not available. His conclusion is similar to Caskey in that he sees no relationship between the use of payday loans and credit scores, delinquencies, and the likelihood of overdrawing credit lines (Bhutta 2013, p. 1). To address the limitations of these quasi-experimental studies, Caskey calls for fully randomized design trials and ethnographic studies[6] to understand the impact of payday lending.

Put a slightly different way, Melzer (2014) summarizes the literature to date by stating "there is evidence that the expansion of payday credit aggravates financial difficulties, *at least for a subset of borrowers*" (Melzer 2014, p. 3; italics added). Reporting on a survey of a small number of payday loan clients from the payday lender association database, Lawrence and Elliehausen (2008) report that most respondents were satisfied but concur with Melzer regarding concerns about the subgroup

[6] Caskey proposes a "second fruitful approach that might help answer the big question would be ethnographic studies that carefully follow the budgeting decisions and thought processes of payday loan customers and their households over time. Such studies would necessarily have to be small scale and could be criticized for inevitable subjective data filtering by the ethnographers, but they could also offer rich insights to complement the traditional econometric and experimental approach of economists" (Caskey 2010, p. 37).

of clients who are repeatedly borrowing. Other studies have examined indirect consequences of payday loan use. Fitzpatrick and Coleman-Jensen (2014) found that borrowers in states with restrictive payday loan regulations were less food secure than people in states with permissive payday loan regulations (Fitzpatrick and Coleman-Jensen 2014, p. 553). Melzer, on the other hand, found that payday loan clients were more likely to use food assistance and not make child support payments (Melzer 2014, p. 21).

Lohrenz (2013, p. 21, cited in Wolff 2015) argued that payday lending fees drain money from borrowers who would otherwise have used those funds to purchase other goods and services that would have a multiplier effect on the macroeconomy. It was estimated that consumers losing those fees to payday lenders led to a drain of nearly US$1 billion and 14,000 jobs in the US economy in 2012.

What Do Customers Think About Payday Loans?

The Pew Charitable Trusts also undertook a major study since Caskey's review, including surveys and focus groups of payday clients. One key result is that payday loan clients themselves "experience complicated and conflicted feelings." This is because the borrowers have "appreciation for friendly service, dismay with the high cost, and frustration with lengthy indebtedness" (Pew Charitable Trusts 2013b, p. 39). Moreover, 55% of respondents felt that payday loans take advantage of borrowers (Pew Charitable Trusts 2013b, p. 40). So what would borrowers do if payday loans were unavailable? The Pew Charitable Trusts-sponsored survey found:

> If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family, or sell personal possessions. (Pew Charitable Trusts 2012, p. 16)

Repeat Borrowing

One of the chronic and most insidious of problems associated with payday lending is repetitive borrowing by some consumers. This is an issue because payday loans, as promoted by the industry, are small-sum and short-term loans intended to deal with a short-term liquidity problem.

They are relatively expensive and are not intended to overcome longer-term problems.

If people are taking out many loans in a short period of time, they are very likely not choosing the most suitable product. In the early days of payday lending, this issue was associated with rollovers, which were loan extensions that involved additional fees so that APRs grew multiplicatively.[7] Rollovers are largely disallowed by regulations, but some consumers, through one outlet or more, are nonetheless able to obtain several loans in a short period of time. Data in the United States confirm that this is an ongoing challenge there. Data limitations in Canada make confirmation in this country difficult.

As discussed above, Caskey (2010) found that the impact evaluation literature comes to few global conclusions about the impact of payday lending on the consumer. This is partly because payday loans have different effects on different groups of people. One can imagine a variety of scenarios where an individual could benefit from a small loan, even if it is expensive. If the loan allows the person to meet an emergency need, avoid paying a hefty fee, or make a strategic investment, then one can imagine a positive impact. However, there is evidence of a subgroup of payday loan clients who rely repeatedly on payday loans. In this case when the borrower is taking out many loans in a short period of time, perhaps six or seven in less than one year, then this combination stops looking like a series of separate loans and rather it looks like the person has tried to piece together a longer-term loan, at much inconvenience and expense.

The Situation in the United States

There seems to be a consensus in the United States that for a subgroup of payday loan clients, repetitive payday loan borrowing is harmful. Lawrence and Elliehausen (2008) find that in their small sample there were a relatively small percentage of respondents who took out many payday loans in a short period of time. They note that:

> This behavior is not necessarily harmful because some consumers may need a longer period of time to improve their situation. However, reliance on

[7] Early critics of payday lending found that rollovers were common among payday loan consumers. By this it was meant that on the repayment date, the loan was extended, and the original fees were doubled, and additional fees were added. Consequently, fees more than doubled for the rollover loans.

> payday loans for an extended period of time seems contrary to the short-term financing intention of the product and may exacerbate rather than relieve financial problems some consumers face. (Lawrence and Elliehausen 2008, p. 315)

Caskey notes a California study where 19% of borrowers took out 15 or more loans in a 1.5-year period, and focus group respondents used terms like “addictive,” “repetitive,” and “vicious cycle” (Caskey 2010, pp. 4–5). The Pew Charitable Trusts research project states that, for the US payday loan consumer, “repeat [payday loan] borrowing is the norm” (Pew Charitable Trusts 2012, p. 15). The Center for Responsible Lending (CRL) uses the term loan “churn” to refer to the situation in which the consumer is really unable to pay off the loan and is therefore either renewing it with the original lender or borrowing from another lender immediately on the date of repayment or soon thereafter (Montezemolo 2013, p. 3). CRL argues that many payday loans are taken out in a short time period so that “the actual impact of repeat transactions is simply repaying fees to float the same debt rather than being extended new credit each time” (Montezemolo 2013, p. 4). The cost to consumers for trying to convert the payday loan into a longer-term loan is substantial in terms of fees:

- The Consumer Financial Protection Bureau found that “the median borrower in the CFPB sample took out ten payday loans from a single lender during the year, paying $458 in fees alone for $350 in non-churn principal” (Montezemolo 2013, p. 4).
- Data from state regulator databases find borrowers take out nine, on average US$346, loans per year involving US$504 in fees.
- The Pew Charitable Trusts research finds borrowers take out eight 18-day, on average US$375, loans in one year and owe US$520 in fees.
- A study from the Center for Financial Services Innovation found that borrowers take out 11 loans in one year, and Advance America, the United States’ largest payday lender, reports its clients on average take out eight loans per year (Montezemolo 2013, p. 4).

Why So Many Payday Loans?

Baradaran argues that payday lenders do not underwrite their loans[8] and this is an inherent weakness of the payday loan model. She argues that

[8] Test the consumer’s ability to repay the loan through, for example, a credit score.

payday lenders do not check the credit worthiness of borrowers and do not test the difference between insolvent and illiquid people so that it is not a good credit model. This is an issue for payday lenders but particularly for the internet-based payday loan segment, introduced above.

> The current market for lending to the low and middle income does not distinguish between the two [insolvent and illiquid]. And often, the losses from those who are insolvent raise the prices for those who are merely illiquid. If the two types of borrowers could be adequately sorted, those who are illiquid could get lower cost loans that would help them stay solvent. But here's the irony: the only loans available to the merely illiquid are high-cost loans that make it much more likely they will becomes insolvent. (Baradaran 2015, p. 135)

Lack of underwriting is linked with some payday loan clients taking out many loans. The Pew Charitable Trusts research project investigated consumer motivation behind borrowing many loans in a short period of time and point to the following factors (Pew Charitable Trusts 2012, pp. 19–29):

- Consumers needing cash to meet an urgent expense. Thirty-seven percent of borrowers said they would accept a loan on "any terms offered."
- Some borrowers who will be unable to pay off the loan, unrealistically, think they can pay off the loan—principal and interest—in two weeks.
- No *caveat emptor*: consumers relying on payday lenders' information that themselves rely on repeat borrowers for their businesses to prosper. Fifty-four percent of borrowers relied "completely" on payday lenders for information about the payday loan.
- Some borrowers find the ease with which they can access payday loans as part of the problem as it creates a "temptation" they cannot resist.

Consumer Behavior and Literacy

It is often assumed within standard economic theory, a theory that is very influential in policymaking circles, that humans are entirely rational and that this is reflected in self-interested behavior that is deliberately achieved by careful data collection and optimization calculations. But in the past 15

years, a growing collection of scholars and scholarship have critically explored that assumption through various types of research and experiments falling within the area of behavioral economics. For instance, Dijkema and McKendry (2016) note, "[o]f course this does not mean that payday-loan use is always a rational decision and/or the best solution for the borrower's needs" (p. 23).

While the study of economics has always involved questions about human rationality, the contemporary school of behavioral economics has emerged through work by Shefrin and Thaler (1993), Thaler and Sunstein (2008), and Mullainathan and Shafir (2013). This research addresses a variety of economic issues including consumer use of credit and its analysis encompasses use by a variety of socio-economic groups including income- and asset-poor people. The scholarship begins with the assumption that people do not consistently behave rationally and, through research, seeks to identify our irrationality or what the literature calls "bounded" rationality. For instance, Thaler and Sunstein (2008) identify a series of characteristics of bounded rationality including anchoring[9] and overconfidence.

Tunneling

Mullainathan and Shafir (2013) specifically examine low-income people's decision-making. What they argue is that while poor people are just like non-poor people in many ways, including being limited by bounded rationality, they do face particular kinds of scarcities that constrain their thinking. They argue that, by definition, a poor person faces scarce resources, liquidity constraints, for example, income and assets. This scarcity forces them to focus thought and energy on meeting their immediate needs. The opportunity cost is that they are unable to focus on longer-term issues like medium- and long-term financial and social goals. They describe this focus in the short run as *tunneling*, in the sense that scarcity causes them to focus on a narrow space of life, the tunnel, and this precludes them from examining other spaces, because they are in this tunnel. Mullainathan and Shafir conducted experiments with people from a variety of backgrounds (poor and non-poor) in simulation experiments and found that the conse-

[9] This is a heuristic that involves using a known state or condition to assess a current state or condition, even if the known state or condition has no relationship to do with the new one. For instance, we might estimate the population of a city we are visiting by "anchoring" that estimate to our own city, even if they are completely different sizes.

quences of tunneling include reduced executive control, increased distraction, forgetfulness, and impulse control (Mullainathan and Shafir 2013, pp. 47–65).

Payday Loan Marketing

Taking up low-quality credit products may be the result of market scarcity—that is, there are no alternatives in the market—or it may, as Mullainathan and Shafir point out, be the result of bounded rationality. Bertrand et al. (2009) ran an experiment to test these competing explanations. Does the way in which sellers frame their products affect the uptake of loans from a South African bank? The banker sent out flyers about a loan product which contained different types and amounts of information. The researchers examined the credit products that people chose to determine if they behaved rationally by choosing the lowest interest rate loan, but they found that people's decision-making was influenced by other factors, such as simplified loan presentations and photos of attractive people.

In a study focused on payday loan uptake, Bertrand and Morse (2011) experimented with payday loan clients by providing different types of information. One group got the standard amount and date due for taking out the loan, and the other group was given the fee for a payday loan and extension for up to three months along with the equivalent fee for borrowing with a credit card (Bertrand and Morse 2011, pp. 1866–1867). The results found that those who received the comparison fee data were 11% less likely to re-borrow four months after the experiment.

Financial Literacy

Financial literacy measurement and education, like behavioral economics, is of interest among policymakers, and they relate to each other in important ways. Behavioral economics seeks to understand human decision-making, dropping the assumption that people always behave fully rationally. Financial literacy practice seeks to educate people so that they make sound financial decisions.

Financial literacy is generally defined as having the knowledge, skills, and attitude to manage one's finances effectively to achieve one's financial and life goals. This includes knowledge about concepts such as risk-reward trade-off with investments, skills such as budgeting, and attitude that enables a person to think and act, even with the constraints they face, to maximize their financial and life goals.

A common finding in financial literacy studies is that many people's capacity to deal with a rapidly financializing economy is inadequate. For instance, Lusardi and Mitchell (2014) scan the literature and find that a large share of Westerners (United States, Canada, Europe, etc.) have low levels of financial literacy: they lack certain literacies, *and* they are overconfident about their ability, the latter a bigger problem for men compared with women. Using universal standards of measurement, women do worse than men, poor people do worse than rich people, and ethnic minorities do worse than majorities, in assessments of US financial literacy.

Of course these universal standards are less relevant for poor people because, for instance, they are less likely to make investments or have mortgages and so will score poorly on questions that test irrelevant knowledge. Lusardi and Mitchell note that financial illiteracy can make people more vulnerable to scammers and less able to plan for retirement. Gathergood (2012) notes that consumers with high debt levels lacked self-control, heavily discounted future spending, and exhibited low levels of financial literacy.

The Impact of Regulation on Payday Lending

In their current form payday loans have been offered in the United States for over 20 years, in Canada and the United Kingdom for over ten years, and in other parts of Europe and the world (e.g., South Africa) more recently. Payday loan regulation in the United States and Canada has been a state or provincial responsibility, which adds diversity to the regulations in these two countries. Some municipalities in Canada and the United States have also engaged in limited regulation through, for example, zoning rules that require certain distances between outlets.

Under the UK Office of Fair Trading, payday lending was influenced by non-binding guidelines but now, under the Financial Conduct Authority, it faces binding regulations including repeat loan limits and a price cap (Fejos 2015). As a consequence of the substantive time and large number of jurisdictions in which payday lenders have operated—and noting that some jurisdictions have changed their policy regime over time—there is the opportunity to study the impact of different regulations on the payday loan market and consumer.

Some important qualifications are warranted before proceeding:

- First, data are often a limiting factor in assessing the payday loan market, particularly in Canada. Without sufficient quality and quantity of data it is difficult to make assessments of the market and the impact of regulations.
- Second, since jurisdictions are quite small—a US state or a Canadian province—their regulations are not absolute in that residents, especially residents that live near a border, are able to access payday loans under a different regime in an adjoining state of province.
- Third, and related to the jurisdiction size point, the internet is another source for payday loans, and there is some evidence that it is a growing source.
- Finally, payday loans are a product that has attracted strong opinions in one form or another. There are proponents and opponents of payday lending or, more broadly, the use of microloans to advance the interests of asset- and income-poor people. It is sometimes difficult to distinguish between strong results and strong passions.

Some New US Payday Loan Regulations

The creation of the Consumer Financial Protection Bureau is one of the main outcomes of the US government response to the sub-prime mortgage crisis. One of its major initiatives is a broad-based proposal to reform the small-sum credit market including short-term loans such as payday loans and longer-term loans such as title loans. The proposal includes regulations that are intended to “prevent” a debt trap and to “protect” borrowers from a debt trap.

With respect to reforms targeting payday loans, debt trap prevention involves underwriting loans and limiting loans to one or two in a 60-day period. In terms of debt protection, the regulations involve limiting rollovers to two followed by a 60-day cooling off period, and, if needed one option would involve installment repayment.

In 2010 the state of Colorado in the United States implemented a serious reform requiring payday lenders to transform their loans into a longer-term six-month loan that is repaid with installments. The rationale for this reform was that the two-week high-fee balloon payment payday loans were considered too harmful and that, to reduce consumer harm and

improve consumer benefit, the state of Colorado advanced a new payday loan model. The maximum loan size is US$500, and the APR is limited to 129% (Pew Charitable Trusts 2013b, p. 9).

According to a report by Pew Charitable Trusts, the new payday loan model in Colorado found that since the law was enacted, there are fewer payday lender outlets but they are still broadly available, there are fewer payday loans, fees are lower and more transparent, the vast majority of loans are repaid within five months, and consumers are more satisfied with the new service as compared with the old one.

Payday Lender Costs

A common goal of payday loan regulation is to protect consumers from unsafe payday loan products. One way this has been achieved is to devise regulation that allows efficient payday lenders to operate but disallows inefficient lenders to do so. Price caps and other regulations—for example, restricting the number and type of repeat loans—are put in place to enable the former but not the latter. An underlying assumption of this approach is that (1) some consumers want and can benefit from payday loans and (2) payday loans are an expensive service to offer. On the latter point, why is delivering payday loans more costly than, for example, a mortgage?

> [T]he cost structure of the consumer finance industry is such that operating costs increase less than proportionately with loan size. This relationship exists because many of the costs occur whenever an application is accepted, a loan is made, or payments are serviced. These activities must be performed regardless of the size of the loan. Companies producing larger loans have lower costs per dollar of credit extended than those producing smaller loans. Thus, for a given interest rate, larger loans are more profitable than smaller loans. (Lawrence and Elliehausen 2008, p. 301)

Other variables that affect payday loan costs include loan volume which relates to economies of scale and number of related services offered, which relates to economies of scope (Table 1.1). Other factors affecting costs include the default rate, the cost of capital, the price or price cap, the firm's profit margin, the number of first-time customers (an expensive clientele for payday lenders), and the number of loans per client per year (more is better for the payday lender; the reverse is the case for the borrower).

Table 1.1 Some important factors affecting payday lenders costs

Cost item	*Type of cost*
Volume of loans per period	Economies of scale
Number of services, in addition to payday loans offered	Economies of scope
Loan default rate	Particular cost
Cost of capital	Particular cost
Price/price cap	Market or set price
Firm's profit margin	Owner expectations
Share of first-time borrowers	Consumer characteristic
Share of borrowers taking out multiple loans per period	Consumer characteristic

The Impact of Price Caps

The most extensive studies of the impact of payday loan regulations come from the United States (Pew Charitable Trusts 2012, 2013b; McKernan et al. 2010; Edmiston 2011; Kaufman 2013).

Price caps are a common component of regulation. What happens when a price cap is implemented? One theory is that remaining firms move their prices—up or down—to the price cap. This in fact has been the case in the United States (Kaufman 2013). Baradaran argues that there is evidence that payday loan firms, at times, either implicitly or explicitly, collude around price caps, "consistent with Thomas Schelling's theory of implicit collusion around pricing focal points" (Baradaran 2015, p. 131). The argument is that the price cap enables firms to not compete and rather, to price their loans at the cap level.

What is a reasonable price cap that enables an efficient payday lender? The Pew Charitable Trusts study noted, according to an industry analysis, "In a state with a $15 per $100 rate, an operator … will need a new customer to take out 4–5 loans before that customer becomes profitable" (Pew Charitable Trusts 2012, p. 15). And Pew Charitable Trusts research demonstrated that in states with "hybrid" regulations—caps around $10 per $100 borrowed, restrictions of the number of loans per year a person can take, and allowing installment repayment—payday lenders continue to operate in large numbers (Pew Charitable Trusts 2012, p. 20). Caskey reports on Zinman's (2010) study that examined payday lending in the state of Oregon before and after introducing restrictive caps, $10 for $100 loaned:

> The new law capped finance charges at roughly $10 per $100 advanced and set a minimum loan term of 31 days for a maximum APR of 150 percent.

> Most payday lenders decided that their business would not be sufficiently profitable under this restriction. At year-end 2006, there were 346 payday loan storefronts in the state. By February 2008 there were 105. (Caskey 2010, p. 7)

While these studies disagree about the viability of operating a payday loan outlet within a $10 per $100 cap, clearly some were able to do so even in the Zinman study. Presumably loan volumes and other factors (e.g., providing complementary services) would lend to the viability of offering payday loans at this rate.

Limiting the Amount of Borrowing

Another common component of regulation is to limit the total amount that a person is able to borrow through payday lending. This is done in various ways such as limiting the number, size, or frequency of the payday loans. But Kaufman (2013) found that efforts to limit total borrowing have been less successful:

> Overall, it appears that customers were able to borrow the desired amount no matter whether the limit was structured as a size cap or a simultaneous borrowing ban. This suggests that unless states enact much more binding limits on the maximum amount borrowed it may not matter whether or not they also have limits on simultaneous borrowing. (Kaufman 2013, p. 16)

The Impact of General Payday Loan Restrictions

One argument is that restrictive regulations push credit-strapped people to alternative lenders, including anything from other fringe banks to illegal and dangerous loan sharks. But several studies in the United States find that this is not the case. Pew Charitable Trusts, McKernan, Kaufman, and Wolff find that in states with more restrictive regulations, there are fewer payday lenders and that there is no evidence that people are relying more on other loan sources.

In some jurisdictions payday loan regulations essentially disallow payday loans. For instance in North Carolina in 2001 a usury limit of 36% took effect for payday loans (Wolff 2015). Payday loan outlets were all closed by 2006. Credit union small loans remained, but the APR for these was 12%. Wolff (2015) concluded:

> Research by the University of North Carolina's Center for Community Capital (2007) documented that the rate cap benefited North Carolinians,

> and that most low- and moderate-income residents—even those who had previously used payday loans—welcomed the change. Researchers concluded, "[m]ost surveyed households consider themselves better off or unaffected by the closing of payday loan stores." Households found a variety of ways to manage financial stresses and expressed their happiness that payday loans were no longer in the state." (Wolff 2015, p. 33)

Edmiston (2011) reviewed US data and literature on this point. He noted that indebtedness in Georgia, United States, declined after the mid-2004 move to more restrictive regulations. What he found was that the trend line of growing indebtedness started to drop after the introduction of greater restrictions, while the trend continued on at roughly the same rate for the rest of the United States (Edmiston 2011, p. 73). But Edmiston found that people in low-income counties with payday loan outlets have slightly higher credit scores than the national average (Edmiston 2011, p. 77). He concludes:

> The evidence showed that consumers in low-income counties may have limited access to credit in the absence of payday loan options. As a result, they may be forced to seek more costly sources of credit. The evidence also showed that, in counties without access to payday lending, consumers have a lower credit standing than consumers in counties with access. (Edmiston 2011, p. 83)

McKernan et al. (2010) used data from a nationally representative US survey to examine the relationship between state-level regulation and consumer use of fringe banks. They found that prohibition of payday lending caused people in that state to reduce their use of payday lending by 35% as compared to states without prohibition. These residents can still obtain a payday loan in an adjoining state that does not prohibit payday lending or through the internet. Lower rate caps did not affect consumer uptake of payday loans. And they noted that prohibitions and price caps on one type of fringe bank product, for example, payday loans, do not lead consumers to increase their use of other products, for example, pawnshop loans (McKernan et al. 2010, p. 19).

The Pew Charitable Trusts (2012) investigated this question using their nationally representative dataset in which almost 50,000 people were screened through an omnibus survey leading to 451 participants of a full-length survey and eight focus groups specifically on payday lending. They explored the question of how state regulations affected payday

loan use.[10] They found that in states with restrictive regulations, people do not increase their use of online payday loans or other fringe bank products (Pew Charitable Trusts 2012, pp. 22–24). States with more restrictive regulations have fewer payday loan outlets and people simply use fewer physical and online fringe bank loans. Pew Charitable Trusts found that where payday loans were not available people cut back on expenses, delay paying some bills, borrow from friends/family, and/or sell or pawn personal possessions (Pew Charitable Trusts 2012, p. 16). Pew Charitable Trusts noted:

> Prior research has found "no evidence that prohibitions and price caps on one AFS (Alternative Financial Services) product lead consumers to use other AFS products." Our research builds on that finding, revealing that the vast majority of would-be borrowers do not even substitute a new method (using the Internet instead of a storefront) to obtain the same AFS product, which in this case is a payday loan. (Pew Charitable Trusts 2012, p. 24)

While there are limited data about online lending, what data are available do point to higher risks for consumers. This should not, however, be used as a rationale to not regulate payday lending from physical storefronts. Repeat borrowing continues to be a major concern, and this problem is well documented in the United States. Repeat borrowing points to the need for substantial reform of the sector as has been done in Colorado, for instance. The Pew Charitable Trusts study revealed that the majority of payday loan customers want more regulation of payday lending (Pew Charitable Trusts 2013b, pp. 47–50).

The state-based and varied regulation of the payday loan industry in the United States has led to a number of interesting studies. While impact assessments cannot definitively determine whether or not payday loans benefit consumers, it is clear that some consumers—relying on repetitive borrowing, accessing their loans online, tunneling as a result of personal and professional pressures—can be harmed by payday loans. Continued

[10] For their study the Pew Charitable Trusts categorized US states into three categories: (1) Twenty-eight "permissive" states, where most Americans live, where the payday loan rate caps are greater or equal to $15/$100; (2) "Hybrid" states where rate caps are approximately $10/$100, there are restrictions on the number of loans each borrower can take, and sometimes borrowers are allowed to repay the loan over several pay periods; and (3) "Restrictive" states where the rate cap is placed at 36% APR, and payday loan storefronts are not found (Pew 2012, p. 20).

regulation is needed as is consumer education that draws on the insights from behavioral economics.

Where We Are Now

Payday lending is a mature industry with chronic challenges. While there is evidence that growth of the payday loan industry has slowed down in some rich countries, companies are expanding their services to include online loans and expanding into new regions such as South Africa and Eastern Europe. Payday loan companies, perhaps better labelled fringe banks since they offer many services, have consolidated and now many have a corporate footprint.

Payday lending continues to face major criticism and to be the subject of discussion for reform. Discussion in Canada has continued in the media (Grant and McFarland 2015; Pollon 2015) but policymaker dialogue is relatively muted. Payday lending regulations in the United Kingdom have "caught up" to regulations in the United States and Canada. But it is in the United States where there continues to be the most lively discussion about payday loans and their reform. In Canada there was a proposal that the postal system be used to deliver banking services to unbanked people (Anderson 2013). More recently there was some interesting discussion that took place within a cross-sectoral panel put together by the Ontario government but their areas of consensus were very weak.

The panel convened by the Ontario government consisted of representatives from consumer, government, and business sectors to strengthen Ontario's payday lending regulations (Deloitte 2014). The panel report reviews Ontario's regulations point by point and notes some areas in which the panel came to a consensus and other areas where a consensus was not reached. They noted that the industry and loan model is always changing so that effective regulations must be broad enough to continue to regulate the sector. They also agreed that more data are needed to make effective regulations, that regulations should also be strengthened for non-compliant payday lenders and products, and there needs to be more financial education available to consumers. The panel was unable to agree on recommendations about other items such as fee caps, repeat loan limits, loan size limits, and so on.

A holistic response to bank exclusion evidenced by the growth of payday lending would include regulation of mainstream Financial Institutions (FIs) (Buckland 2012; Dijkema and McKendry 2016). Restricting,

reforming, or allowing fringe banks through state intervention are insufficient to address bank exclusion. A critical component to the solution to payday lending is that mainstream FIs identify the need, learn from the current providers (i.e., the payday lenders), and put in place products that meet this need. This is not happening through the "market mechanism" so it is justifiable that the federal government steps in to engage with mainstream FIs to generate this outcome. For instance, the federal government, through the Financial Consumer Agency of Canada, could broaden and deepen the Access to Basic Banking Regulations so that banks are required to maintain branches in modest-income neighborhoods, develop financial services the income-poor people need, and train staff to understand the financial reality of asset-poor people.

In Canada though, we simply have insufficient data to determine the extent of the problems associated with payday lending and then what legislation would be best. There is a clear need for government to collect these data so that careful analysis can be done. Federal agencies such as the Financial Consumer Agency of Canada and/or the Industry Canada-based Consumer Measures Committee are obvious choices to take on this task.

The contribution of our book is the examination of the ethical issues, the client base, the nature of the industry, the mainstream banking alternatives, and the regulations that govern payday lending in Canada. The book had its origins in the work prepared by many of the authors for a series of regulatory hearings in Manitoba dating from 2007 through 2016. Updated and expanded here, the objective of our book is to present evidence, theory, and argument demonstrating both the complex impact of payday lending on their clients and why there is a pressing need for careful regulation of payday lending to minimize these harmful consequences. Based as it is on a large-scale mixed methodology including socioeconomic, financial, econometric, and legal components, the collection of research presented here aims to fill a major gap in the comprehensiveness of the existing research on payday lending.

References

Anderson, John. 2013. *Making the Case for Postal Banking in Canada*. Ottawa: Canadian Centre for Policy Alternatives.

Baradaran, Mehrsa. 2015. *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy*. Cambridge, MA: Harvard University Press.

Barth, James R., Jitka Hilliard, and John S. Jahera, Jr. 2015. Banks and Payday Lenders: Friends Or Foes? *International Advances in Economic Research* 21 (2): 139–153.

Bertrand, Marianne, and Adair Morse. 2011. Information Disclosure, Cognitive Biases, and Payday Borrowing. *Journal of Finance* 66 (6): 1865–1893.

Bertrand, Marianne, Sendhil Mullainathan, Dean Karlan, Eldar Shafir, and Jonathan Zinman. 2009. *What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment*. Working Papers, Economic Growth Center, Yale University.

Bhutta, Neil. 2013. *Payday Loans and Consumer Financial Health*. Finance and Economics Discussion Series, No. 2013-81, Board of Governors of the Federal Reserve System (U.S.).

Brennan, Marilyn, Brian McGregor, and Jerry Buckland. 2011. The Changing Structure of Inner-City Retail Banking: Examining Bank Branch and Payday Loan Outlet Locations in Winnipeg, 1980–2009. *Canadian Journal of Urban Research* 20 (1): 1–32.

Buckland, Jerry. 2012. *Hard Choices: Financial Exclusion, Fringe Banks, and Poverty in Urban Canada*. Toronto: University of Toronto Press.

Buckland, Jerry, Tom Carter, Wayne Simpson, Anita Friesen, and John Osborne. 2007. *Serving Or Exploiting People Facing a Short-Term Credit Crunch? A Study of Consumer Aspects of Payday Lending in Manitoba*. Winnipeg, Canada.

Caskey, John P. 1994. *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*. New York, NY: Russell Sage Foundation.

———. 2005. Fringe Banking and the Rise of Payday Lending. In *Credit Markets for the Poor*, ed. Patrick Bolton and Howard Rosenthal. New York: The Russell Sage Foundation.

———. 2010. *Payday Lending: New Research and the Big Question*. Working Papers, No. 10–32, Federal Reserve Bank of Philadelphia, Philadelphia.

———. 2012. Payday Lending: New Research and the Big Question. In *Oxford Handbook of the Economics of Poverty*, ed. Philip Jefferson. New York: Oxford University Press.

Consumer Federation of America. 2011. *CFA Survey of Online Payday Loan Websites*. Washington, DC.

Consumer Protection BC. 2016. *BC Aggregated Payday Loan Data – Self-Reported for License Years ending on October 31*. Victoria, BC. https://www.consumerprotectionbc.ca/wordpress/wp-content/uploads/2017/10/2016-Payday-Aggregate-Loan-Data-Table-for-Web.pdf

Consumers' Association of Canada (Manitoba) Inc. 2015. *Privacy in Online Lending: An Analysis of Online Payday Lenders' Privacy Policies and Consumer Expectations for Privacy Protection*. Winnipeg, Canada.

Deloitte. 2014. *Strengthening Ontario's Payday Loans Act: Payday Lending Panel Findings and Recommendations Report*. Toronto.

Denise Barrett Consulting. 2015. *Consumer Experiences in Online Payday Loans*. Toronto.
DFC Global Corp. 2014. *Form 10-K for the Year Ended June 30, 2013*. Berwyn, US: DFC Global Corp. https://www.sec.gov/Archives/edgar/data/1271625/000119312513352311/d590562d10k.htm
Dijkema, Brian, and Rhys McKendry. 2016. *Banking on the Margins: Finding Ways to Build and Enabling Small-Dollar Credit Market*. Hamilton: Cardus.
Edmiston, Kelly D. 2011. Could Restrictions on Payday Lending Hurt Consumers? *Federal Reserve Bank of Kansas City Economic Review* 96 (1): 63–93.
Fantauzzi, J. 2016. *Predatory Lending: A Survey of High Interest Alternative Financial Service Users*. Canadian Centre for Policy Alternatives and ACORN Canada.
Fejos, Andrea. 2015. Achieving Safety and Affordability in the UK Payday Loans Market. *Journal of Consumer Policy* 38 (2): 181–202.
Financial Consumer Agency of Canada. 2016. *Payday Loans: Market Trends*. https://www.canada.ca/en/financial-consumer-agency/programs/research/payday-loans-market-trends.html
Fitzpatrick, Katie, and Alisha Coleman-Jensen. 2014. Food on the Fringe: Food Insecurity and the Use of Payday Loans. *Social Service Review* 88 (4): 553–593.
Gathergood, John. 2012. Self-Control, Financial Literacy and Consumer Over-Indebtedness. *Journal of Economic Psychology* 33 (3): 590–602.
Grant, Tavia, and Janet McFarland. 2015. Payday Loans: Predatory Loan Sharks or Crucial Fix in a Pinch? *The Globe and Mail*. http://www.theglobeandmail.com/report-on-business/payday-loans-predatory-loan-sharks-or-crucial-fix-in-a-pinch/article24463029/. Accessed 27 July 2015.
Kaufman, Alex. 2013. *Payday Lending Regulation*. Finance and Economics Discussion Series, No. 2013-62, Board of Governors of the Federal Reserve System (U.S.).
Lawrence, Edward C., and Gregory Elliehausen. 2008. A Comparative Analysis of Payday Loan Customers. *Contemporary Economic Policy* 26 (2): 299–316.
Leyshon, Andrew, and Nigel J. Thrift. 1997. *Money/Space: Geographies of Monetary Transformation*. London: Routledge.
Leyshon, Andrew, Paola Signoretta, David Knights, Catrina Alferoff, and Dawn Burton. 2006. Walking with Moneylenders: The Ecology of the UK Home-Collected Credit Industry. *Urban Studies* 43 (1): 161–186.
Lusardi, Annamaria, and Olivia S. Mitchell. 2014. The Economic Importance of Financial Literacy: Theory and Evidence. *Journal of Economic Literature* 52 (1): 5–44.
McKernan, Signe-Mary, Caroline Ratcliffe, and Daniel Kuehn. 2010. *Prohibitions, Price Caps, and Disclosures: A Look at State Policies and Alternative Financial Product Use*. Washington, DC: Urban Institute.

Melzer, Brian T. 2014. *Spillovers from Costly Credit*. Working Papers, Center for Economic Studies, U.S. Census Bureau.
Mills, Gregory B., and William Monson. 2013. *The Rising Use of Nonbank Credit among U.S. Households: 2009–2011*. Washington, DC: Urban Institute.
Montezemolo, Susanna. 2013. *Payday Lending Abuses and Predatory Practices*. Durham, NC: Center for Responsible Lending.
Mullainathan, Sendhil, and Eldar Shafir. 2013. *Scarcity: Why Having Too Little Means so Much*. New York: Henry Holt, Times Books.
Packman, Carl. 2014. A Short History of Payday Lending. *History Workshop Journal* 81 (1) (Spring).
Pew Charitable Trusts. 2012. *Payday Lending in America: Who Borrows, Where They Borrow, and Why*. Washington, DC: Pew Center on the States.
———. 2013a. *How Borrowers Choose and Repay Payday Loans: Payday Lending in America*. Washington, DC: Pew Center on the States.
———. 2013b. *Payday Lending in America: Policy Solutions*. Washington, DC: Pew Center on the States.
———. 2014. *Fraud and Abuse Online: Harmful Practices in Internet Payday Lending*. Philadelphia: Pew Charitable Trusts.
Pollon, Christopher. 2015. Easy Money. *The Walrus*, June 19.
Prager, Robin A. 2014. Determinants of the Locations of Alternative Financial Service Providers. *Review of Industrial Organization* 45 (1): 21–38.
Service Nova Scotia. 2015. *Opening Statement of Service Nova Scotia (SNS): February 2015 Payday Loan Hearing*. Halifax, Canada: Service Nova Scotia.
Shefrin, Hersh M., and Richard H. Thaler. 1993. The Behavioral Life-Cycle Hypothesis. In *Economics and Psychology*, ed. Shlomo Maital and Sharone L. Maital, 166–200. Cheltenham, UK: Edward Elgar.
Simpson, Wayne, and Dana Bazarkulova. 2013. *Payday Loans Consumer Profile Based on the 2009 Canada Financial Capabilities Survey*. Winnipeg.
Simpson, Wayne, and Jerry Buckland. 2016. The Dynamics of Financial Institution Location in Toronto: Who Is Serving the Inner City? *Economic Development Quarterly* 30 (4): 1–29.
Soederberg, Susanne. 2014. *Debtfare States and the Poverty Industry*. London: Routledge.
Squires, Gregory D., and Sally O'Connor. 2001. *Color and Money: Politics and Prospects for Community Reinvestment in Urban America*. Albany, NY: Suny Press.
Thaler, Richard H., and Cass R. Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth, and Happiness*. New Haven, CT: Yale University Press.
Wolff, Sarah D. 2015. *The Cumulative Costs of Predatory Practices*. Durham, NC: Center for Responsible Lending.
Zinman, Jonathan. 2010. Restricting Consumer Credit Access: Household Survey Evidence on Effects around the Oregon Rate Cap. *Journal of Banking and Finance* 34 (3): 546–556.