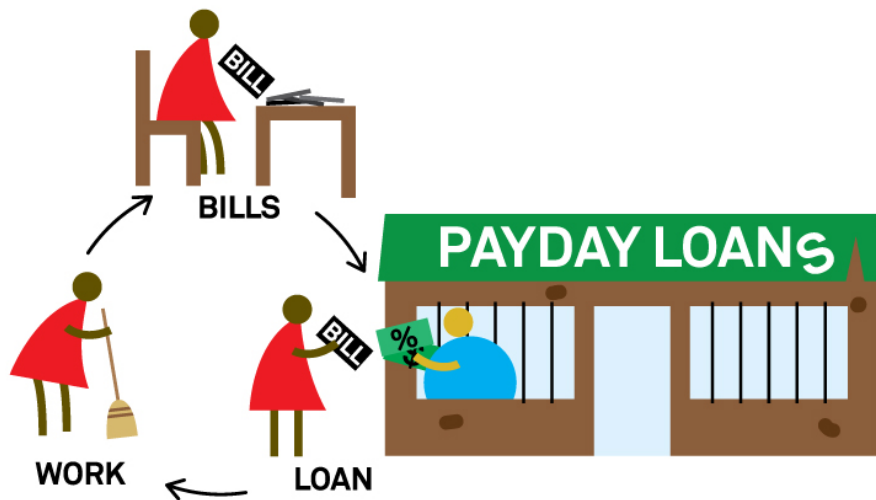


Drowning in Debt: A Health Impact Assessment of How Payday Loan Reforms Improve the Health of Minnesota's Most Vulnerable



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About Us

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

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

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Executive Summary

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

– Molly Pederson, Minnesota Governor’s Office

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

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

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

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

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

Compelling Evidence of Harm

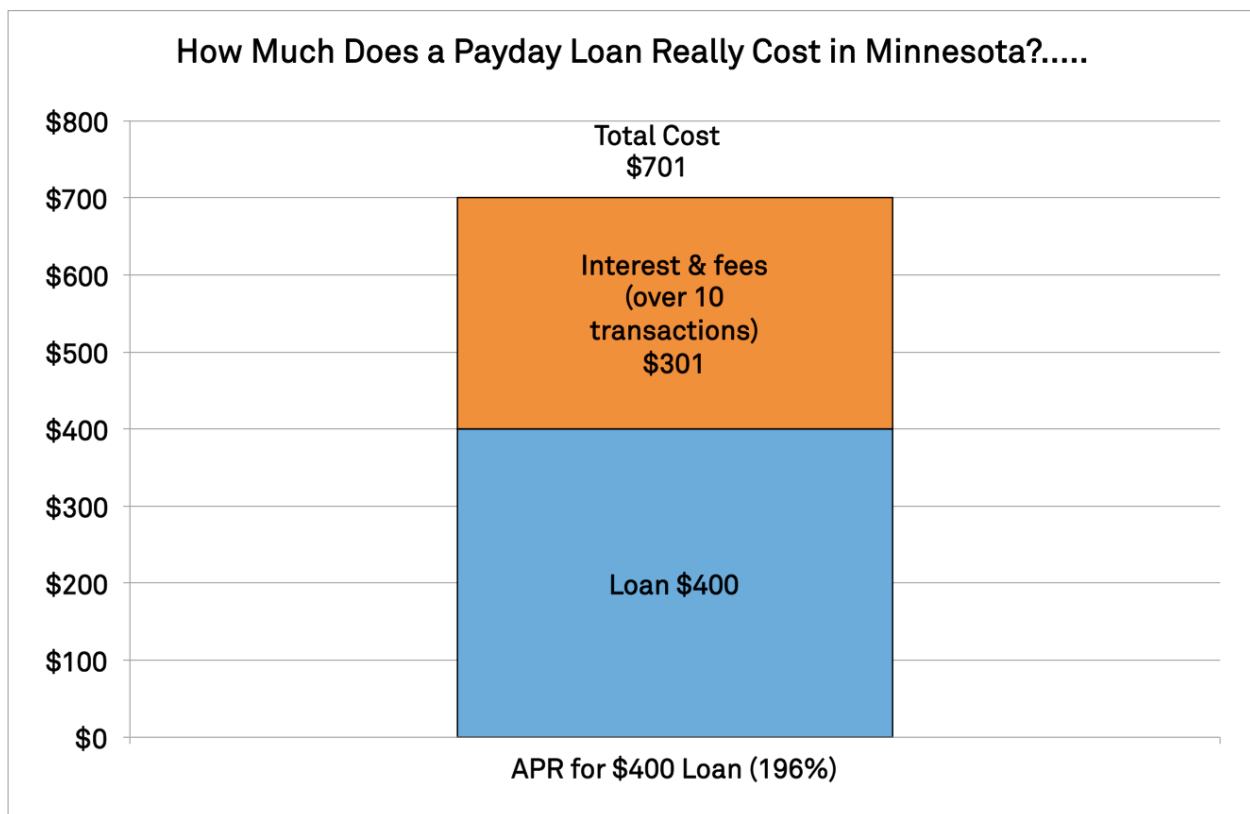
This Health Impact Assessment (HIA) looks at the compelling evidence of the harm caused by payday loans to the health and mental health of borrowers, their families, and their communities. It shows that reforms to payday lending – including elimination of the practice in the state – will help slow the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

This report is meant to inform the debate over legislation expected this year in the Minnesota Legislature that would set limits on the interest rates payday lenders can charge. The U.S. Consumer Financial Protection Bureau, or CFPB, is also expected to make public

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

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

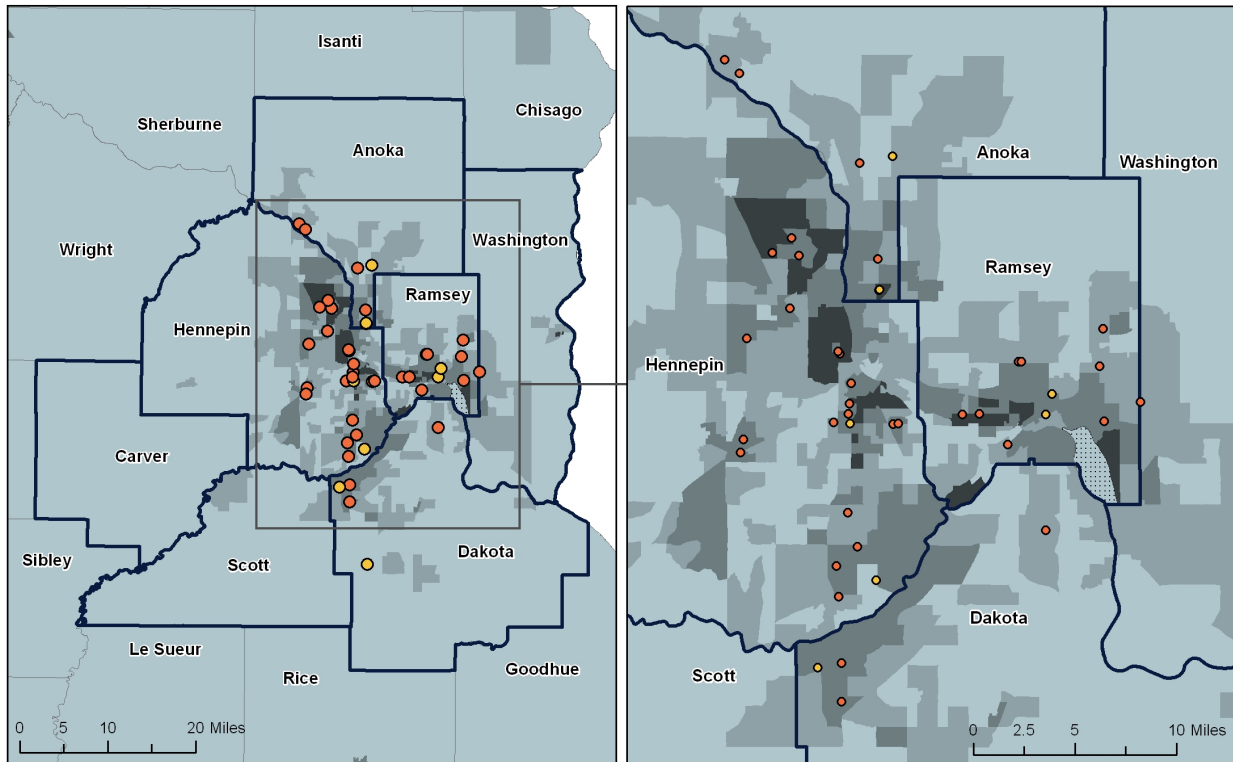
In Minnesota, the average loan amount is \$390, with borrowers averaging 10 loan transactions a year. The figure below illustrates that on a \$400 loan – close to the state average – at its APR of 196%, a borrower accumulates interest and fees of \$301 over those ten transactions.



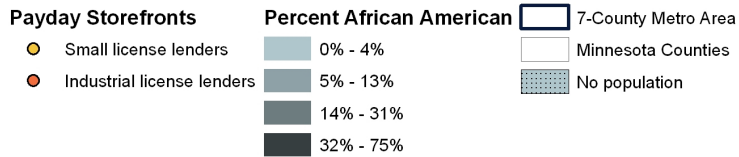
A Disproportionate Burden

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

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



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



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

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

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

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

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

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

The negative effects of the wealth drain brought about by payday loans also spill over from borrowers and their families to the communities the industry claims to serve. The presence of payday lenders in a community is associated with financial hardship and crime, putting vulnerable communities at greater risk of poverty and disinvestment. The loss of disposable income limits community members’ purchasing power, decreasing the demand for local businesses and services. The billions of dollars paid annually in fees and interest on payday could have been invested in communities, bolstering their economies and creating jobs – for

example, the \$13 million drained from Minnesota communities in 2012 could have amounted to over 56,000 trips to grocery stores.

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

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

Conclusion and Recommendations

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

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

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

- The Minnesota Legislature should take concrete steps to ban payday lending in the state. Tighter lending standards, restrictions on how many times a loan can be rolled over, and interest rate caps would protect borrowers from the worst abuses of payday and would help reduce the harm of payday lending to borrower health. However, the absolute greatest benefit to health and equity would be the elimination of the payday lending industry altogether.
- In response to the significant economic and racial inequities that persist in the state and underlying financial distress experienced by payday borrowers – and others who are financially insecure – the Minnesota Legislature should take steps to address the broader problems of poverty and low incomes, such protecting and creating jobs;

providing worker protections such as paid family leave and sick leave; increasing affordable housing; and improving education in communities that have historically been disinvested in.

- Public and private sector financial service providers, including banks, credit unions and community-based financial service providers, should invest in innovative ways to meet the need for affordable small dollar loans and encourage financial planning, savings, and credit building.
- State and local agencies that fund economic development activities should organize community workshops and forums that address financial strain, debt, stigma and mental health, and empower community members to advocate for payday loan reforms and other economic security policies.

1. Introduction

“Payday lending functions as a Band-Aid put on a serious budget shortfall problem; taking on high-interest debt to fill that gap is as ineffective as not treating the wound, and accelerating the infection. People have budget shortfalls because of underemployment or extra expenses and I can’t imagine a more expensive product that we are providing to people who have shortfalls.”

– Darryl Dahlheimer, Lutheran Social Services, Financial Services

Nobel economists and eminent scholars agree: Many Americans are struggling to fulfill their basic needs. Economic and social trends in this country have created an environment where wages for the middle and working class have not kept pace with the rising cost of living. Underemployment is more and more prevalent, debt is a chronic and accepted part of our political economy, and basic financial services are more expensive for under-resourced communities and communities of color. All of these factors are contributing to increasing income and wealth inequality – an issue the public is calling on politicians to address.^{1,2} The payday loan industry takes advantage of these inequities. The industry markets its loans as a benefit to people experiencing a financial shortfall, but in reality the loans make the economically vulnerable among us worse off financially – thus increasing income, wealth, and health inequities.

A payday loan is a short-term loan of usually a few hundred dollars from a non-depository institution—an institution that is licensed to lend but not to accept deposits like banks or credit unions—for which repayment plus interests and fees is required in full, typically about two weeks after the loan is secured.^{3,4} The fees borrowers in Minnesota pay amount to triple-digit annualized percentage rates (APR). For example, on a fourteen-day loan, ACE Cash Express’ APR amounts to 359% on a \$200 loan, 250% on a \$300 loan, 196% on a \$400 loan, and so on.⁵

Payday loans are part of the small-dollar loan marketplace, which also includes credit products such as car title loans, installment loans, and pawn loans.⁶ Nationally, with close to 17,000 payday storefronts,⁷ about 12 million borrowers⁸ pay \$7.4 billion in fees annually.⁹

Payday loans can be an appealing option for individuals experiencing a financial shortfall because of the speed at which the loans are given, the availability of these loans to those who may not qualify for other affordable credit products, and a borrower’s ability to use the loans to avoid overdrawing a deposit account or paying a bill late.³ However, the high cost of the loan, the low likelihood borrowers will be able to repay the required full amount two weeks later and still have enough money for other expenses, and aggressive debt collection practices in the case of delinquency or default make them a predatory alternative.³

Despite claims that payday loans provide access to small dollar credit for people with limited options,¹⁰ many economists agree that they are not a financially healthy decision because of the cost of the loans and the short term repayment-in-full requirement. Many others, including consumer advocates and the Department of Defense, believe payday loans are designed to take advantage of people living on the financial brink.^{4,11,12}

To date, 14 states and the District of Columbia have put restrictions in place to prevent payday lenders from operating within their borders.⁸ In recent years Minnesota has also

considered reforming its payday lending laws. In 2014, a bill was proposed and passed the House, but was defeated in the Senate. New legislation will likely be introduced in the next session to limit the interest rates that payday lenders can charge.

In addition, the Consumer Financial Protection Bureau (CFPB) announced in March that it is developing federal rules to regulate the industry and is expected to make them public this year. However, these rules will not affect allowable interest rates – this is up to state regulators. Therefore, the timing is ideal for states like Minnesota to coordinate with national efforts to safeguard current and would-be payday loan borrowers.

To inform payday lending reform discussions in Minnesota, this report examines the ways proposed payday lending legislation will affect the health of individuals, families, and communities that are susceptible to payday loans. Specifically, we examine how a cap on the interest rate payday lenders can charge affects individuals' financial and mental health, family well-being, and the financial and overall health of communities.

Existing evidence makes a compelling case that since the emergence of payday lending there have been many problems with the industry, and there is increasing understanding that national and state-level regulations are needed.¹¹ As we demonstrate in this report, payday lenders take advantage of racial/ethnic inequities in income and wealth by targeting certain borrowers, which perpetuates and exacerbates the financial strain borrowers are already experiencing, and increases susceptibility to the health effects of financial insecurity. Our research also indicates that the financial harms of payday loans “spill over” to communities and threaten to further entrench the vicious cycle that is creating the need for payday loans in the first place.

This report builds on this body of evidence to illustrate that passing a rate cap and implementing additional rules will prevent vulnerable people from falling into the cycle of payday loan debt; decrease the financial drain from individuals, families, and communities; and prevent further harms to individuals' mental and physical health and family and community well-being.

About this Report

Health Impact Assessment (HIA) is a public engagement and decision-support tool used to assess policy proposals and make recommendations to improve health outcomes associated with those proposals. The fundamental goal of HIA is to ensure that health and equity are considered in decision-making processes using an objective and scientific approach, and engaging stakeholders in the process.

For this HIA, we used the following research methods:

- Extensive review of the peer-reviewed and grey literature;
- Data collection from existing administrative sources;
- Focus groups with adults who took out a payday loan or had a loved one who did; and
- Subject matter expert interviews with researchers, state and national advocacy organizations, financial services providers, social service organizations, policy makers, and borrowers.

See Appendices for more information on definitions, the HIA process, stakeholder engagement, and methods.

2. Much is Known About the Problem

2.1. How Payday Loans Work

You can take out a payday loan if you have an income, a valid checking account, and valid identification (such as a driver's license or social security number). Even without a valid checking account, a borrower is eligible for a loan through a prepaid debt card.^{4,8,13}

Payday loans are structured as a single payment of the amount borrowed plus the loan fee, timed to be paid off with the borrower's next payday or other receipt of income.^{3,4,14}

Repayment is typically within two weeks and can stretch to one-month. Loans are repaid at the storefront or, in the event the borrower does not return to the storefront or has borrowed from an online lender, taken from the consumer's bank account.³

Borrowers go into a payday loan storefront, or to an online payday lender, and write a personal check, or authorize an electronic transfer, for the amount of the loan plus the fee (set fee + interest charge depending on the loan amount), in exchange for the cash. For example, if someone takes out a \$300 loan, they are charged a fee that varies by the amount borrowed – a \$15 fee for every \$100 is common at payday loan storefronts nationally.^{8,3} In two-weeks they have to repay \$345 – the amount of the loan plus the interest/fee.

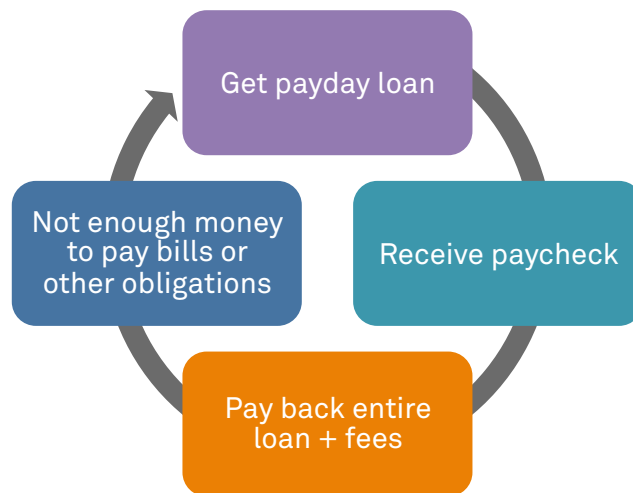
On the agreed upon date, the borrower pays the entire loan balance with cash (also referred to as a “balloon payment”). For payment the lender may deposit the borrower's check (given when the loan was taken out), or transfer funds from their account. If the borrower doesn't have enough money in their account when the lender withdraws the funds, the borrower incurs the returned check or insufficient fund fees. Borrowers are required to repay the entire amount borrowed on the specified date – partial payments are usually not permitted.

2.2. The Problem

When a borrower does not have enough to cover the entire repayment amount and does not want to overdraw their account, they may renew the original loans or take out a new loan to repay the old one. These back-to back transactions require that the borrower pay the interest/fee on the repayment date while leaving the original loan amount untouched. The borrower continues to accrue interest/fees every two weeks (in many cases) until they are able to repay the entire original loan amount.

The problem lies in the high costs of the loans and the reality that the vast majority of borrowers are not able to come up with the loan amount plus interest/fees only two weeks later – and thus, take out another payday loan, entering a “debt cycle” or “debt treadmill.”

Figure 1. Payday Lending Debt Treadmill, Center for Responsible Lending



According to the CFPB, nationally, 15% of borrowers repay the loan when it is due, 64% renew, and 20% default on the loan.¹⁵ Borrowers are stuck in payday loan debt for an average of 196 days per year, or 54% of the year.¹⁵ As a result, according to the Center for Responsible Lending, repeated payday loans cost the country \$3.5 billion in fees each year.¹² In Minnesota, borrowers average 10 loan transactions a year and take about 5 months to pay off the original loan amount.¹⁶

Darryl Dahlheimer of Lutheran Social Services, Financial Services explains:

“On a typical \$500 payday loan. . . You’re due to pay that back in two weeks. If you don’t have \$500 today, what are the chances that you’ll have \$600 in two weeks? . . . If in two weeks you don’t have the full amount, you pay the \$100 in interest and roll the balance into a new payday loan. That’s the debt trap – you must pay in full, you can’t make payments. . . You pay interest and you take out a new refinanced loan. So you’re doing it over and over and over. If you did that 10 times, you still owe the \$500, yet you’ve paid \$1000 in fees or interest, which most people understand as usury. People always respond, ‘How is that even legal?’ The trouble is that we have the research that shows that on average, users roll over these loans 10 times in a year.”

The industry’s business model is built on refinancing and repeat borrowing – indeed 90% of their revenue comes from borrowers who cannot pay off their loans when due¹⁷ and only 2% of national payday loans are made to borrowers who borrow only once.¹² The product is marketed as a quick, reasonably priced fix for a financial emergency, but in the end is a long-term and expensive cycle.

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

According to The Pew Charitable Trusts series on *Payday Lending in America*,* payday loans are primarily used to cover ordinary, recurring living expenses over the course of months, not unexpected emergencies over the course of weeks.⁸ For example, seven in ten borrowers use the payday loan to pay utilities, car payments, credit cards, prescription drugs, rent, and food.⁸ In the absence of payday loans, borrowers are more likely to adjust their budgets and cut back on expenses, delay bills, sell or pawn personal items or borrow from family or friends. Many borrowers (41%) use these same strategies to ultimately pay off their payday loan as they would to overcome a shortfall in the absence of payday loans.¹⁸ In other words, payday loans are an expensive diversion from the same conclusion to a financial shortfall. One in six borrowers has used their tax returns to pay off the loan. Other borrowers saved up enough money to pay it off.¹⁸

Focus group participants describe what drives them to take out payday loans:

“I went from making \$3500 a month to \$1200 a month, and my bills are pushing about two grand a month. I’m already exhausting my income and then someone comes and says they need help because their car is being repossessed, and they can’t make a payment, and then I go and take out a payday loan to help them out of their stuff. And then they say they will pay me back. I see they have some kind of money coming in, so I don’t worry about my money, but then I had to close my bank account. It was the worst experience ever.” – Denise, borrower

*“When I first graduated from college, I started working. My bills were not that much, I was saving all the time, and I’m the type of person that likes to look at my savings pile up, and then all of a sudden one day my dad calls me. He said, ‘I don’t have a job, this happened that happened.’ The loan was \$2500, I remember going to the bank and taking out \$2500 from my savings to go pay his loan.”
– Nonai, family member of borrower*

The payday loan industry exacerbates financial insecurity: access to payday loans leads to increased difficulty paying important bills, such as mortgage, rent, and utilities bills, and to delays in getting needed health care.¹⁹ The Pew Charitable Trusts found over half of payday borrowers overdrafted their checking account in the last year and 27% of all borrowers reported that a payday lender specifically was the cause of the overdraft, which goes against payday industry claims that the loans are a way to avoid these charges.¹⁸ Other researchers have found access to payday loans leads to higher rates of involuntary bank account closure,²⁰ which can have a cascade of effects on overall financial well-being, such as having to pay high fees for routine financial transactions (e.g., cashing a paycheck, paying bills).²¹ Researchers also find payday loan access increases rates of personal bankruptcy.^{4,22–24}

Focus group participants confirm these findings:

“Every two weeks I was just paying interest. And I think I got frustrated with it because knowing that the interest you’re paying really isn’t even close to what you

* The Pew Charitable Trusts’ *Payday Lending in America* series is based on 1) a screening survey of 33,576 adults to measure incidence and identify payday borrowers; 2) an additional screen of 16,108 adults in order to find a sufficient number of borrowers to take a full-length survey; 3) 703 nationally-representative full-length surveys completed by payday borrowers; 4) 22 focus groups; and 5) an analysis of state regulatory data and public company filings.

took, and by the time you know it, you paid more than what you took from them. . . It eats you up, really, and it's very stressful to deal with that—not knowing where you're going to live next, or how you're going to come up with your rent—yeah, it doesn't really help much.” – Mercy, borrower

*“I saw that the interest was really high, it was killing me, but I didn't have a choice, so I kept with it until I wasn't paying daycare anymore – my daughter reached an age where she didn't need it anymore. I took out \$150, and by the time I was able to pay it off, it was about \$500-\$600. Every two weeks I would go in and pay.”
– Louise, borrower*

2.2.1. Banking and Payday Loan Industry Background

Before banking industry deregulation, locally and community controlled banking systems, such as credit unions and savings and loans helped meet needs of the public.²¹ After deregulation, these institutions were no longer able to compete with the larger, more diversified, and better-funded financial institutions.²¹ Through all this, politicians and regulators supported laws that prioritized bank profitability over the needs of the public²¹ – for example, the repeal of the Glass-Steagall Act (which prevented institutions that were “engaged principally” in banking activities from also engaging in investment banking) and also the Financial Modernization Act (which repealed all restrictions against the combination of banking, securities and insurance operations for financial institutions).²⁵ By the 1990s, there were essentially two forms of banking: regulated and insured mainstream banks, few of which were located in low-income communities, and less regulated alternative financial institutions, such as payday lenders and check-cashing outlets, more commonly used by the poor.²⁶

There were virtually no payday loan stores in the United States until the 1990s.²⁷ In the 1980s and 90s, banks dropped less-profitable products like small, short-term loans and moved towards credit cards, which involve an approval process and require customers to have an established credit history.^{14,27} In the late 1990s, the payday loan industry responded by going to state legislatures to seek exemptions from state laws that banned lending money at unreasonably high interest rates (otherwise known as *usury* laws). State lawmaker's permission for payday lenders to charge exorbitant rates fueled and enabled the industry's expansion. The industry boomed from about \$8 billion in 1999 to around \$40 or \$50 billion in 2004.^{4,27}

Mercy described how easy it was to access a payday loan:

“It was easier to do a payday loan than it was to go to the bank. It's easy; it's simple; there is no credit checking. To get a payday loan, there's less time to wait for the process, and the bank doesn't want to lend you \$400, they want to lend in the thousands. You have to qualify and go through many other hassles, and with this, this is so easy. It's just showing them proof of income, it's just showing them proof of employment, and it's only \$400. . . This is good business for them, because imagine all the money they get from folks that pay this off. I wonder why the banks don't do it?” – Mercy, borrower

And a handful of banks also attempted to make payday loans directly, known as *direct deposit advances*. However, in 2013, federal banking regulators established new guidance to ensure deposit advance products did not become debt traps by requiring banks to conduct an assessment of a borrower's inflows and outflows and preventing repeat borrowing.²⁸

2.2.2. National Regulatory Context

Until the Consumer Financial Protection Bureau (CFPB) was established in 2011, there was no national regulatory agency with authority over the payday lending industry. States have granted exceptions to their usury laws to allow this expensive form of credit within their borders. As a result, there is a national patchwork of allowable fees and other rules.

A review by The Pew Charitable Trusts classified states according to their regulations as either permissive, restrictive, or a hybrid of the two. They found 14 states and the District of Columbia (15 total) had restrictive rules in place where there were no payday lenders operating under the state's law or where there was an interest rate cap.⁸ The rate cap imposed by most states is 36% APR. A hybrid state is one that has storefronts, but has some limits on fees, loan usage, or repayment periods. Minnesota is classified as a hybrid state, of which there are eight states.⁸

The federal Military Lending Act, enacted in 2007, applies only to members of the American military service and their families. The law caps payday loans, car title loans, and refund anticipation loans at 36% APR and was enacted after a Department of Defense report detailed the damaging effects of payday and other similar loans on military personnel and their families.¹¹ Members of the military have also testified to the deleterious effects of payday loans. Undersecretary of Defense David Chu at a hearing of the U.S. Senate Banking Committee, stated "The issue is predatory lending, getting people in over their heads. . . These people are taking military people into a debt load that they cannot sustain."²⁹ In October 2015, the U.S. Department of Defense expanded the reach of this rate cap to cover longer-term payday, car title, installment loans and other types of consumer credit.³⁰

2.2.3. Payday Loans in Minnesota

2.2.3.1. Regulations

In Minnesota, a prospective payday borrower may receive a payday loan from 1) a small license lender under the authority of the Payday Lending Law (Minnesota Statue § 47.60), 2) an "industrial," or "ILT" lender under the authority of Chapter 53, or 3) an online lender which has authority under either the Payday Lending Law or Chapter 53. While the loan may appear the same to the borrower, there is a slightly different regulatory guidance for each and the cost to the borrower is more if they are borrowing from an ILT lender.

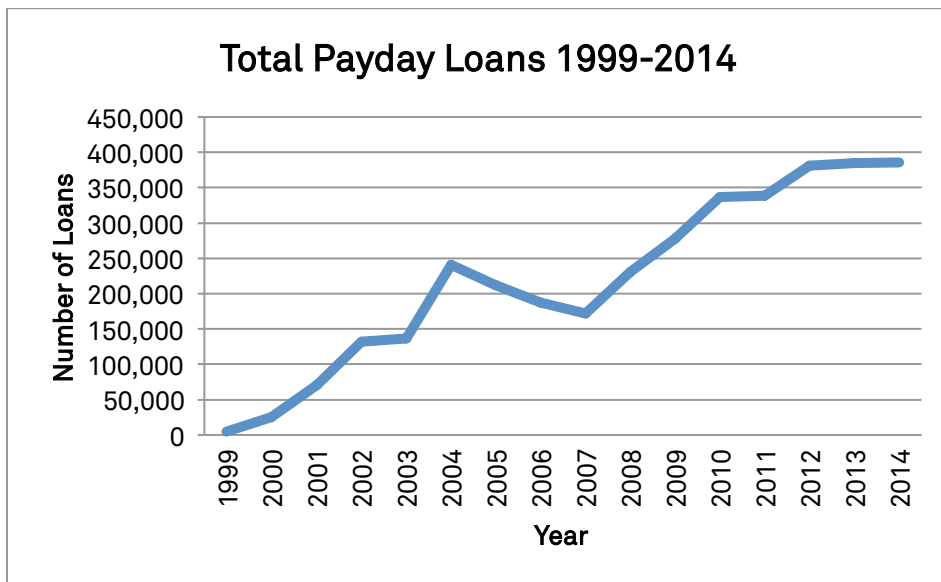
A business that would like to make payday loans (storefront or online) to Minnesota residents must apply for a license from the Minnesota Department of Commerce, which is the oversight and data collection agency for payday lenders. The law was recently clarified, requiring online lenders making loans to Minnesotans to register with the state Department of Commerce, regardless of the location of the lender.

The Minnesota Attorney General has enforcement authority over the above statutes. The Attorney General brings suits against payday lenders not complying with the law. The primary method through which suits are brought is consumer complaints. Since 2010 the state Attorney General's office has brought suits against eight payday lenders conducting unauthorized operations in Minnesota via the internet.³¹

2.2.3.2. Industry

The Minnesota payday lending industry has grown dramatically since 1999 (Figure 2) and includes a marked increase in the number of loans made to Minnesotans from 2007-2012 – most likely due to the Great Recession. The annual number of payday loans reached an all-time high of 385,681 loans, valued at over \$149 million, in 2014.^{32,33} Despite this, the industry appears to be plateauing, as there was slow growth from 2012-2014. Industrial, or ILT, storefront lenders have dominated the industry since 2005.³²

Figure 2. Number of Loans Made in Minnesota, 1999-2014



Source: Minnesota Department of Commerce, 1999-2014.

There are 23 different companies providing payday loans at 72 storefronts across the state. Thirty of the storefronts are small licensed stores and 42 are industrial lenders. ILT lenders made more than 75% of reported payday loans, and of these, Payday America and Ace Cash Express dominate the market. They make up 50% and 23% of the loans made in Minnesota, respectively.³²

The average payday loan amount in 2014 was \$389 in Minnesota (with ILT loans averaging higher amounts, at \$420). All lenders combined made an average of 10 transactions per borrower.^{16,32} Charges to borrowers each year, from the largest payday lenders, amount to an average annual percentage rate (APR) of 252%.³⁴

The majority of the storefronts are located in the 7-county metro area (63% of storefronts) and in the metro area; the majority of storefronts are ILT licensed lenders (82%). The converse is true of Greater Minnesota – 82% of the storefronts outside the metro area are small licensed lenders (see).

Figure 3. Payday Loan Storefront Locations in Minnesota, 2015

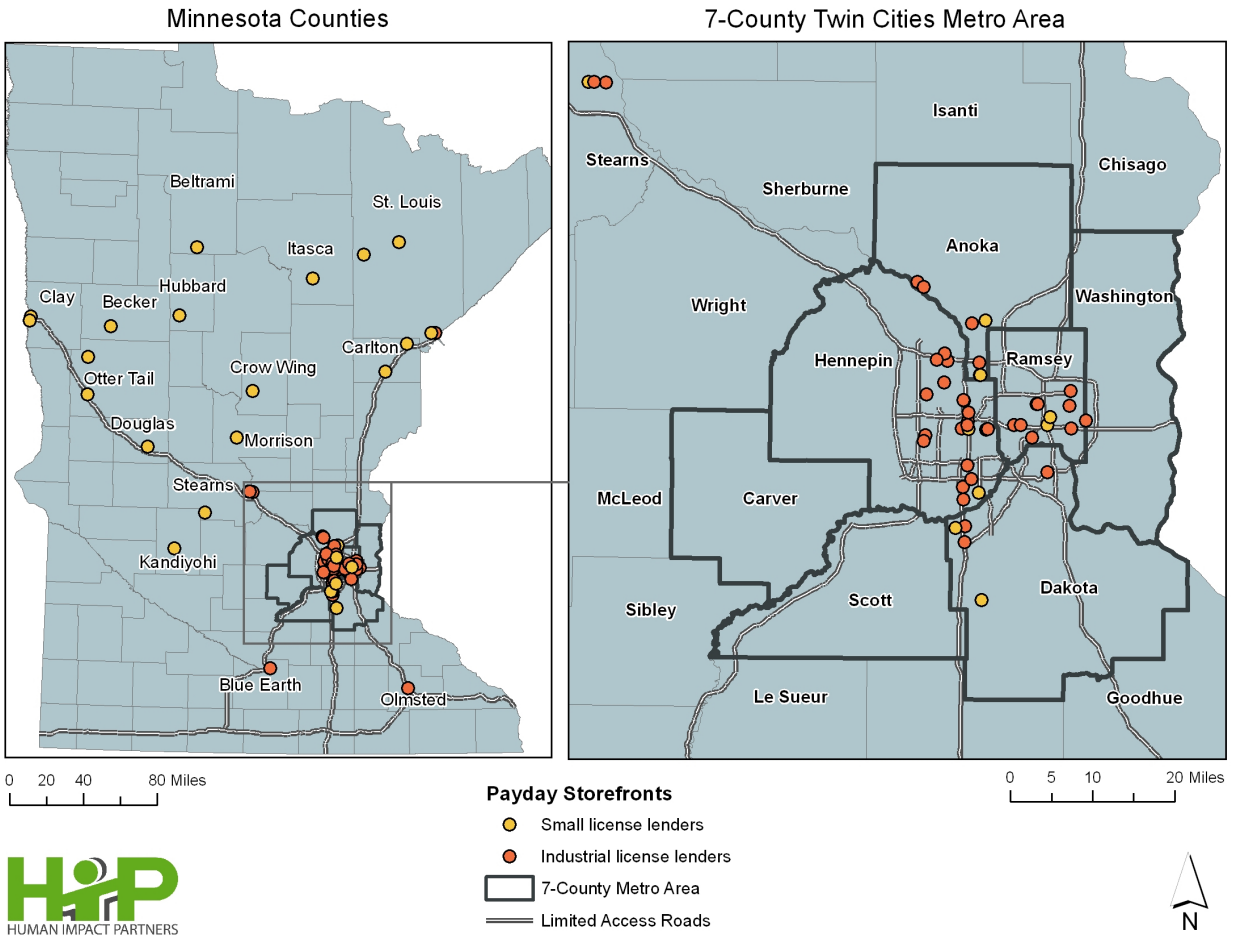


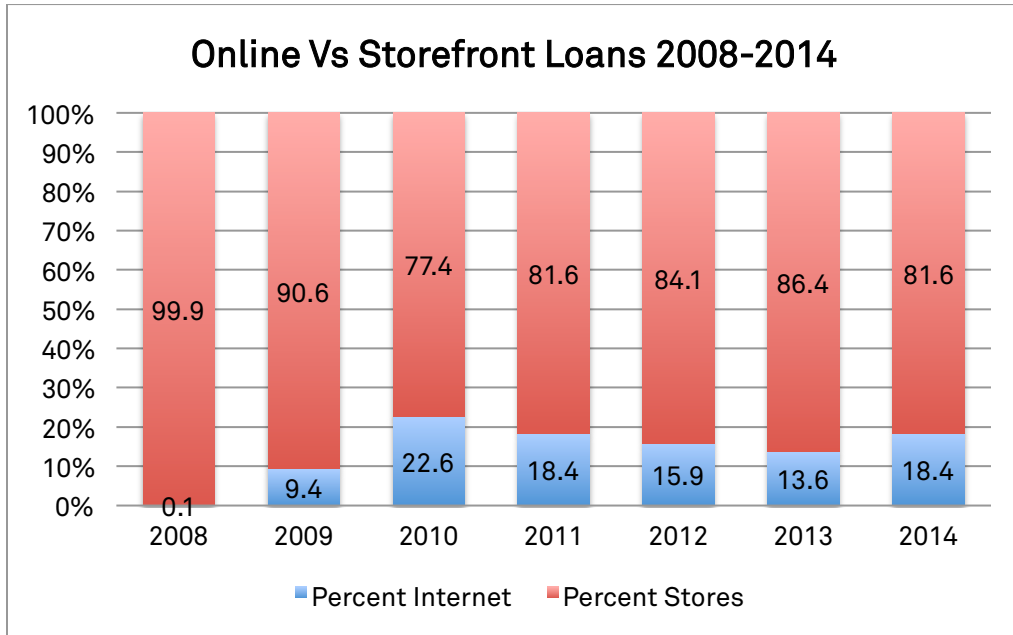
Table 1 lists counties with payday loan stores, the number of stores and ILT licensed lenders in the county, and indicates whether the county is one of the seven in the Twin Cities metro area. The vast majority of storefronts and ILT storefronts are in the Twin Cities Metro area.

Table 1. Payday Loan Storefronts in Minnesota by County, 2014

County	2014 Number of Storefronts	2014 Number of ILT Storefronts
Hennepin*	22	20
Ramsey*	10	8
Anoka*	7	5
Dakota*	5	3
St. Louis	4	1
Stearns	4	2
Otter Tail	3	-
Carlton	2	-
Clay	2	-
Douglas	2	-
Olmsted	2	1
Becker	1	-
Beltrami	1	-
Blue Earth	1	1
Crow Wing	1	-
Hubbard	1	-
Itasca	1	-
Kandiyohi	1	-
Morrison	1	-
Washington*	1	1
Source: Minnesota Department of Commerce.		
* Stores in the seven Twin Cities Metro counties. There are no stores in two of the Metro counties.		

Online payday loans still make up a minority of the total loan volume, nationally; however, the online channel is steadily growing and some industry analysts believe it may eventually overtake storefront loan volume. Despite the requirement that Internet lenders register with the Department of Commerce, the actual number of online loans taken out by Minnesotans may be undercounted due to borrowers taking out online loans from unauthorized lenders. Although the burden is on lenders to not make loans that violate state law, it can be hard for an individual to distinguish an authorized from an unauthorized lender. Based on Department of Commerce data, there are six online lenders registered and these account for 18% of the market (see Figure 4).³² Storefront lenders dominate the market with more than 80% of the reported loans.

Figure 4. Online and Storefront Market Share in Minnesota, 2008-2014



Source: Minnesota Department of Commerce.

3. Who is Affected by Payday Loans and Why?

3.1. The Context for Payday Loans

Low and stagnant wages, the increasing cost of living, declining assets and wealth, and higher levels of debt are some of the factors driving people to take out payday loans. Since the Great Recession, families have faced increases in non-discretionary expenses, such as food, housing, transportation, medical care, and utilities.³⁵ Today, these basic needs are taking up more of the family budget, while incomes have stayed the same and even declined – leaving the typical family just \$100 each month for other expenses and to set aside for financial emergencies.³⁵ Over 40% of Americans describe themselves as struggling to pay bills and make credit payments, and more than 20% do not know how they will make ends meet if they lose their job.³⁶

Researchers suggest payday loan borrowing is a symptom of a larger, more systemic problem of widespread economic insecurity.³⁷ A steady decline in unionization, a low minimum wage, and the proliferation of part-time and temporary work have undermined the economic standing of more and more Americans. Nearly 20% of employment in the U.S. economy is part-time.³⁸ Wages have also sunk for the bottom 20% and the personal savings rate is half of what it was in the 1960s and '70s.³⁹ One survey found that the public is more worried about falling into debt, particularly through medical bills, than about being a victim of a terrorist attack or natural disaster; and that only half of respondents could pay off their entire credit card bill every month. The same survey also found that the leading causes of involuntary indebtedness were cost of living increases/price increases and low wages/stagnant salaries.⁴⁰

“I had a part-time job already [in addition to full-time work]. Daycare also went up from \$90 to \$115. No one else helping me pay for other expenses. Even though I had my full-time job and my part-time job I still did not have an additional \$400 a month to pay for stuff.” – Louise, borrower

At the same time greater access to credit and the rise of various forms of credit such as credit cards, home equity credit lines, student loans, and changing attitudes towards debt have given rise to unprecedented levels of debt in this country.⁴¹ Since the 1980s, debt in American households has tripled.⁴² And even after the Great Recession, debt loads are still much higher than they were a decade ago.³⁹ The average household has consumer debt equal to 205% of its income, 1 in 3 adults with a credit history have been delinquent on their debt, and between 1996 and 2004, about 13 million households filed for bankruptcy.⁴³

Some forms of debt may be considered beneficial for a household's financial health. Mortgage debt represents a way to build wealth because housing prices tend to appreciate over time and mortgages require borrowers to pay off a portion of the loan's principal each month. Homeowners gradually reduce their debt and increase their equity over time.^{35,41,44} In addition, homes can be inherited by the next generation. In contrast, credit card debt is considered detrimental to financial health because no equity is built in the purchases over time. In fact, only making minimum payments leads purchases to cost more over time. In addition, credit cards generally have higher interest rates than other types of debt, such as mortgage and student loan debt. Student loan debt is an investment in your future earnings

and has a lower interest rate, so is considered positive for building wealth; however, for those in modest-paying careers, a lot of student loan debt could become a burden. Regardless of the kind of debt a person holds, even “good” debt can become “bad” if it exceeds a person’s ability to repay it.

Economists say that demand cannot be regulated. However, an economy that encourages consumption can create social pressures to keep up with the latest products and services, and contribute to a cultural idea that the value of people lies in what they have and don’t have. But keeping up with these pressures while also meeting basic needs is more and more difficult as people are earning less. Payday loans are a response that feed off of and tend to exacerbate these problems that our economy promotes.

*“I was barely working because I was under some medical problems. So here comes Christmas and everybody: nieces, nephews, daughters looking at me and asking, ‘What are you getting me for Christmas?’ I thought, this is going to be fine, everything is going to be OK, I’m going to start working again and I’m going to be able to pay it off.”
– Mercy, borrower*

3.1.1. Inequities in Income and Wealth

Many of the factors driving the use of payday loans – insufficient incomes, declining assets, and greater debt – are worse for some members of our society compared to others.

There is a long history of overt and covert social policies that converged to create less income and wealth for people of color broadly, and African Americans specifically. The wealth gap between African Americans and whites extends back to the institution of slavery and, more recently, to policies, including those in the banking sector that promote white homeownership and restrict it for African Americans.⁴⁵ In addition, the recent decline in wealth from the 2008 real estate and foreclosure crisis that precipitated the Great Recession amounted to the largest documented wealth gaps between African-American and white households and between Hispanic and white households since the Census Bureau began publishing wealth estimates in 1984.³⁵

“It fundamentally bothers the Governor that these businesses make so much money off the backs of these borrowers. . . It really bothers him how much it costs people to be poor.” – Molly Pederson, Minnesota Governor’s Office

The racial/ethnic inequities in income are much worse in Minnesota compared to the U.S. overall. In 2009, the African American family poverty rate in Minnesota was reported to be over six times higher than the white poverty rate. For the U.S. as a whole, the African American poverty rate was 3.4 times higher than it is for whites.^{46,47} The situation has only gotten worse since, according to a recent analysis that, between 2013 and 2014, the median income for African American households in the state fell 14% - or equivalent to a \$4,500 drop in one year.⁴⁸ At the same time, the poverty rate for African American residents rose from 33% to 38%, while it stayed stable for the state overall (11%).⁴⁸ As of the 2013-2014 analysis, Minnesota ranked 45th in median African American household income, lower than Mississippi, which ranked 44th.⁴⁸

A national analysis of the connections between race/ethnicity and wealth accumulation that used the Federal Reserve’s Survey of Consumer Finances, found stark differences in wealth between white and African American and Hispanic families. Wealth is calculated by subtracting outstanding debts or liabilities from the value of currently held assets, such as houses, land, cars, savings accounts, pension plans, stocks, and other financial investments and businesses.⁴⁹ In 2013, in inflation-adjusted dollars, the median wealth was \$134,008 for a white family, \$91,440 for an Asian family, \$13,900 for a Hispanic family, and \$11,184 for an African American family.⁵⁰

In Minnesota, a key indicator of wealth is homeownership, and there are significant inequities by race and ethnicity: 75% of the white versus only 21% of the African American Minnesotans own their own homes (compared to 45% of Hispanic/Latinos, 47% of American Indians, and 54% of Asian Pacific Islanders).⁵¹ Nationally, in 2012, 73% of white and 44% of African American households owned their own homes.⁵² An analysis that examined U.S. states’ gaps between whites and people of color found Minnesota’s composite score for median income, home ownership, poverty, and education ranked last of all the states.⁵³

Our focus group participants, all of whom identified as African immigrants and lived in Minnesota, talked about experiencing similar challenges:

“It’s up and down. Sometimes things are tough and sometime things are easy, not easy, but ok. For immigrants that come from Africa, we have our parents, we have our siblings, something always comes up and you have to help. Especially when you have aging parents, for Liberians in particular, there were so many years of war and the country is just trying to get back, and this also puts a strain on us; we have kids, we have financial situations, and we have to help our aging parents that can no longer work—that makes it very difficult.” – Louise, borrower

3.1.2. Payday Lenders Take Advantage of Financial Distress and Locate in Communities Experiencing Inequities

Research shows that chronic financial stress leads people to discount the future.⁵⁴ Choices made under chronic financial stress are focused on the immediate gain, and distant rewards are worth less than immediate ones.⁵⁴ Research further explains that exposure to stress can impair the prefrontal cortex—the part of the brain that deals with decision-making—making people even more likely to take out a payday loan than if they were under less stress.^{54,55} Other research proposes that poverty narrows people’s attention because scarcity, whether it’s food, water, or money, keeps them focused on the deficit. When given the opportunity to ease the deficit, like in the case of a fast and easy payday loan, the decision becomes impulsive, and this is precisely what makes low-income people an easy target.^{56,57} Payday lenders are set-up to exploit this mindset.^{54,56}

Payday storefronts are more likely to be located in communities with higher proportions of people of color, lower-income people, people with lower levels of education, and renters.^{14,37,58–63} Multiple analyses find an association between communities with higher proportions of African American and Hispanic residents and greater proximity to or concentration of payday storefronts.^{37,60} Other researchers examine how communities’ income and related factors affect the likelihood that payday lenders will place their stores there. The consensus from these analyses is that lenders tend to locate in communities with

lower incomes, moderate poverty, more residents with low or no credit scores, lower educational attainment, more immigrants, young adults, the elderly, and more people working in non-management/non-professional occupations.^{14,37,58,59,61,63}

“I live in Richfield, I live right on the border of Richfield and Bloomington, and there’s not a lot of pawn shops or payday loan stores in that neighborhood, but when I come to Brooklyn Park or Minneapolis because I work there, every other block has a payday store, or pawn shop, or liquor store. So yeah, I think they’re doing it on purpose.” – Nonai, family member of borrower

The way current financial institutions operate, and where they are located, also make it harder to build wealth and place less costly small credit out of reach for many people. For example, banks typically don’t offer small loans because they consider them to be risky and not profitable. Financial institutions are also not as likely to be located in poor and minority communities,^{14,64,63} and some banks are leaving many communities.⁶⁵ Therefore, even if banks did offer small loans, they would not be as accessible to low income and communities of color.

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

3.2. Who is Susceptible to Payday Loans?

3.2.1. *Description of Borrowers*

The above gives context to understand the factors that make people susceptible to payday lending. What we know specifically about borrowers comes primarily from survey research, which documents borrower characteristics. Researchers have found borrowers are more likely to be moderate to low income, with most borrower households earning between \$15,000-\$40,000 annually,^{8,15} African American,^{8,22,66} women,^{67,22} age 25-34,⁸ without a college degree,⁸ divorced or separated,⁸ renters,⁸ with children in the household.^{8,68} In addition, despite the income requirements of loans, a surprising share of borrowers report receiving public assistance or other benefits (18%) or retirement funds (4%).¹⁵

The Pew Charitable Trusts conducted a survey from August 2011 to April 2012, in which they surveyed 701 payday loan borrowers across the country as part of their *Payday Lending in America* series. They found people with household incomes below \$40,000 are almost three times as likely to use payday loans compared to people with household incomes of \$40,000 or more and African Americans were more than twice as likely to have used a payday loan compared to the other races/ethnicities.⁸ The Pew study found divorced or separated individuals reported taking out a payday loan at twice the rate of other respondents.⁸ Finally, regardless of marital status, and especially for parents earning less than \$50,000, having children made respondents more likely to borrow.^{8,68}

“America has a tradition of consumer protection with unsafe products, and we don’t allow products that maim consumers. Would we allow a contact lens that blinds a third of users? But we’ve too often let predatory lenders do it in the financial marketplace. We say, ‘Oh but it’s banking,’ and we surrender.”

– Darryl Dahlheimer, Lutheran Social Services, Financial Services

Table 2 demonstrates that the average payday borrower – who according to The Pew Charitable Trusts survey data, earns approximately \$30,000 per year⁸ – would be unable to afford the balloon payment required for payday loans. In its Cost of Living Tool, the Minnesota Department of Employment and Economic Development estimates the cost of basic expenditures for various types of households in the state. By comparing these costs to the average borrower income, these data show that there is a significant difference in income and cost of living in the state – so much so that the payday loan structure – and specifically the balloon payment feature – exacerbates existing financial distress by adding to the mismatch of income and expenses.

Table 2. Mismatch Between Borrower Income, Cost of Living, and Cost of Payday Loan

	\$30,000 annual income of payday borrower⁸
Before tax income (2 weeks)	\$1,192
Two week expenditures on childcare, food, housing, transportation, healthcare, other, and taxes*	\$1,715
Money left over	(\$523)
Payday loan payment due on average \$400 loan	\$430**
Deficit	(\$953)
* Expenditures taken from the Minnesota Cost of Living Tool. ⁹⁹ This tool estimates the hourly and annual income needed for various family types to afford basic expenses in the state. This biweekly estimate of expenditures is based on a \$20.44 hourly wage for a single adult with one child.	
** Based on ACE Cash Express fee and rate schedule of \$25 fee + \$5 interest. ⁵	

Other measures of financial health, besides income, indicate borrowers are credit constrained. They have little credit available through credit cards, have problems securing credit, or carry too much debt.^{4,10,19,70,71} The majority of payday borrowers use other types of consumer credit and a disproportionate share are seriously debt burdened and have been denied credit or not given as much credit as they applied for.⁴ Additionally, borrowers have a very difficult time saving or replacing funds after taking from savings, have low credit scores, and are more likely to report having “maxed out” (borrowed to the limit) their credit cards.^{8,12,16,15,22}

“The credit cards are up there with the [bank] loans; they’re harder to get. It’s easier to get a car with bad credit than it is to get a credit card with bad credit.”

– Denise, borrower

3.2.2. Number of Minnesota Borrowers

There is no central database that allows us to identify the population of payday loan borrowers in Minnesota. Four percent of the adults surveyed in Minnesota as part of The Pew Charitable Trusts' *Payday Lending in America* series indicated they had used a payday loan in the past five years.⁸ Because this estimate applies to those surveyed and asks about usage over the past five years, it is not accurate to extrapolate to the actual population of adults in Minnesota in any given year. In the absence of data, we estimate the number of people in Minnesota as being more likely to use payday loans – based on their income and race – as nearly 50,000, more than half of whom (n=27,000) are women.[†]

3.2.3. Characteristics of Minnesota Communities with Payday Stores

The characteristics of the communities in which storefronts are located generally align with the characteristics of borrowers. We conducted a payday storefront neighborhood analysis that included Census tracts in the state within two and a half miles of a storefront location. Table 3 shows stores are more likely to be located in more densely populated areas. Neighborhoods near stores have higher proportions of people under 40 years old, who are African American, have incomes below \$40,000, who rent their homes, are rent burdened, are separated or divorced, and who are female heads of households, compared to tracts with no stores within 2.5 miles and to the state overall. Of particular note, neighborhoods with stores within 2.5 miles have twice the proportion of African American residents compared to the state.

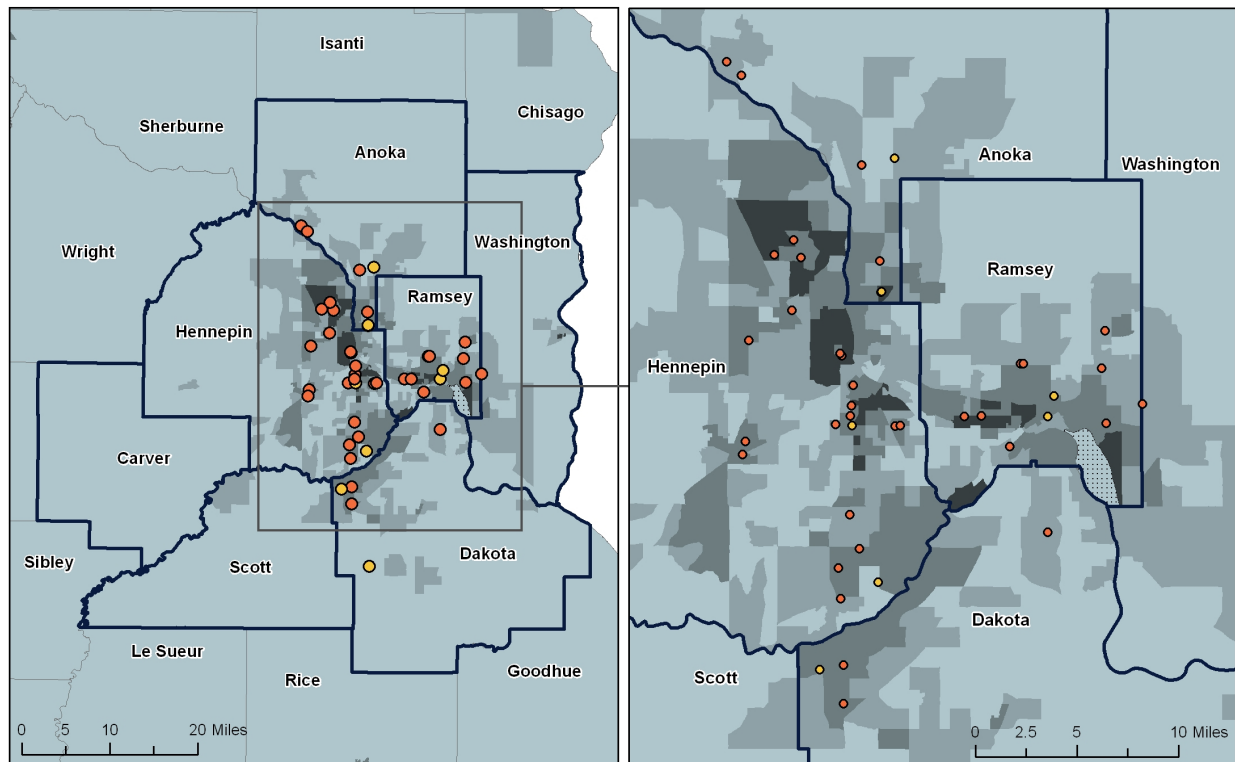
Table 3. Characteristics of Communities Near Payday Stores

	No stores within 2.5 miles	Stores within 2.5 miles	State overall
Number of Census Tracts	707	627	1,334
Total Population	2,836,127	2,375,812	5,347,740
Average Population Density (people per sq. mile)	783	4,391	2,479
Percent Age 18-39	25%	33%	29%
Percent African American	2%	10%	5%
Percent with Income Below \$40K	31%	38%	34%
Percent Renter	19%	37%	27%
Percent Rent Burdened	8%	19%	13%
Percent Separated or Divorced	10%	12%	11%
Percent Female Headed Household	23%	34%	28%
Source: Storefronts from Minnesota Department of Commerce; Analysis using American Community Survey data 5-year averages (2009-2013) for Census tracts.			

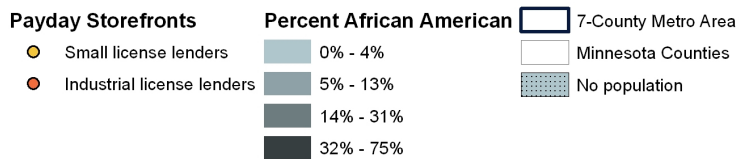
[†] There is no definitive number of payday borrowers in Minnesota. However, to generate an estimate, we estimated the number of people in the state who would be susceptible to payday loans, based on their income, race, and gender. Typical Census data do not quantify populations with a unique combination of characteristics. To do this, we used PUMS data, which include person- and housing unit-level records that have been de-identified, but that have individual responses for the Census' American Community Survey such as gender, age, educational attainment, and employment status. These data allowed us to count the number of people with a combination of factors that makes them susceptible to taking out a payday loan.

Figure 5 displays the locations of small and industrial license lenders in the Twin Cities metro area in relation to Census tracts with higher proportions of African American residents. This map reveals payday lenders tend to place their stores in or near the neighborhoods with more African American residents.

Figure 5. Twin Cities Metro Area Payday Loan Storefronts and the Percent of African American Residents, Minnesota, 2009-2013



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



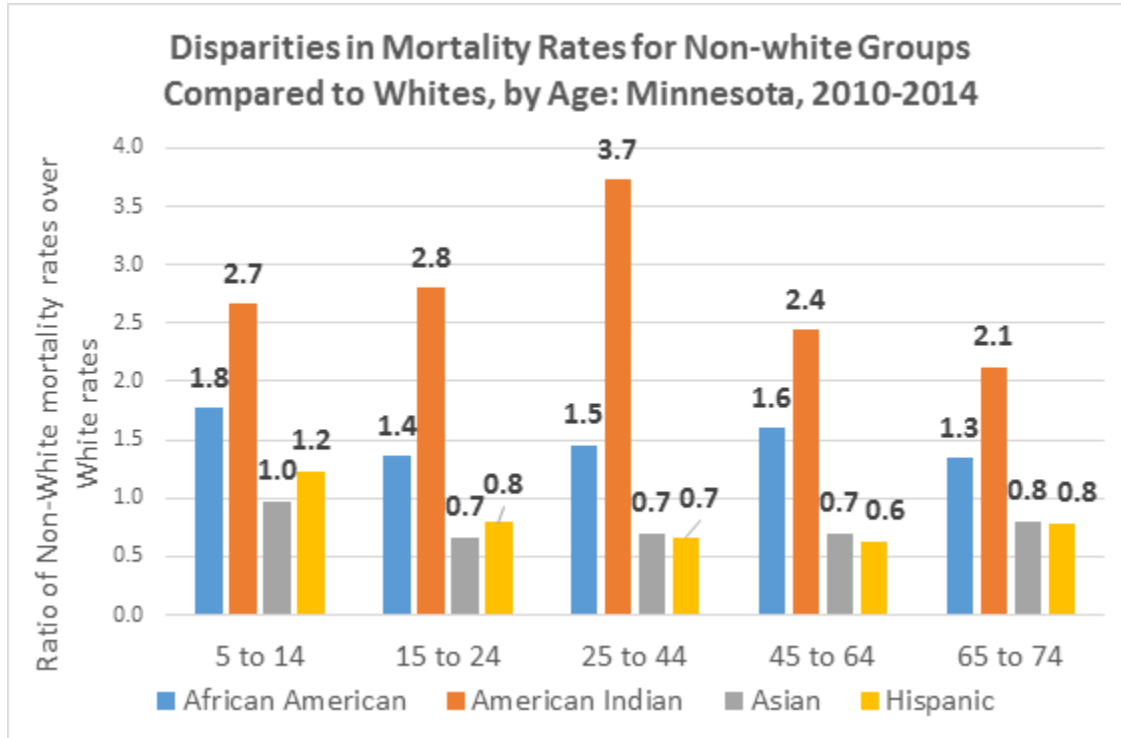
4. Payday Exacerbates Health Inequities and Vulnerabilities

The same communities who are susceptible to payday loans are also the same communities who experience poor health – and payday can exacerbate these underlying health vulnerabilities.

For example, health status data indicate that American Indian, Hispanic/Latino and African American youth in Minnesota have the highest rates of obesity, putting them at greater risk for a number of diseases, such as diabetes and heart disease. African American and Latino women in Minnesota are also more likely to be diagnosed with later stage breast cancer.⁷³

Figure 6 shows the disparity in death rates by race and age of four different races compared to whites.⁵¹ Across all age groups, the rate of death in the American Indian population is much higher than in the state’s white population, and death rates in the African American population in Minnesota are consistently much higher than the state’s white population.

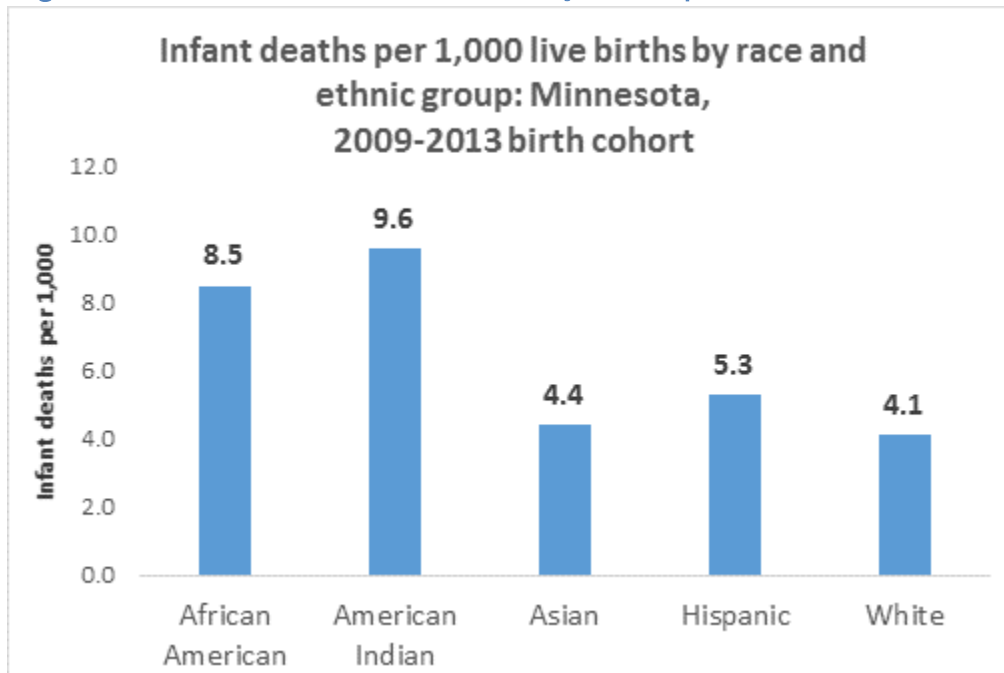
Figure 6. Minnesota Racial/Ethnic Disparities in Mortality, 2010-2014



Source: Minnesota Department of Health, February 2016, email communication.⁵¹

American Indian and African American infants in Minnesota also die at more than twice the rate of white infants (Figure 7).⁵¹

Figure 7. Minnesota Infant Mortality Rate (per 1,000 births), 2009-2013



Source: Minnesota Department of Health, February 2016, email communication⁵¹

It is also evident that at a community-level, those communities with payday stores are generally not the healthiest in the state, and may be more susceptible to the impacts of payday. Table 4 presents health data from the County Health Rankings and Roadmaps Project of the Robert Wood Johnson Foundation and the University of Wisconsin Population Health Institute.⁷⁴ Data show that the majority of the Minnesota counties with a payday loan store rank in the bottom half of the state for health outcomes such as premature death, self-rated health, and the number of physically and mentally unhealthy days.

Table 4. Profile of Health in Minnesota Counties with Payday Loan Storefronts

County*	Payday Storefronts	County Ranking		Health Outcomes			
	2015 Number of Storefronts	Health Outcome Rank	County's Health Outcome Rank is in the Bottom Half for the State	Years of Potential Life Lost	% Fair/Poor Health	# Physically Unhealthy Days	# Mentally Unhealthy Days
State Overall	72	NA	N/A	5038	11	2.8	2.6
Hennepin**	22	46	Yes	4946	9	2.7	2.5
Ramsey**	10	63	Yes	5621	11	2.8	2.6
Anoka**	7	48	Yes	4915	12	3.1	2.9
Dakota**	5	19	No	4319	10	2.7	2.5
St. Louis	4	74	Yes	6460	13	3.2	3.3
Stearns	4	31	No	4711	10	2.5	2.2
Otter Tail	3	54	Yes	5559	12	3.2	3.3
Carlton	2	66	Yes	6179	10	3.6	3.9
Clay	2	57	Yes	5563	11	3.2	2.8
Douglas	2	32	No	5097	11	2.5	2.0
Olmsted	2	15	No	4569	6	2.3	2.1
Becker	1	67	Yes	7231	10	2.8	2.1
Beltrami	1	83	Yes	8380	11	2.7	3.1
Blue Earth	1	28	No	5009	11	2.1	2.3
Crow Wing	1	59	Yes	5393	16	3.5	3.9
Hubbard	1	47	Yes	5597	13	2.8	2.7
Itasca	1	68	Yes	6445	14	2.5	2.1
Kandiyohi	1	23	No	5002	10	3.1	1.9
Morrison	1	77	Yes	6398	17	3.7	3.9
Washington**	1	7	No	3915	9	2.9	2.2

Source: 2015 County Health Rankings. The County Health Rankings is a collaboration between the Robert Wood Johnson Foundation and the University of Wisconsin Population Health Institute and are compiled using county-level measures from a variety of national and state data sources. Counties in each of the 50 states are ranked according to summaries of a variety of health measures. Those having high ranks, e.g. 1 or 2, are considered to be the “healthiest.” Counties are ranked relative to the health of other counties in the same state. See Appendix for the complete table with rankings for all Minnesota counties and measures definitions.

* Smallest area level health data available. ** Counties in the Twin Cities metro area

4.1. Payday Loans Worsen the Physical and Mental Health Effects of Financial Strain

Payday loans contribute to racial/ethnic health inequities by decreasing income, increasing poverty, and making it nearly impossible to build wealth for low- and moderate-income people and people of color. Income, poverty, and wealth are key determinants of health and well-being. Payday loans are especially damaging to health and health inequities because they exacerbate financial insecurity for those who already lack adequate income, are fighting poverty and debt, and are not able to build wealth.

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

– Molly Pederson, Minnesota Governor’s Office

Income and poverty: Income is one of the most important contributors to health. Overall, people with higher incomes are healthier and live longer compared to people with lower incomes.^{49,75} Income affects health not only through access to health care, but through one’s ability to meet material needs, enjoy leisure activities, live in a safe neighborhood that contains stores with healthy foods and safe spaces to play and be active, access to child health and development resources, avoid chronic stress, and maintain interpersonal relationships.⁴⁹ While income is one of the strongest predictors of health, poverty is one of the most harmful to health. In the US, people below the poverty line can expect to live 5.6 years less than those above the poverty line.⁷⁶ Diseases progress faster, complications from diseases are more common, and survival rates are worse for those in poverty.⁷⁵ Poverty is also correlated with poor social and cognitive development, limiting a person’s chances for educational achievement and supportive social relationships, which are critical in creating the conditions to support health later in life.⁷⁵

Evidence concludes the association between income, financial strain, and health is bi-directional. This means that changes in economic resources can lead to changes in health, and poor health can also lead to a loss of economic resources.^{49,75} Poor health is likely to affect an individual’s ability to earn income or accumulate wealth by limiting employment opportunities, decreasing work hours, unemployment, and/or medical expenditures.⁷⁷ Those with lower incomes who are in poor health may find themselves in a vicious cycle—their financial strain affects their access to quality health care, and in turn their poor health perpetuates financial strain.⁷⁷

“All I could think about was paying it back, and all the agonies of having to give that money back. Sometimes you try to make yourself feel good and say, ‘I can make it; there’s a couple more days, I can do it,’ but then when the day comes closer . . . I can’t—it’s the worst feeling. And when I get paid, I look at my paycheck, and I do the math. . . Then I have to get an extra \$30 from someone just to make my rent because I already got a loan and I can’t get another loan.” – Gus, borrower

Stress: Stress is an important factor to consider in understanding the relationship between low income and poor health. Stress can come from a variety of sources in a person’s life, including finances, acute life events, job loss, or divorce and separation.⁷⁸ Financial stress is a particularly salient form of stress. Stress can be positive if the conditions are present for a person to overcome the challenges in their life.⁷⁹ Continuous credit problems and

unmet financial needs can contribute to chronic stress, which has negative effects on health,⁸⁰ including cancer, hypertension, diabetes, heart disease and stroke.⁷⁵ Stress is also a factor very early on in an individual's life. For example, exposure to stress during pregnancy is linked with preterm birth and stress during childhood and adolescence contributes to compromised mental and physical health.⁷⁹ Repeated exposure to stress accumulates in the body, and with it individuals become increasingly susceptible to emotional problems, accidental injuries, physical illnesses, and behavioral disorders.⁸⁰ In addition, stress can influence health through the behaviors people engage in to make them temporarily feel better during periods of prolonged stress. Stress has been associated with the use and abuse of tobacco, alcohol, and other substances.⁷⁹

Wealth: Much of the research about the lifetime health benefits of economic advantage uses income as the measure of advantage and disadvantage. However, wealth, albeit less studied and harder to calculate, may provide a better measure of lifetime advantage as it relates to health because it reflects economic assets accumulated over time and takes debt into account.

While a person with a higher income may have a greater chance of accumulating wealth, it is possible for families with the same income to have very different levels of wealth. Wealth provides a view into generational advantage or disadvantage because it considers cumulative lifetime economic resources, such as inherited wealth.⁴⁹ In fact, despite the lack of research attention to the connections between wealth and health, there is evidence to suggest that greater wealth contributes to better health.⁴⁹ For example, one analysis finds that families with assets are likely to manage economic stress better than families with similar income, but no assets.^{81,82}

“Many of the people we serve and work with express feelings of stress and stagnation due to low incomes, lack of a savings cushion, and low or no credit. It can be hard to get ahead and build wealth. In the short run, payday loans serve as a temporary fix. With few options, sometimes we hear that they are a necessary evil... People say these loans met an urgent need but harmed them in the long run. It is the true proverbial double-edged sword. People make rational choices based on the range of options available to them.” – Tracy and Anne, Prepare + Prosper

Debt: A factor that links the experience of income, poverty, and wealth to financial strain and stress, is debt. How much debt a person has relative to their income and the type of debt is a unique form of financial strain that has health consequences.^{78,77} For some, debt can be a good thing as it is a way to begin to accumulate wealth. For people with insufficient income to cover their debt, it is a constant stressor. Furthermore, levels of debt are more severe for poor families, and more traditional measures of socioeconomic status, like income and education, are related to level of debt.⁸³

In term of health, there is a significant association between debt and stress, anxiety, depression, other adverse psychosocial problems, self-reported health, and metabolic and cardiovascular health. More financial debt relative to assets increases the likelihood of negative outcomes for these health problems.^{41,84,85,86,87} Specifically, stress from debt is related to health conditions such as ulcers, heart attacks, and severe depression.⁴¹

The magnitude of debt a household has relative to their income and wealth is most damaging if debt exceeds the resources of the household.^{84,77} The longer a person is in debt, the more it aggravates financial distress and mental health effects.⁸⁵ In addition, an Individual's perception of the severity of their debt problems may be affected by their psychological health state,⁸⁸ meaning that someone with psychological problems may report worse financial health than someone with better psychological health. Similarly, people who report having trouble paying debts also exhibit poor psychological health.

4.2. Payday Loan Debt is Very Damaging for Psychological Health

While much of the research on debt and health does not specifically focus on payday loan debt, there is evidence showing payday loans lead to more severe levels of debt that are especially damaging to mental health.^{85,10} Payday loans have been singled out as very harmful and socially stigmatizing.⁴¹ Borrowers have expressed a sense of loss of choice and control and of being trapped by the loans.⁴³ Studies that look at the relationship between unsecured debt, such as payday loans, and health find that the association between this form of debt and mental health outcomes is particularly strong, especially for depression, substance abuse, and suicide.⁸³

Gus describes his state of mind in taking out a payday loan:

"If I'm gonna go into a payday loan [store], I have my hat on, I have a hoodie on. I'll scan the parking lot first to make sure no one sees me going in. Luckily the one that I go to is next to the pawn shop so I can sneak through the pawn shop, because I don't want anyone to know what I'm going through. And when I take my receipt I throw it in the trunk of my car. And after I'm done paying it off I just throw it all away. . . I used to live with my girlfriend and she didn't know I took out a payday loan because it's that feeling as a man that you don't want anyone to know that you're in that stage. I didn't want her to know." – Gus, borrower

Worry about debt is one of the strongest predictors of depression.⁷⁸ People reporting debt problems also tend to report greater incidence of depression and other adverse psychosocial problems.⁸⁷ Individuals exhibiting problems repaying their debt also show much worse psychological health, including depression, anxiety⁴³, self-harm⁸⁸ and in some instances, even suicide.⁷⁷ In a study among males who attempted suicide, there was a strong correlation between debt and depression, where severity of debt was related to severity of suicide attempt and to severity of symptoms of depression and hopelessness.⁷⁸ High subjective assessment of indebtedness was the strongest predictor of blood pressure among young adults, suggesting that cardiovascular health is also affected.⁸⁴ Overall, research suggests that unsecured debt, like payday loans, increases the risk of poor health, with some studies showing a dose-response effect with more severe levels of debt related to more severe health problems.⁸³

"For me, I've said I've never taken out a payday loan, but when I'm broke I'm not social. I stay home, usually flipping the channels, or sleeping, or I'm usually on my phone, but I can't be sociable. I wouldn't want any of my friends coming to my house and see it." – Nyema, friend of borrower

Chronic stress as measured by ongoing financial strain is also a significant correlate of sleep disturbance.⁸⁹ Both psychosocial and psychological stress are related to increased variability in individuals' sleep duration and increase in sleep fragmentation.⁹⁰ Evidence suggests that poor sleep impacts people's impulses, limits memory, learning, creativity concentration, and sharpness.⁵⁷

The impacts of payday loan debt may be felt more strongly by women. Research shows that many women who live in poverty head a large proportion of single parent households.^{78,67} Financial strain experienced by single women puts them at higher risk of depression than those who have a partner.⁷⁸ Possible reasons for this higher risk—aside from poverty, which is the most important underlying factor—include greater stress, less social support, and the greater strain caused by unemployment for a single female parent.⁷⁸ The higher debt stress among women raises questions about whether women are subject to more intense debt collection and/or higher late fees and penalties than their male counterparts.⁴¹

Denise described all the people she was taking care of in her family:

“At one point I had 10 people living under my roof. . . brothers, sisters, cousins, my cousin and his two kids, my girlfriend and her kid, my two brothers, a dog—he always had a dog. He doesn't have a roof over his own head and comes back with a dog. It's just hard for me to say 'no.'”

– Denise, borrower

4.3. Payday Loans Worsen the Employment Effects of Financial Strain

Financial stress – which payday loans contribute to – impact workers through absenteeism, productivity, and other performance indicators.^{80,56} It is important to note that these employment-related outcomes are connected to the financial and overall stress that people experience when in debt.

People with high levels of financial stress are more likely to experience higher levels of absenteeism.⁸⁰ Research has identified a link between financial stress and days of work missed.⁵⁶ In addition to absenteeism, workers often report to work but are unable to carry out their responsibilities or spend time handling personal finances.⁸⁰ A study found that 24% of workers admit their personal finances have been a distraction at work and of those workers who are concerned about their finances, 39% spend at least 3 hours each week either thinking about or dealing with financial problems.⁵⁶ Productivity loss might also lead to reduced income from employment, which could aggravate and perpetuate financial stress and poor mental health.⁸⁰

Aside from the direct effects of managing financial stress while at work, there are also indirect effects of finances through a borrower's psychological state. When people are unhappy or under a lot of stress, they are less motivated, efficient, and creative; and the quality of their work suffers.⁵⁶ Another study found workers' ability to work is more compromised by financial strain than by sleep; therefore someone under extreme financial strain is less able to perform their work than someone who has been sleep deprived.⁵⁶ Financial strain is a form of chronic stress that sneaks into other areas of life.

Employment is especially important to protect because it eases financial strain and buffers the mental health effects of stress. It is a key social institution to which people under financial strain need access.⁹¹ Furthermore, employment affords people more than income. In some cases employment provides structure, builds social relationships and status, and provides a sense of purpose – all of which have positive effects on mental health.^{91,92}

“For me, when I’m broke I’m depressed so it was easier for me to say ‘nah, I can’t make it into work today,’ which impacted my income because if you don’t work you’re not going to make the money, and the little money you’re gonna have come in, you’re gonna have to give it up. . . and that’s why I said that for me it’s a never again, I don’t care how broke I get, it’s not worth it.”
– Mercy, borrower

4.4. Payday Loans Worsen the Family Effects of Financial Strain

Financial strain can also create family stress and strain family relations.⁸² Financial strain can lead to the deterioration of intimate relationships via psychological well-being, such as depression, anger, withdrawal, and other poor coping behaviors.⁹³ Heads of households with outstanding, non-mortgage credit debt have been found to report worse mental health, especially if debt is high.⁹¹ However, the spiral of stress, depression, and anxiety is felt by families in financial hardship, so much that it is hard to determine which is worse – coping by juggling increasing debt, or keeping out of debt and cutting back on essentials. Both ways of dealing with poverty have similar costs in terms of mental health – people either worry about debt or about keeping food on the table, a roof over their heads, and the lights on.⁷⁸ However, the debt option does not solve the initial problem of insufficient income; it actually adds another level of stress and anxiety to an already strained household.

“It’s the same story we hear all day. When I’m broke, I don’t want to be bothered; I just want to sit home and Netflix, and my parents won’t see me for weeks. And they would call me, but I don’t want to talk to my mom. My brothers keep calling me, and tell me, ‘mom’s been calling, she’s been calling, why don’t you answering your phone’? . . . And when I finally call her, she asks. ‘what’s going on, why I haven’t been coming around’. . . I have a little brother. . . and every time I go over, he drops whatever he’s doing and wants my attention and I’m like ‘dude, I’m broke, leave me alone.’ He just wants the attention; he just wants to talk, but when I’m broke I don’t like to talk.” – Gus, borrower

A nationally representative longitudinal sample indicates that consumer debt directly predicts partner conflict, while assets indirectly decrease economic pressures, which eases marital conflict.⁴³ When economic pressures increase, such as worry over finances or having to cut back on consumption, emotional distress also increases, which in turn increases marital conflict and tension and decreases positive marital interactions.^{43,93} The increase of negative emotions also increases arguments between couples. Research has found that lack of money is one of the most common causes of marriage disagreements and even eventual divorce.^{93,94} In essence, the inability to meet family needs, including acquiring and paying off high levels of debt, leads to serious stress.^{80,85}

The debt that many families have to deal with is also detrimental to the future financial and overall well-being of children. Research shows that lack of assets is related to psychological stress, which compromises parenting skills during times of economic hardship.⁸² In addition, researchers found the relationship between economic hardship, psychological stress, and parenting skills is more salient among African American men than among White men.⁸² For children, parent psychological distress from not having enough income and living in a stressed neighborhood related to more negative parent–adolescent relations.⁹⁵

In addition, a long-running study of over 18,000 individuals shows that children of low-income parents with lower savings were significantly less likely to be upwardly mobile than children of higher saving parents.⁸² Evidence shows that individuals learn more about finances from their parents than they do from other social institutions.⁸⁵

“For me, it was stressful because I was taking a lot of extra hours at my part time job and taking that time away from my kids. The kids were upset and complained all the time that I wasn’t spending as much time with them, but I had to do what I had to do.” – Louise, borrower

“My daughter is a very interactive child, she always wants to be cuddling and kissing, and doing all that, and I’m just like ‘stop.’ And you can tell when you’ve hurt a child, and my daughter is very sensitive to stuff like that. I think over the years she has grown up to learn that ok, mommy’s quiet so she backs off. I become very irritated. My daughter suffers a lot because I can get irritated a lot. . . And that’s also what I noticed, I only get irritated when I’m broke.” – Mercy, borrower

4.5. Financial Effects of Payday Loans “Spill Over” to Communities

“When someone takes out a loan, the principal of the loan circulates in the community, but the fees and interest are a wealth drain – they strip income right out of the community. . . An economist could make assumptions about how much of the money would have re-circulated – the multiplier effect. . . talk about the negative consequences of this.”

– Brian Rusche, Joint Religious Legislative Coalition & Minnesotans for Fair Lending

The burden of predatory lending has been primarily analyzed at the individual level, leaving out the impacts to the communities that the payday lending industry claims to serve. The studies that have focused on the community-level effects of payday lending have mainly examined the economic consequences. Even with few studies, findings conclude that the presence of payday lenders in a community is associated with financial hardship and crime, putting vulnerable communities at greater risk of poverty and disinvestment.^{35,96,97}

American households pay billions of dollars in excessive fees on payday loans, draining much needed capital from financially struggling communities. This increases poverty, reduces the disposable income of community members, and decreases people’s ability to save, which leads to a depressed economy.⁹⁸ Limited disposable income minimizes purchasing power, which decreases the demand for local businesses and services.⁹⁸

A study by the Insight Center for Community Economic Development examined data from 33 states to understand the impact of payday loans on the economy and communities.⁹⁹ Data showed an estimated \$3.3 billion paid on interest and fees in 2011, and that as a result, the economy experienced a net loss of \$774 million and an estimated 14,094 jobs – ultimately because the economic activity generated by payday lending firms receiving interest payments is less than the lost economic activity from reduced household spending.⁹⁹

The deliberate targeting of African American and Latino communities by the payday industry causes communities of color to carry the burden of exorbitant fee payments.¹⁰⁰ One California study estimated that \$450 million dollars in payday loan fees was collected annually in the state. Since African American and Latinos represent about 55% of borrowers in California, the study estimated they paid 55% of the fees that year, resulting in about \$247 million dollars extracted from these communities.¹⁰¹ Researchers concluded, “The funds drained from these communities by payday lending could be saved or better spent on food, car repairs, medicine, housing, child care, education, or other needs.”¹⁰¹

Another community cost that has not been closely studied is the relationship between payday lending stores and crime. A study of payday lenders in Seattle, Washington, where payday loan stores increased by 41% from 2003 to 2007, showed a correlation between the concentration of payday lending in communities and neighborhood crime rates, including violent and property crime.⁹⁷ Even after controlling for indicators associated with neighborhood crime (e.g., neighborhood disadvantage, residential instability, and female-headed households), the relationship remained. The study findings illustrate that communities with payday lending stores are more likely to be exposed to crimes compared to communities without stores.⁹⁷

A concept called, “spillover costs” describes the expenses families and communities absorb as a result of an individual taking out a payday loan. For example, in 2010, Texas Catholic Charities spent \$1 million to assist people in paying payday or car title debt.³⁵ They reported that approximately half of payday borrowers who received charitable support identified the loan as the primary driver for seeking assistance.³⁵ While it is difficult to calculate the spillover costs of payday lending on families and communities, the concept demonstrates the negative effects, “ongoing wealth disparities, a reduction in trust and stability in the financial system, and costs such as recession and reduced economic output.”¹⁰²

Minnesotans for Fair Lending (MFL), a non-partisan coalition of organizations dedicated to reforming and eradicating predatory payday lending in Minnesota, estimated the drain from Minnesota cities represented by the interest and fees paid on loans taken out at payday storefronts across the state. Their analysis estimates “wealth drain” by city and by year, as well as a summary of the drain amount across years – from 1999 to 2014.

MFL found that between 1999 and 2014, the wealth drain for Minnesota amounted to more than \$110 million. The five cities with the greatest wealth drain included St. Paul (\$12.6 million), Burnsville (\$10.7 million), Robbinsdale (\$8.8 million), Bloomington (\$7.9 million), and Coon Rapids (\$7.5 million).

To visualize the wealth drain for the state, we took the fee drain amounts specific to each city, for one year – the most recent year available to us (2012) – and aggregated these to the county level, then normalized by the county population. In this one year the total drain from all Minnesota communities was \$13,105,457 (includes fees from registered Internet lenders). Using the Minnesota Cost of Living Tool⁶⁹ to put this into perspective – this amounts to 56,663 trips to the grocery store for a typical household in Minnesota (partnered with two children and one full-time and one part-time worker).[‡]

Figure 8 shows interest and fees paid per capita in 2012 (or wealth drain) – represented by symbols colored and scaled to indicate the counties with the greatest wealth drain for that year – and layered on top of the percentage of African American residents.¹⁰³ The map identifies the counties with the greatest per capita wealth drain (greater than \$5.52 in interest and fees drained per person): Anoka, Dakota, and Hennepin, in the metro area, and Benton, Blue Earth, Clay, Hubbard, and Olmstead in Greater Minnesota. Six of the eight highest drain counties have a higher proportion of African American residents compared to the rest of state.

[‡] The Minnesota Cost of Living tool estimates \$1,005 for household food monthly costs for a partnered household with two children and one part-time and one full-time worker. We convert this amount per month into ‘trips to the grocery store’ by dividing \$1,005 by the number of days in a month and multiplying by seven for the days per week, which equals \$231 per week. This calculation ($\$13,105,457 / \$231 = 56,663$ trips) assumes the monthly cost for food is all spent at the grocery store and that a household goes to the grocery store once a week.

5. Conclusions and Recommendations

5.1. Growing Awareness that Regulation is Needed

The CFPB released a proposed framework for payday lending regulation in March of 2015 and is getting feedback on it for release in 2016. The framework would help prevent some of the worst abuses by barring lenders from refinancing the same loan over and over, and requiring lenders to ensure a borrower's ability to repay. The framework would also likely limit the number of loans a person can take out in a row and over a year, and prevent mandatory check holding or automatic bank account withdrawals. However, the CFPB does not have the authority to limit interest rates, which is one of the major problems with this form of credit – the extremely high cost.

In recent years Minnesota has considered reforming its payday lending laws. In 2014, a bill was proposed and passed the House, but was defeated in the Senate. While the bill would have limited borrowers to four loans a year and required lenders to review a borrower's ability to repay, it still would have allowed triple-digit interest rates. Even so, payday lenders heavily opposed it and made substantial campaign contributions to elected officials in the state. The Chief Executive of Payday America, which makes about half of all payday loans in the state, spent more than \$300,000 in contributions to legislators in 2014.¹⁰⁴

Yet, lawmakers in many states have supported restricting payday loans. Importantly, the risks of eliminating payday lending – that lenders themselves have warned of – have not materialized:

“A sign that people are generally better off without triple-digit, unaffordable payday loans is not only the absence of harms, which are well documented, but also that in states that have enacted reforms, they haven't decided to reverse them. These have been big policy decisions over the course of the last decade. . . in states that have never allowed such high rate loans and in [states] that used to allow them but now do not.” – Diane Standaert, Center for Responsible Lending

Elected officials in Minnesota recognize the loans are predatory and lenders need to be reined in, and recognize that more must be done to make this issue a priority for lawmakers.

*“The Governor has proposed an interest rate cap aimed at the short-term payday loans that protects consumers and still allows businesses to make money. Fundamentally, the Governor believes that, under their current lending model, the harm caused by these businesses outweighs the benefit. Let's focus our efforts on finding better ways to help these folks with short-term loans.”
– Molly Pederson, Minnesota Governor's Office*

*“I don't think it's lack of data, but lack of political will and urgency. It really boils down to our legislators following through on an issue that affects the day-to-day lives of their constituents. Everyone will say it's important, but when the time comes for a vote, legislators need to turn those words into action.”
– Minnesota State Senator Kevin Dahle*

Importantly, while there is concern that restricting access to storefront payday lenders will lead borrowers to seek loans from Internet lenders, research indicates this is not a risk. The Pew Charitable Trusts found that in states that restrict storefront lending, the increase in borrowers going to online lenders was slight – 95 of 100 would-be borrowers in states that do not have storefront locations chose *not* to use payday loans, online or otherwise.⁸

What Happened after Payday Lending Left North Carolina?¹⁰⁵

In North Carolina, in 1997, payday lenders were granted an exemption from state usury laws that cap APRs for small loans in the state at 36%. This allowed payday lenders to charge 391% APR and operate where they were previously not authorized. The exemption, however, specified that it was to be only for an experimental period to allow for an examination of the effect of payday loans on the public.

Payday lending then peaked in North Carolina in 2000, at which point over 1,000 storefronts made 3.5 million loans to 431,000 people. Repeat borrowing was problematic – the average payday borrower took out more than 8 loans in one year and almost 20% of borrowers went to the same store more than once per month, so at least 12 times per year. Based on these figures and after stakeholders came together to advocate for an end to the trial policy, the state decided not to extend the exemption. By 2006, payday lending outlets left the state.

In 2007, the North Carolina Office of the Commissioner of Banks called for an evaluation to understand how the de-authorization of payday lending in North Carolina affected low- and middle-income residents and whether the availability of credit options for working families had been curtailed. One year after payday lenders left the state, 400 individuals who fit the profile of a payday borrower were surveyed.

While no data on health effects were reported, the evaluation did find that 75% of those surveyed said the elimination of payday lending had no effect on their household. The percentage declined only slightly among those that experienced financial distress (71%) or who had been borrowers in the past (68%). They also found that people used a variety of strategies to handle financial shortfalls, the most common of which were paying late or not paying, using savings, and borrowing from friends and family. The de-authorization of payday lending was not found to curtail the availability of credit for working families, as most are aware of a number of options to address their small dollar, short-term credit needs. They also found people overwhelmingly considered payday lending a bad thing, including those who had and had not experienced a shortfall and those who had previously used a payday loan. Those surveyed also felt the effect of prohibiting payday lending on their household was positive, rather than negative. In fact, the people who had experienced a shortfall were actually more likely to think not being able to get one was a good thing.

5.2. Reforms Will Address Risk Factors that Contribute to Poor Health and Health Inequities

Our research indicates that the payday lending debt trap has deleterious effects on health and wellbeing of Minnesota's payday borrowers, their families, and their communities. Furthermore, there is no available evidence that access to payday loans has beneficial impacts on borrower health. The greatest opportunity to curtail these harms is to eliminate the payday lending industry from the state. Short of that, significant reforms are needed to ensure that health risks to borrowers are minimized.

We anticipate the following impacts would result if payday lending ceases in Minnesota, or if significant reforms to loan terms, interest rates, and other rules are adopted:

- Over 50,000 borrowers currently estimated to be susceptible to payday loans would be prevented from getting trapped in a cycle of debt that exacerbates underlying financial distress and contributes to poor health and health inequities. As has been evidenced by other researchers, should borrowers cease using payday loans, they would adjust budgets and improve their financial well-being. And while the absence of payday loans may not lead to significant improvements in the underlying financial distress borrowers experience when they seek out a payday loan, by controlling how payday loans operate, a risk factor for poor health will be removed. This benefit would be most strongly felt by African American Minnesotans who have borne the brunt of payday's predatory practices, and who are already experiencing the greatest health and economic inequities in the state.
- Easing this chronic and unique form of financial strain for borrowers will help to alleviate the mental health effects associated with it. In particular, extreme stress, anxiety, depression, social isolation, and suicidal thoughts, and the health outcomes to which these emotional states contribute – premature death, poor self-rated health, and physically and mentally unhealthy days – will decrease. And these mental health improvements would extend out to families as well – specifically in terms of reduced partner conflict and improved parent-child relationships – by removing a stressor from financially strained households
- The impact on employment performance will be positive, whereby individuals who have the least ability to withstand employment upsets will not risk further damage from the effects of payday loan stress and will be less exposed to debt collection practices while at work.
- The \$13,105,457 per year that communities would recover by not paying the interest and fees to payday lenders is expected to increase the spending and saving power of the community and demand for local goods and services. Using the Insight Center for Community Economic Development's analysis, the net economic loss to the community (*after considering the economic benefit of the payday industry*) from the over \$13 million in interest and fees amounts to \$3,145,309 in lost economic growth to Minnesota communities.⁹⁹ This estimate indicates there is potential for reforms to greatly impact the spending power of Minnesota communities.

It is possible that payday lending could cease with the implementation of a rate cap or other reforms. Importantly, because of stagnant income and other macroeconomic changes, individuals will still be in a precarious state financially and in need of small dollar credit and other asset building supports to bridge financial shortfalls. Therefore, we would expect many of the health effects of financial strain to remain a burden for low-income communities and communities of color. ***However, evidence from other states tells us that people’s health and finances will not be worse off without access to payday loans.***

5.3. Recommendations

*“The stories are about the trap and living from loan to loan; the need for financial support is real but the need for reform is also real.”
– Minnesota State Senator Kevin Dahle*

National and state regulations are necessary to prevent the payday lending industry from taking advantage of economic insecurity, and to improve the health and well-being of Minnesota’s most economically vulnerable. Current practices capitalize on larger systemic economic and social trends, as well as income and wealth inequities in communities of color, to trap Minnesotans in a cycle of debt and stress that extends beyond borrowers to their families and communities.

In response to these findings, we propose the following recommendations to reduce the harms brought about by the payday industry and to begin to improve the social and economic conditions that Minnesotans need to live economically secure and healthy lives.

- **The Minnesota Legislature should take concrete steps to ban the practice of payday lending in the state.**

Tighter lending standards, restrictions on how many times a loan can be rolled over, and interest rate caps would protect borrowers from the worst abuses of payday and would help reduce the harm of payday lending to borrower health. *However, the absolute greatest benefit to health and equity would be the elimination of the payday lending industry altogether.* Doing so would stem the significant wealth drain from communities and increase the likelihood that borrowers access more safe and affordable financial services.

The problem with economic insecurity and racially discriminatory practices and policies is, however, not eradicated by the elimination of payday ending. The following recommendations address the underlying economic insecurity that makes people susceptible to payday loans and promote strategies to improve borrower financial health.

- **In response to the significant economic and racial inequities that persist in the state and underlying financial distress experienced by payday borrowers – and others who are financially insecure – the Minnesota Legislature should take steps to address the broader problems of poverty and low incomes, such protecting and creating jobs; providing worker protections such as paid family leave and sick leave; increasing affordable housing; and improving education in communities that have historically been disinvested in.**

We recommend the legislature prioritize policies that address the broader problems that drive payday use. These policies incrementally contribute to a more equitable distribution of wealth and health, and would reduce susceptibility to payday lending and other predatory practices. In particular, the relevant education, housing, planning, and community development policies should prioritize communities that have been historically left behind.

- **Public and private sector financial service providers, including banks, credit unions and community-based financial service providers, should invest in innovative ways to meet the need for affordable small loans and encourage financial planning, savings, and credit building.**

Such solutions must include mainstream financial institutions and must place community-oriented banks in these communities. These solutions will do more to help people weather financial shortfalls and build wealth over the long term.

One program currently being developed for the metro region that should be supported and expanded is the Financial Access and Inclusion Roadmap (FAIR) initiative. The product, which is influenced by the Bank On model which is currently offered to financially-underserved people in nearly 100 cities nationwide, has transaction, savings, and credit building components and will initially be piloted with up to six public, employer, and nonprofit distributors. Distributors embed the FAIR product into their offerings with clients, employees, and public benefit recipients. FAIR is led by Prepare + Prosper, which is working in partnership with several nonprofit, private, philanthropic, and public leaders to make FAIR a reality.

Community-based financial institutions, such as community development credit unions, have long existed to serve their communities with basic transaction and savings products and credit. These should be supported and expanded. Consumer-focused community development financial institutions (CDFIs), which are funded by the federal government, are other potential sources of support.

- **State and local agencies that fund economic development activities should organize community workshops and forums that address financial strain, debt, stigma and mental health, and empower community members to advocate for payday loan reforms and other economic security policies.**

Financial problems, especially debt, are commonly stigmatized. People who have experienced chronic financial strain often live their financial difficulties in isolation. Hence, we recommend that Minnesota state and local agencies that fund economic development activities work with community-based organizations to create safe spaces for people to talk about financial strain and debt, and to discuss potential policy solutions. Reducing the stigma associated with finances and debt could also benefit the social well-being of the most affected communities.

5.4. Conclusion

Communities targeted by payday lending have seen millions drained from their pockets – contributing to the economic circumstances that create a need for payday loans in the first place. Individuals experience an increase in the severity of the mental health effects associated with economic insecurity. Households see their chances of saving and building wealth diminished, which further affects family relations and well-being. However, should payday lending cease operations, at least 50,000 Minnesotans would be protected from the negative effects of payday and other predatory loans.

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

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