

## Consumers Fare Worse Under Payday Loan Bans: Research from Georgia, North Carolina and Oregon Shows Harm

Research finds bans on payday lending leave consumers in greater financial distress. Three studies have looked at what happened to consumers in states where payday lending was eliminated and discovered the true cost to consumers of this misguided approach.

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**“Payday Holiday: How Households Fare Under Payday Bans,”** by Federal Reserve Bank of New York Research Officer Donald P. Morgan and Cornell University graduate student Michael R. Strain, found that consumers in Georgia and North Carolina were not better off since their states eliminated payday lending.<sup>1</sup>

- *“They [consumers in Georgia and North Carolina] have bounced more checks, complained more about lenders and debt collectors, and have filed for Chapter 7 (“no asset”) bankruptcy at a higher rate.”*
- *“On average, the Federal Reserve check processing center in Atlanta returned 1.2 million more checks per year after the ban. At \$30 per item, depositors paid an extra \$36 million per year in bounced check fees after the ban.”*
- *“Total complaints against lenders and debt collectors [in North Carolina] rose by over a third relative to other states....”*
- *“Banning payday loans did not save Georgian households \$154 million per year, as CRL projected, it cost them millions per year in returned check fees.”*

**“Restricting Consumer Credit Access: Household Survey Evidence on Effects Around the Oregon Rate Cap,”** by Dartmouth College Professor Jonathan Zinman, found that restricting access to payday loans “caused deterioration in the overall financial condition of Oregon households.”<sup>2</sup>

- *“Former payday borrowers responded by shifting into incomplete and plausibly inferior substitutes...Most substitution seems to occur through checking account overdrafts of various types and/or late bills. These alternative sources of liquidity can be quite costly in both direct terms (overdraft and late fees) and indirect terms (eventual loss of checking account, criminal charges, utility shutoff).”*
- *“Reducing payday loan access in Oregon hindered productive investments or consumption smoothing that facilitated job retention (or search).”*

**“North Carolina Consumers After Payday: Attitudes and Experiences with Credit Options,”** by the University of North Carolina Center for Community Capital, highlights the choices consumers are forced to make when payday loans are eliminated. The study’s conclusion stands in stark contradiction to its actual findings, as the findings clearly show that former payday lending consumers have replaced payday loans with costly, less desirable and potentially dangerous options.<sup>3</sup>

- *“The most common option [for dealing with their most recent financial crisis]... was to pay the expense late or not to pay.”*
- *“Ten percent [of those who did not pay or paid late] had utilities disconnected, went without a prescription medication, or had a damaged credit rating...[Fifty percent of those who did not pay or paid late] incurred late fees on charges, including [some] who said their bill was turned over to a collection agency or that they faced repossession or bankruptcy.”*

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<sup>1</sup> <http://www.cfsa.net/FedReserve.html>

<sup>2</sup> [http://www.dartmouth.edu/~jzinman/Papers/Zinman\\_RestrictingAccess\\_oct08.pdf](http://www.dartmouth.edu/~jzinman/Papers/Zinman_RestrictingAccess_oct08.pdf)

<sup>3</sup> <http://www.cfsa.net/UNC.html>