Center for Responsible Lending

POWER STEERING

Payday Lenders Targeting Vulnerable Michigan Communities

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Key Findings

- In recent years, payday lenders have drained over half a billion dollars in fees from Michigan consumers to out-of-state companies. By charging APRs over 340%, payday lenders cost Michigan consumers over $94 million in 2016 and over $513 million over the past five years. Over two-thirds of Michigan payday stores have headquarters out of state.
- Michigan payday lenders disproportionately locate their stores in communities of color. While statewide there are 5.6 payday stores per 100,000 people in Michigan, payday store concentrations are higher in census tracts that have more African-Americans and Latinos. Census tracts that are over 25% and 50% African-American and Latino are 7.6 and 6.6 payday stores per 100,000 people, respectively.
- Michigan payday lenders disproportionately locate their stores in rural and low-income areas. Rural census tracts have a payday store concentration of 7.1 stores per 100,000 people, while census tracts below 80% of the state's median household income have 9.1 stores per 100,000 people.

Introduction

Payday loans are marketed as quick-fix solutions to financial emergencies. However, they often carry triple-digit interest rates and unaffordable payments to satisfy the loan, which make them extremely difficult to pay off. Consumers who cannot afford the loan payments run the risk of spiraling into a cycle of debt and other financial consequences. Payday loans are associated with a cascade of negative financial outcomes, such as delinquency on other bills, bank penalty fees, bank account closures, and even bankruptcy. Nationally, payday loans are estimated to cost American consumers over $4.1 billion in fees annually.[1]

Payday loans often carry triple-digit interest rates and unaffordable payments to satisfy the loan, which make them extremely difficult to pay off.

Prior research has shown that payday storefronts tend to locate in low-income neighborhoods and communities of color. This has been the case for several current or former payday-legalizing states, including North Carolina,[2] California,[3] Arizona,[4] Florida,[5] and Colorado[6]. When African-American and Latino households are targeted for such expensive credit options to meet even basic needs, closing the racial and ethnic wealth gap becomes much more challenging.

The purpose of this paper is to estimate the cost of payday loan fees in Michigan and analyze the locations of Michigan payday loan stores based on the demographics of the communities in which they are located.

How Payday Loans Work in Michigan

In Michigan, payday lenders can charge fees reaching over 340% annual percentage rate (APR) on a two-week loan. Payday loans are regulated by the Michigan Department of Insurance and Financial Services, under the state statute of the "Deferred Presentment Service Transactions Act" (DPSTA).[7] When the state legislature passed the DPSTA in 2005, Michigan became the last state in the country to authorize payday lending. Renewals are not allowed according to state law, but there is no cooling off period after a loan is paid, which allows lenders to immediately string loans together so that consumers are able to pay off a previous loan with a new one. The statute does not specify a minimum loan term but sets a maximum loan term at 31 days. A consumer would only be eligible for an extended payment plan if he or she is unable to pay after eight payday transactions in a 12-month period. The success of these payment plans is limited by the fact that consumers are dependent on the lender to give notice of their eligibility.

Permissible fees are on a sliding scale for every additional $100 borrowed, plus a $0.49 database fee. Lenders can charge 15% on the first $100 borrowed, 14% on the second $100, 13% on the third $100, 12% on the fourth $100, and 11% on any remaining amount borrowed. This fee structure will naturally create triple-digit interest on a short-term, small-dollar loan—all classic elements of the debt trap.

For example, a $500 loan due in two weeks would come to a 341% APR once all fees are included (See Figure 1). If a consumer were to eventually qualify for an extended payment plan once defaulting after the eighth loan, the consumer would have already paid $523.92 in fees on a $500 loan and still owe the balance on the original principal.

Figure 1: Example of Michigan payday fee structure

	Loan fees and costs
Fees for first $100 borrowed	$15.00
Fees for second $100 borrowed	$14.00
Fees for third $100 borrowed	$13.00
Fees for fourth $100 borrowed	$12.00
Fees for fifth $100 borrowed	$11.00
Database fee	$0.49
Total fees on $500 loan	$65.49
APR on a two-week loan	341%
Fees if consumer reaches extended payment plan after eight loans	$523.92

With payday loan costs exceeding 340% APR, it is a near certainty low-income consumers will have difficulty repaying the loan without reborrowing or defaulting on other expenses. Research from the Consumer Financial Protection Bureau (CFPB) has found that the average payday loan borrower is stuck in 10 loans over the course of a year, usually taking out one loan immediately after another.[8] For Michigan specifically, CFPB data indicate that 70% of payday loans are taken out on the same day as a previous loan is repaid, and 86% of loans are taken out within two weeks of repayment.[9] As such, it is clear that in Michigan, as is the case nationally, the debt trap is the core of the payday lenders' business model.

Impact of Michigan's Payday Fee Drain

The majority of payday stores in Michigan are run by only a few large companies. With over 550 payday stores in the state, the top 10 largest lenders operate 86.5% of all payday stores, with the top three largest lenders operating over half (52.1%) of all stores (See Appendix 1). This is significant considering that the largest payday loan companies in Michigan are all headquartered outside of Michigan—meaning that Michigan's payday loans fees essentially siphon millions of dollars out of the state. In fact, over two-thirds of Michigan's payday loan stores are owned by out-of-state companies. The largest, Advance America with 144 stores, is owned by an international bank in Mexico, even though its domestic headquarters are in South Carolina.

To estimate the amount of fees drained by payday loans in a state where the regulator does not regularly collect or publish loan data, we have developed a methodology based on the number of storefronts in that state.[10] From 2012 to 2016, there has been a 13.1% decrease in the number of licensed Michigan payday stores, despite no regulatory changes at the state and federal level during this time. Even with the statewide estimate of fees drained by storefront payday loans declining from year to year, overall fee volume still has totaled over $513 million over the past five years.

Figure 2: Michigan payday fee drain estimates by year[11]

Year	Licensed stores	Estimated Michigan payday fee drain
2012	643	$108.38 million
2013	634	$106.86 million
2014	616	$103.83 million
2015	593	$99.95 million
2016	559	$94.22 million
Five-year total		$513.24 million

Payday Loan Stores Concentrate in Financially Vulnerable Communities

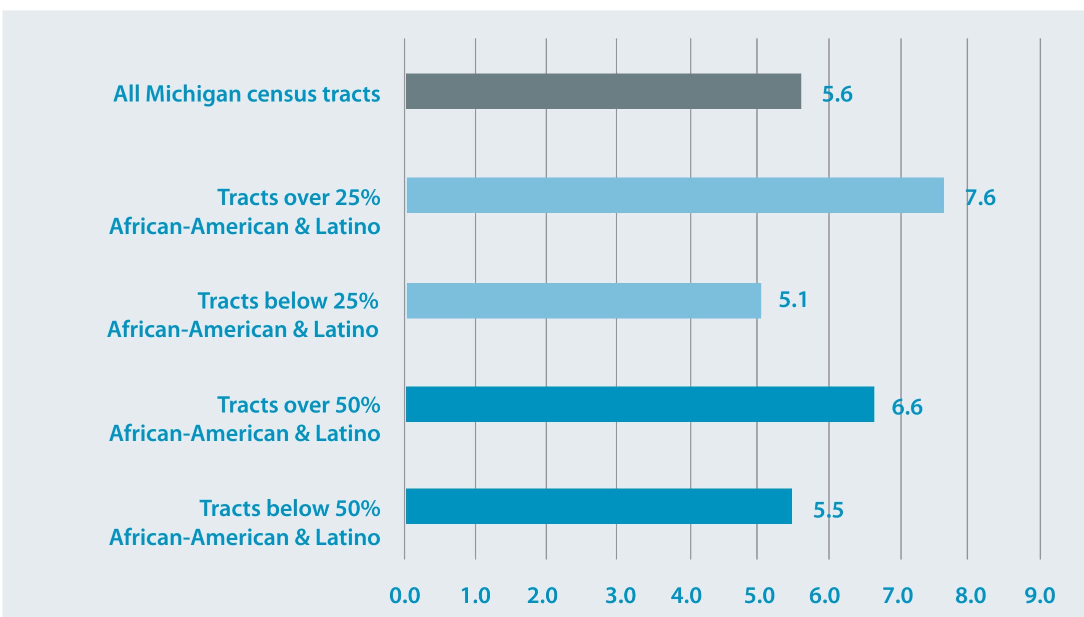
> **Overall, the analysis shows correlations with payday store location and communities that have higher concentrations of people of color and lower-incomes, as well as more rural areas.**

Using GIS mapping software and addresses provided by the Michigan Department of Insurance and Financial Services, the Center for Responsible Lending (CRL) geocoded and mapped addresses for all licensed payday stores in Michigan as of June 2017. At the time of this analysis, there were 555 licensed payday storefronts that had mappable Michigan addresses. Plotting geographic location allows us to make comparisons of the census tract demographics where payday stores are deployed—including by race, ethnicity, and income level—and whether the census tract is in a Metropolitan Statistical Area. Overall, the analysis shows correlations with payday store location and communities that have higher concentrations of people of color and lower-incomes, as well as more rural areas.

The payday loan business model is built to take advantage of financial shortfalls, which makes it strategic to locate stores in proximity to communities most likely to experience these shortfalls. With this context, communities with less income and wealth would predictably have more stores in their vicinity so that payday stores can capitalize whenever a family cannot make ends meet. The median household income for African-Americans and Latinos in Michigan is $30,732 and $41,318 respectively, compared to $54,670 for White households.

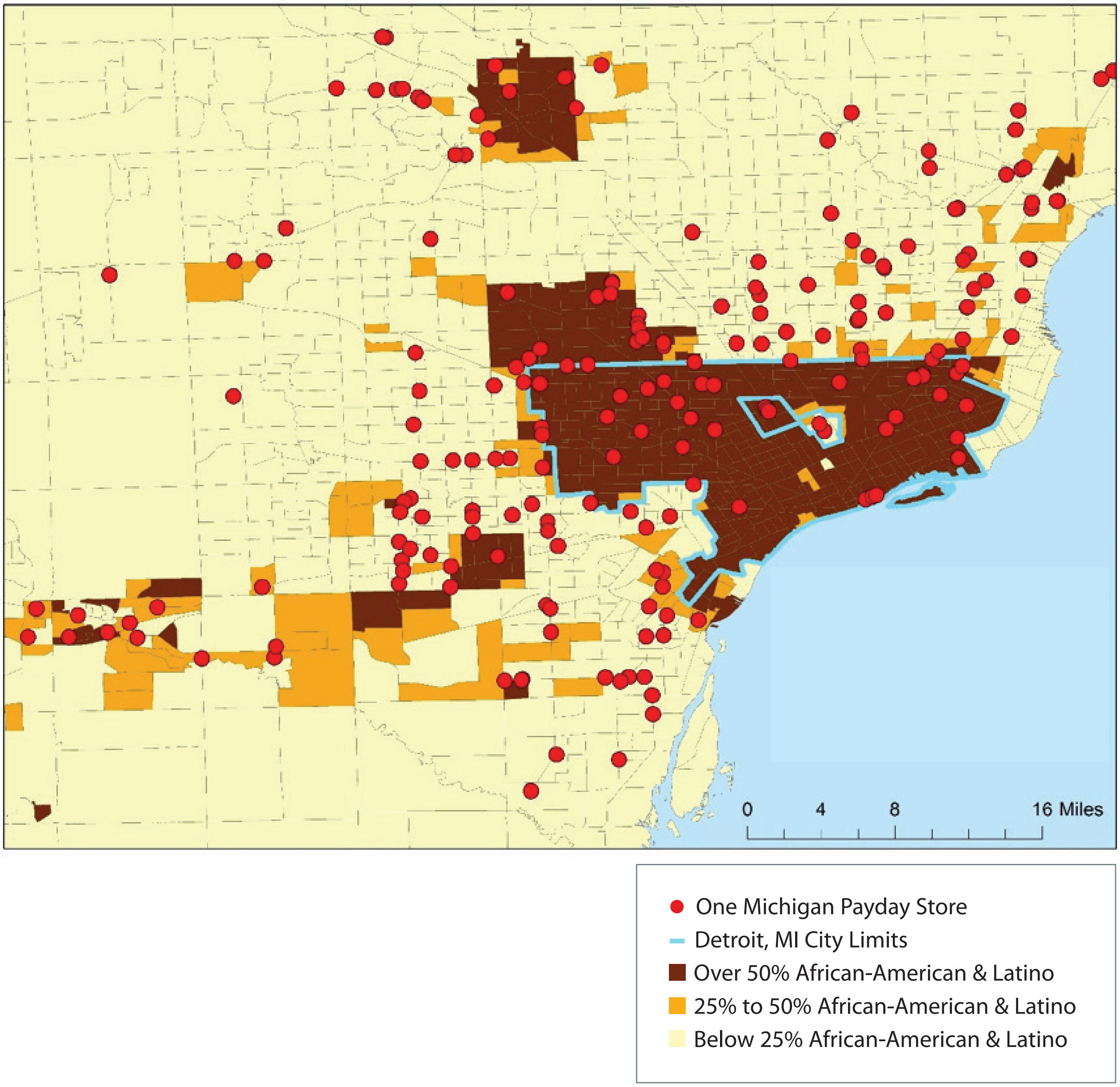
While statewide, there are 5.6 payday stores per 100,000 people in Michigan, payday store concentrations are higher in census tracts that have more African-Americans and Latinos. Census tracts that are over 25% and 50% African-American and Latino are 7.6 and 6.6 payday stores per 100,000 people, respectively.[12]

Figure 3: Michigan payday store concentrations by communities of color—Payday stores per 100,000 people[13]



In Michigan, communities of color are most often found in the state's urban centers. We can most easily see the relationship between race and store location graphically in the Detroit area, Michigan's largest city. (Also see Appendices 3 and 4 for maps of Grand Rapids and Lansing, MI.)

Figure 4: Payday loan store locations in communities of color—Detroit, MI and surrounding areas[14]



Payday Stores Concentrate in Rural and Low-Income Communities

Likewise, there are also higher concentrations of payday stores in rural areas (defined as not geographically in a Metropolitan Statistical Area or Metropolitan Division) and low-income census tracts (defined as below 80% of Michigan's median household income).[15] Rural census tracts have a payday store concentration of 7.1 stores per 100,000 people, while census tracts categorized as low-income have 9.1 stores per 100,000 people.[16]

Figure 5: Michigan payday store concentrations by urban-rural categories—Payday stores per 100,000 people[17]

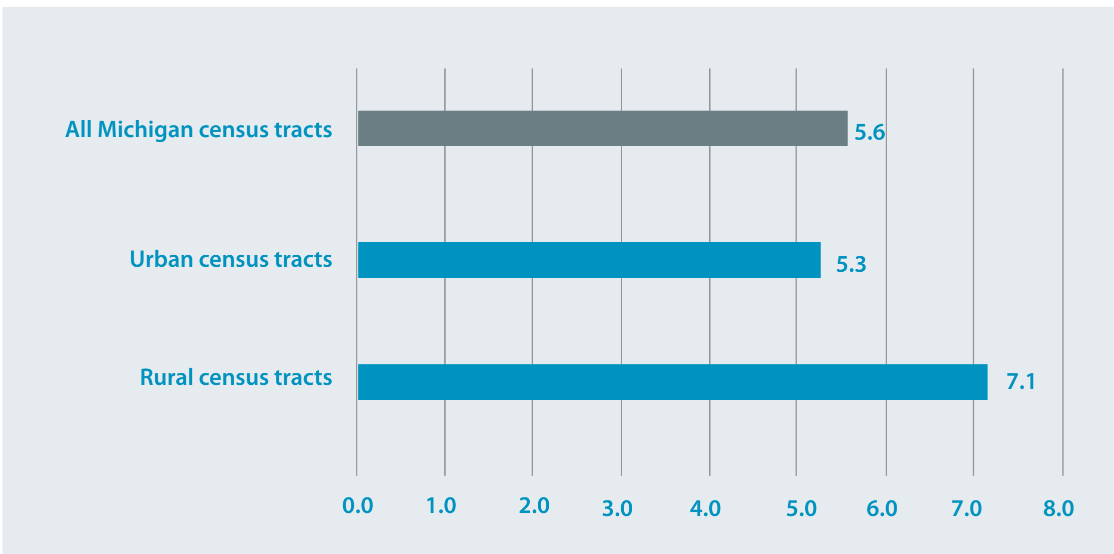
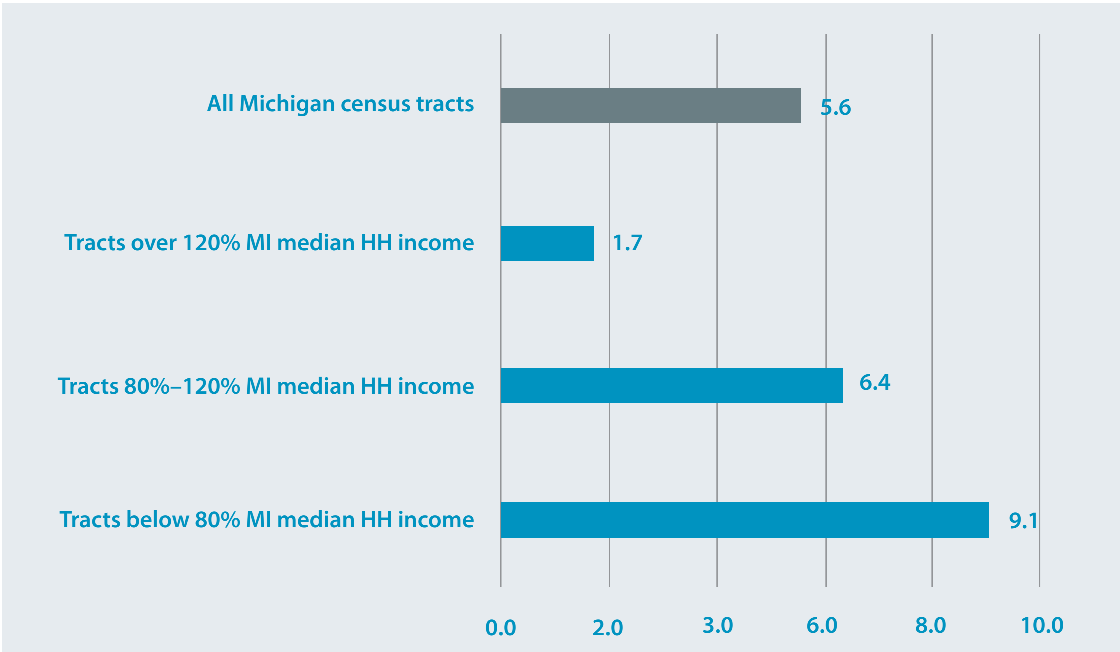


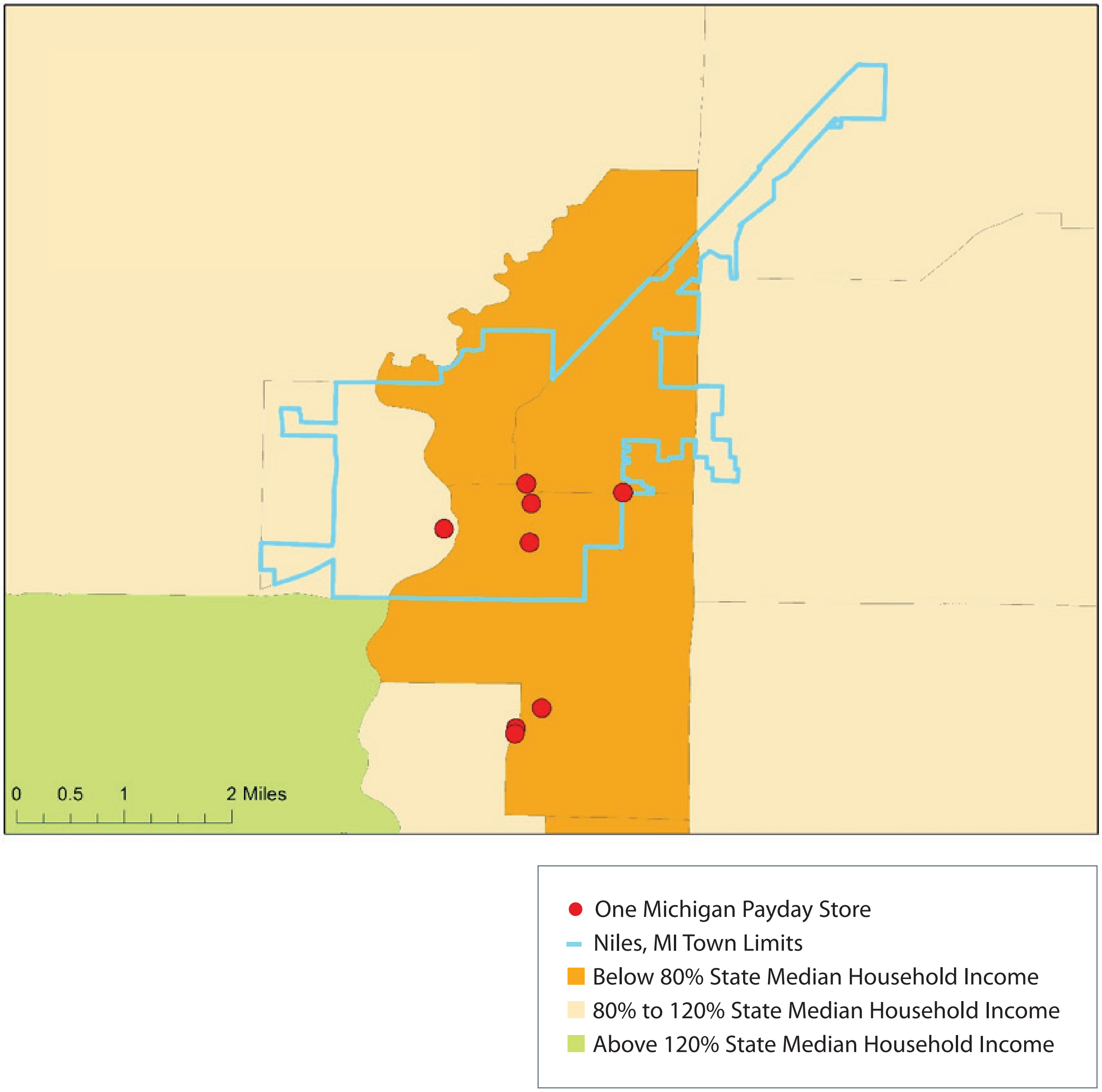
Figure 6: Michigan payday store concentrations by median household income levels— Payday stores per 100,000 people[18]



These concentrations are important in determining the marketing strategy of the state's payday loan industry. The payday loan product is branded as an easy credit option to populations that are disproportionately vulnerable financially. Payday lenders advertise their convenience and availability as a solution to financial emergencies that traditional financial institutions are not willing or able to serve. In fact, payday lenders leverage their store location to compete harder on convenience than affordability, which strategically creates a connection with certain target consumers.

One of the more interesting examples of store placement in rural areas was in the town of Niles, MI, which only has 11,208 residents, 4,653 households, and a median household income of $30,963. In Niles, three out of every 10 people (30.6%) live below the poverty line. With eight payday stores within a two-mile radius of the town limits, Niles, MI, has a store concentration of 17.2 stores per 10,000 households. This store concentration is greater than urban cities like Detroit (1.2 stores per 10,000 households), Grand Rapids (2.7 stores per 10,000), and Lansing, MI (3.7 stores per 10,000).

Figure 7: Payday loan store locations in rural and low-income communities—Town of Niles, MI[19]



Conclusion

Payday loans are a high-cost solution to a short-term problem, built to take advantage of borrowers' financial vulnerability. As such, our findings on how payday storefronts locate in financially vulnerable areas are not surprising. Other states like North Carolina and Arizona that once had documented racial disparities with payday store locations have addressed the payday fee drain by enforcing an interest rate cap, which prohibits the triple-digit APRs of payday loans. Likewise, the U.S. military also protects our servicemembers with a similar rate cap of 36%. Such a measure could prove beneficial in Michigan—potentially saving consumers $94 million in fees annually.

The payday loan model offers a solution that tends only to create bigger problems.

Additionally, Michigan should be wary of any payday industry push to expand their model within the state. Potential legislation to allow more fees, relax protections on debt collection practices, or weaken state regulators are all tactics that have been attempted in other states.

Lastly, we should consider how addressing the payday fee drain would impact how vulnerable communities connect with the mainstream banking community. Research shows how getting caught in the debt trap jeopardizes a consumer's relationship with his or her bank, as there is a correlation between payday loan usage and bank account closure.[20] This makes it more difficult for the banking and credit union community to do their part in closing the racial wealth and poverty gaps, as they have unfair competition from payday lenders regulated under a different statute.

The maxim "it costs more to be poor" has never been more evident than in how payday lenders target financially vulnerable people. The payday loan model offers a solution that tends only to create bigger problems. Michigan's consumers, many of whom are already fighting to keep their financial house in order, could benefit from strong reform measures to end the debt trap.

Appendices

Appendix 1: Top 10 payday lenders located in Michigan, as of June 2017

Rank	Payday lender "Doing Business As" name	Parent company name	# of payday stores in MI	Headquarters
1	ACSO OF Michigan, Inc.	Advance America	144	Spartanburg, SC
2	Great Lakes Specialty Finance, Inc.	Check N' Go	110	Cincinnati, OH
3	Approved Cash Advance Corp.	Same as DBA name	35	Cleveland, TN
4	Check Into Cash of Michigan, LLC	Check Into Cash	26	Cleveland, TN
	Instant Cash Advance Corp.	Same as DBA name	26	Wyoming, MI
5	Cash For Checks, LLC	Same as DBA name	24	Indian River, MI
	Cottonwood Financial Michigan, LLC	The Cash Store	24	Irving, TX
6	Allied Check Cashing Michigan LLC	Allied Cash Advance	20	Cincinnati, OH
7	Check & Cash USA, LLC	Ready Money	15	Wausau, WI
8	Buckeye Check Cashing of Michigan, Inc.	Check$mart	14	Dublin, OH
	Cash Now, LLC	Same as DBA name	14	Oak Park, MI
	JD Finance, INC.	Same as DBA name	14	Cedar Springs, MI
9	Crickets, LLC	Cricket Financial Services	8	Warren, MI
10	M CO 1, LLC	M Companies Check and Cash	6	Ishpeming, MI
	All other companies		75	
	Total companies		555	

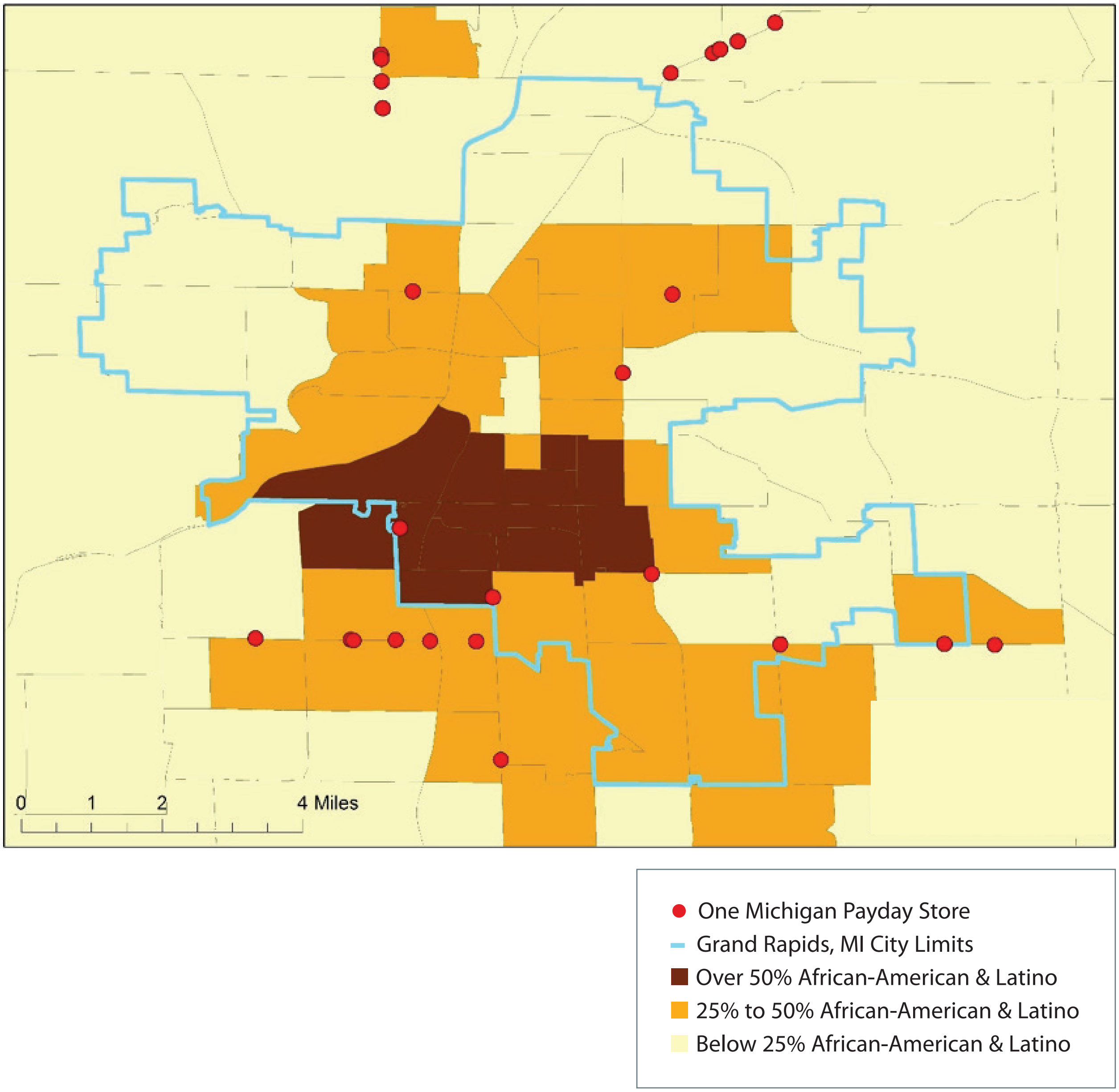
Appendix 2: Fee drain by Michigan county

Michigan county	Payday stores	Estimated fee drain per county
Allegan	3	$505,655
Alpena	4	$674,206
Antrim	2	$337,103
Arenac	2	$337,103
Barry	3	$505,655
Bay	8	$1,348,413
Berrien	14	$2,359,722
Branch	3	$505,655
Calhoun	11	$1,854,068
Cass	1	$168,552
Charlevoix	2	$337,103
Cheboygan	5	$842,758
Chippewa	3	$505,655
Clare	3	$505,655
Clinton	2	$337,103
Crawford	1	$168,552
Delta	3	$505,655
Dickinson	3	$505,655
Eaton	2	$337,103
Emmet	3	$505,655
Genesee	29	$4,887,996
Gladwin	3	$505,655
Gogebic	2	$337,103
Grand Traverse	8	$1,348,413
Gratiot	3	$505,655
Hillsdale	3	$505,655
Houghton	2	$337,103
Huron	2	$337,103
Ingham	18	$3,033,929
Ionia	3	$505,655
Iosco	4	$674,206
Isabella	7	$1,179,861
Jackson	7	$1,179,861
Kalamazoo	11	$1,854,068
Kalkaska	3	$505,655
Kent	36	$6,067,858
Lapeer	4	$674,206
Lenawee	3	$505,655

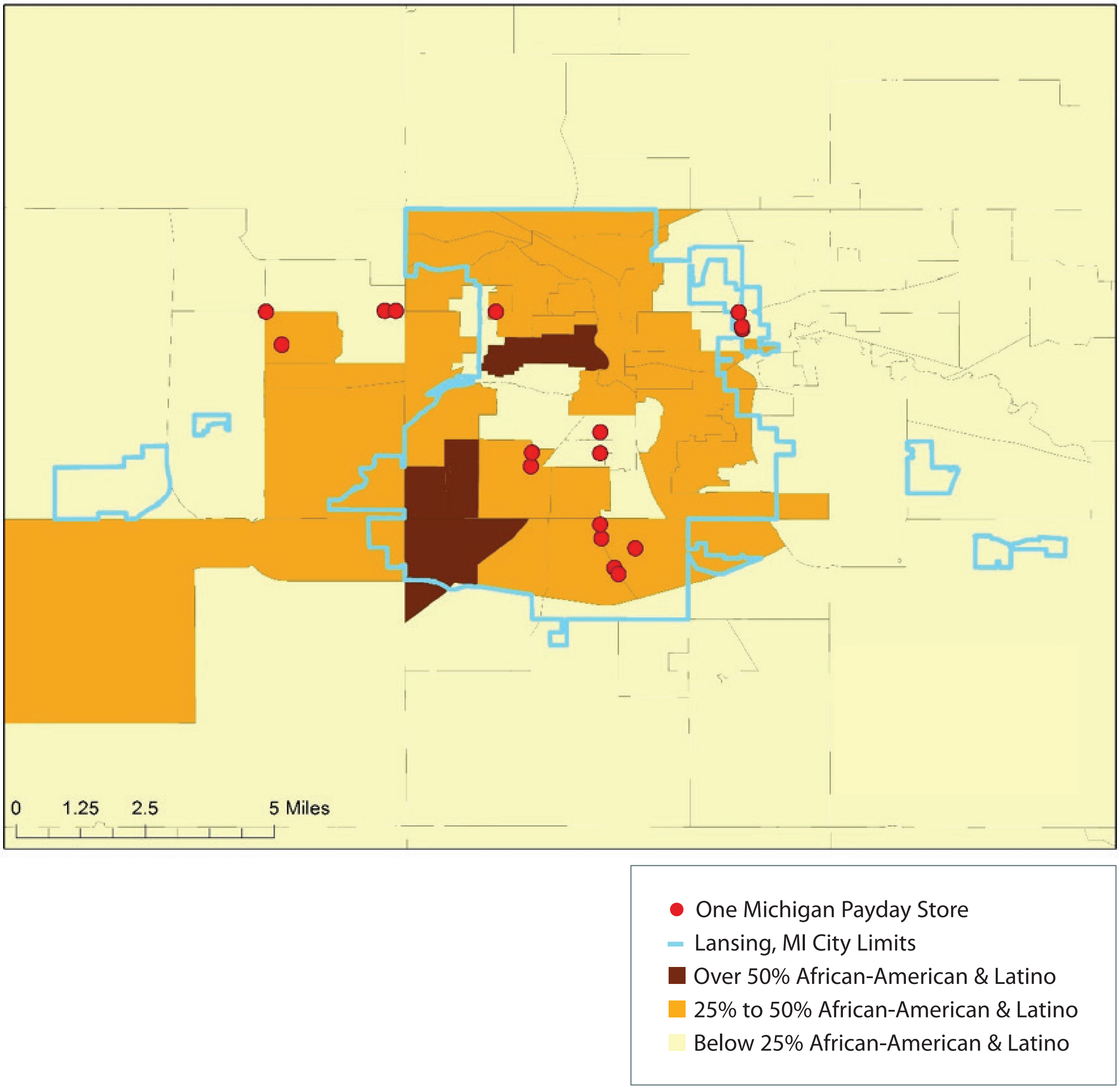
Appendix 2: Fee drain by Michigan county (continued)

Michigan county	Payday stores	Estimated fee drain per county
Livingston	4	$674,206
Macomb	48	$8,090,477
Manistee	3	$505,655
Marquette	5	$842,758
Mason	3	$505,655
Mecosta	4	$674,206
Menominee	2	$337,103
Midland	5	$842,758
Monroe	4	$674,206
Montcalm	4	$674,206
Muskegon	13	$2,191,171
Newaygo	3	$505,655
Oakland	54	$9,101,786
Ogemaw	1	$168,552
Oscoda	1	$168,552
Otsego	4	$674,206
Ottawa	9	$1,516,964
Presque Isle	1	$168,552
Roscommon	2	$337,103
Saginaw	10	$1,685,516
Sanilac	1	$168,552
Schoolcraft	1	$168,552
Shiawassee	3	$505,655
St. Clair	10	$1,685,516
St. Joseph	8	$1,348,413
Tuscola	1	$168,552
Van Buren	2	$337,103
Washtenaw	12	$2,022,619
Wayne	30	$5,056,548
Wayne (excl. Detroit)	77	$12,978,473
Wexford	4	$674,206
MI TOTAL	555	$93,546,138

Appendix 3: Payday loan store locations in communities of color—Grand Rapids, MI[21]



Appendix 4: Payday loan store locations in communities of color—Lansing, MI[22]



Endnotes

1 Standaert, Diane and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year,* Center for Responsible Lending, May 2016. https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_stateby-state_fee_drain_may2016_0.pdf.

2 King, Uriah, Wei Li, Delvin Davis, and Keith Ernst, *Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina,* Center for Responsible Lending, Mar 2005. https://www.responsiblelending.org/payday-lending/research-analysis/rr006-Race_Matters_Payday_in_NC-0305.pdf.

3 Li, Wei, Leslie Parrish, Keith Ernst, and Delvin Davis, *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California,* Center for Responsible Lending, Mar 2009. https://www.responsiblelending.org/california/ca-payday/research-analysis/predatory-profiling.pdf.

4 Panameno, Aracely and Keith Corbett, *Wealth-stripping payday loans trouble communities of color,* Center for Responsible Lending, Oct 2008. http://www.responsiblelending.org/payday-lending/research-analysis/az-payday-communities-of-color-10-2-final.pdf.

5 Coleman, Brandon and Delvin Davis, *Perfect Storm: Payday Lenders Harm Florida Consumers Despite State Law,* Center for Responsible Lending, Mar 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_perfect_storm_florida_mar2016.pdf.

6 Davis, Delvin, *Mile High Money: Payday Stores Target Colorado Communities of Color,* Center for Responsible Lending, Aug 2017. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-mile-high-money-aug2017.pdf..

7 Mich. Comp. Laws §487.2121 et seq.

8 Consumer Financial Protection Bureau (CFPB), *Payday loans and deposit advance products: A white paper of initial data findings,* 2013. http://1.usa.gov/1aX9ley.

9 Consumer Financial Protection Bureau (CFPB), *Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products,* June 2016. https://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf.

10 Methodology is based on prior CRL research that estimates payday loan volume as a product of 1) storefronts reported by the state regulator, 2) median loan size, and 3) transactions per store based on loan activity from other payday reporting states. More detail can be found in CRL's *State of Lending* (2013) and *Phantom Demand* (2009) reports.

11 Licensed payday store totals are as of December 31 of each year according to the Michigan Department of Insurance and Financial Services Annual Report. Fee drain figures are based on CRL methodology that estimates average loan volume and fees per store.

12 Census tracts over 25% African-American and Latino have 39% greater odds of having a payday store in that area. Note that Michigan is 14.1% and 5.1% African-American and Latino, respectively.

13 Census tract population figures are from the U.S. Census, 2016 estimates. Payday lender addresses are licensees registered with the Michigan Department of Insurance and Financial Services as of June 2017.

14 Ibid.

15 The median household income for Michigan was $50,803 in 2016 according to the U.S. Census.

16 Low-income and rural census tracts have a 91% and 30% greater odds, respectively, of having a payday store located in their neighborhood.

17 Rural designation is determined as a census tract not geographically included in a Metropolitan Statistical Area or Metropolitan Division. Payday lender addresses are licensees registered with the Michigan Department of Insurance and Financial Services as of June 2017.

18 Census tract household income figures are from the U.S. Census, 2016 estimates. Payday lender addresses are licensees registered with the Michigan Department of Insurance and Financial Services as of June 2017.

19 Ibid.

20 Campbell, Dennis, F. Asis Martinez-Jerez, and Peter Tufano, *Bouncing out of the banking system: An empirical analysis of involuntary bank account closures,* Harvard Business School, 2011. https://www.hbs.edu/faculty/Pages/item.aspx?num=41390.

21 Census tract population figures are from the U.S. Census, 2016 estimates. Payday lender addresses are licensees registered with the Michigan Department of Insurance and Financial Services as of June 2017.

22 Ibid.

Center for Responsible Lending

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The Center for Responsible Lending (CRL) is working to ensure a fair, inclusive financial marketplace that creates opportunities for all responsible borrowers, regardless of their income, because too many hard-working people are deceived by dishonest and harmful lending practices.

CRL is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices. Our focus is on consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts, and auto loans.

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