

# Winners and Losers after Payday Credit Bans

IC2 /FRB Dallas

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*Our view do not necessarily reflect Federal Reserves' views*

## Three problems

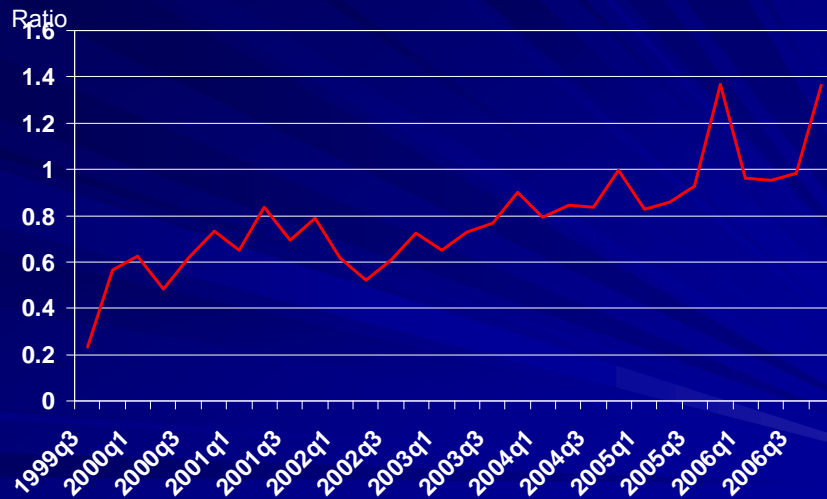
1. Bounced checks  
payday credit cheaper
2. Complaints against debt collectors  
dunning
3. Bankruptcy

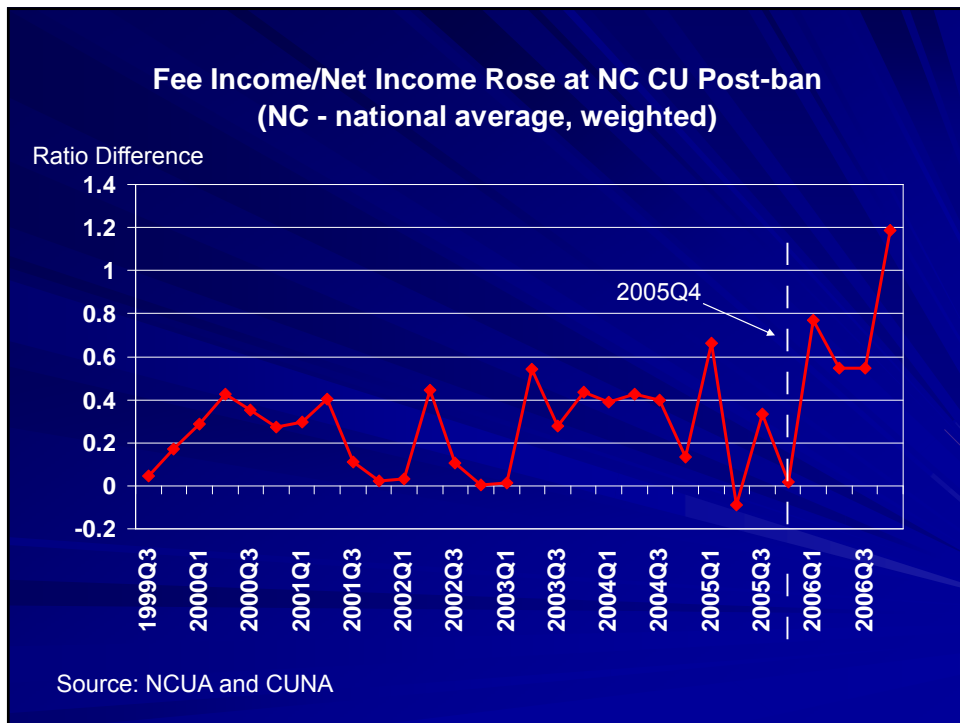
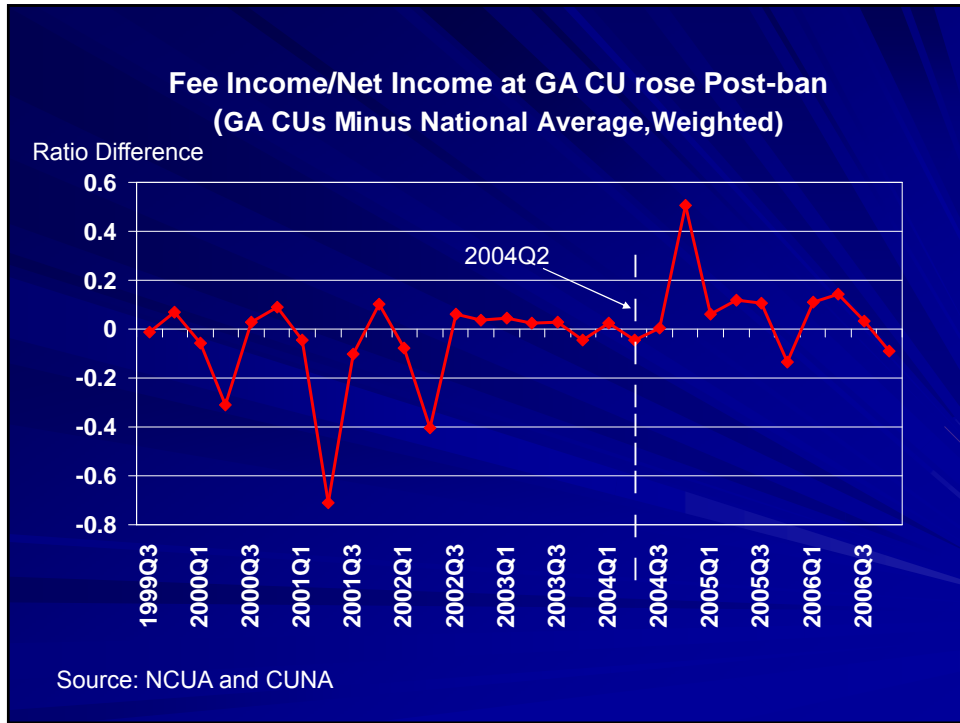
Prediction: bans ↓ problems

## Post-Ban Change in Problems

	GA	NC
Bounced checks	+	+
Complaints	+	+
Bankruptcy	-	+

## Fee Income/Net Income at CU > 1





## Winners and Losers

### GA and NC households fared worse

More bounced checks (PD credit cheaper)

More problems with debt collectors

### Credit unions fared better?

More bounced check fee income/net income

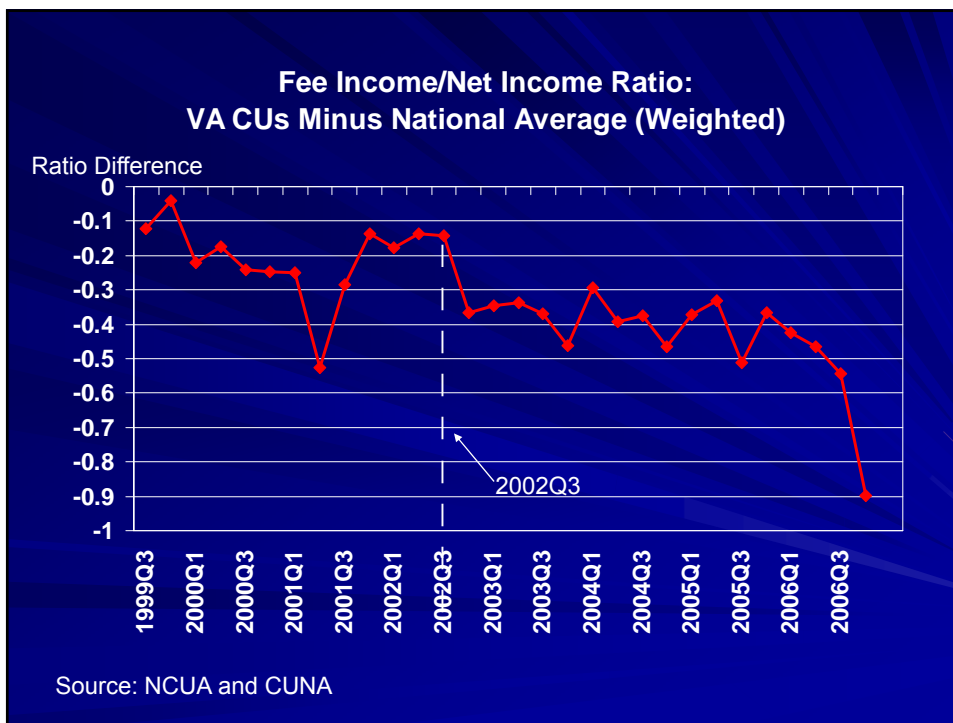
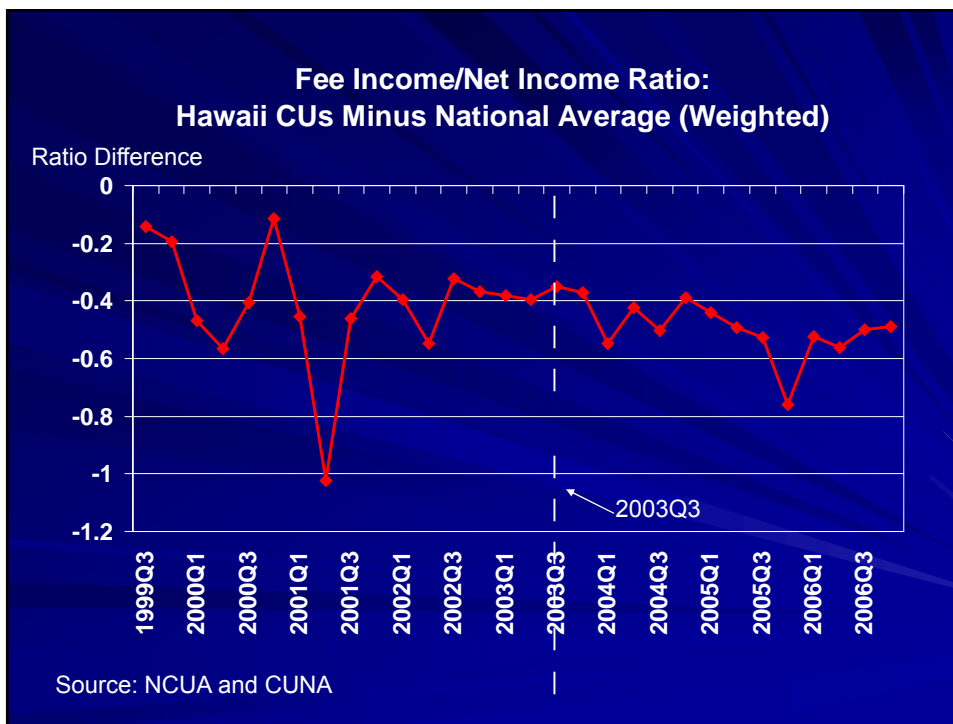
CU buying PD lenders in California (NYT 11/8/2008)

## Pre-search

■ Caskey

■ Stegman

■ CRL



## Uneven Market Conditions

Laissez faire: WI, WA, UT

Never opened: NY, NJ, most NE states

Closed/closing: GA, NC, DC, OR, PA, VA, OH (?),  
soldiers

Others regulate *ala* drug (dose, frequency, price)

**Uneven access cannot be optimal or fair**

## Problems

1. Bounced checks at regional Fed CPC
2. Complaints v. debt collectors & lenders  
"informal bankruptcy"/dunning
3. Bankruptcy (Ch. 7 & Ch. 13)

Problems cascade

Endemic to PD borrowers

Compare change (before - after) to change elsewhere

## Research

- Stegman & Ferris

past problems  $\Rightarrow$  PD credit demand

“chronic demand”

- Morgan & Strain

bans reduce future problems?

## Payday Credit Market

### Supply

check cashers who learned to lend

updated salary buying (Chessin)

### Demand

beats pawnshops (Caskey)

beats bouncing checks

# Payday Bans

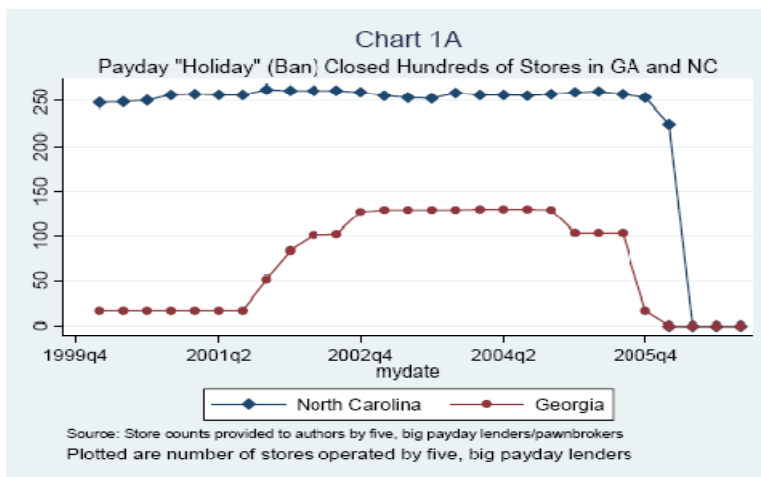
NC: December 2005

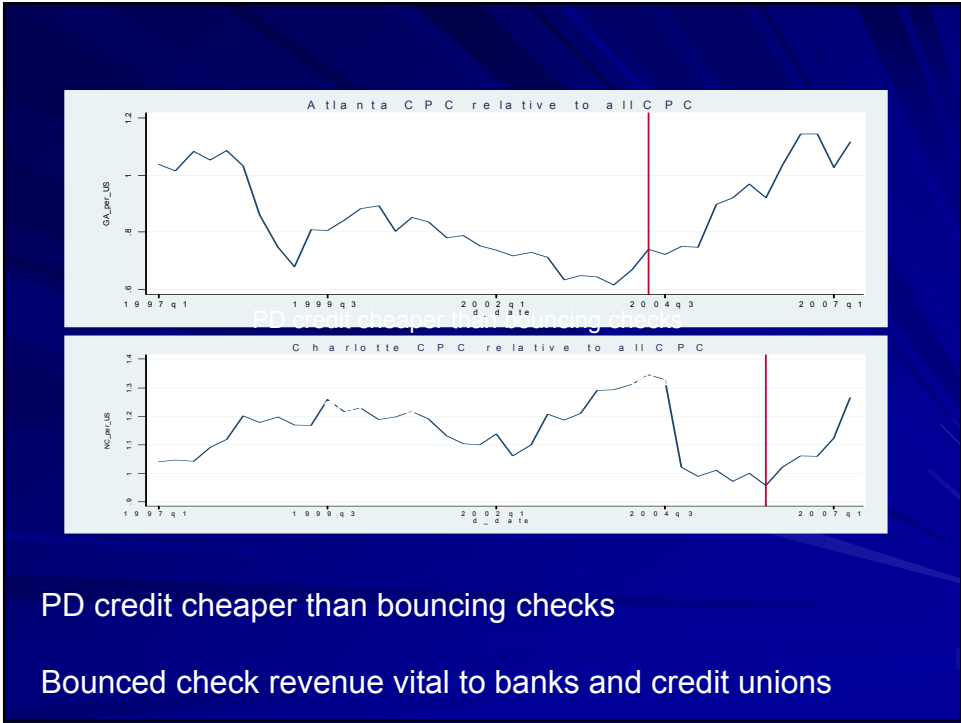
GA: May 2004

## Bans = Supply shock

NC: December 2005

GA ban: May 2004





PD credit cheaper than bouncing checks

Bounced check revenue vital to banks and credit unions

### Auxiliary findings: Mo' Credit, Mo' Problems?

Change in problems after HI doubled legal "dose" in 6/2003

Bounced checks	NA
Auto repossessions	↓
Complaints	↓
Bankruptcy	↓