PAYDAY LENDING: A VALUE-CRITICAL ANALYSIS OF THREE STATE SOLUTIONS

by

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Abstract

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Payday lending has been a topic of great debate in the US and other developed countries. While some argue that lenders prey on low income and minority populations and trap them in a cycle of debt, others maintain that payday loans fulfill an otherwise unmet need for those in unexpected financial distress. Furthermore, although a consensus has not yet been reached concerning why, there exists a population of payday loan borrowers who continue to roll over short-term loans in an effort to solve their long-term financial problems. This is of particular concern to the field of social work because as this population becomes increasingly impoverished, they will be at greater risk for ill-health, loss of housing, and loss of employment. Further, as social workers, we have a responsibility to recognize social injustices when they arise and to pursue changes to rectify them.

This thesis applies methods of social problem analysis and value-critical analysis to examine the problem of economic dependence as it intersects with payday lending practices and to analyze the policies and programs of three states with differing underlying theoretical assumptions about human behavior and the role of state regulation: Montana, Florida, and Wisconsin. Definitions, relevant human behavior theories, a review of the literature, and a historical overview of policy governing payday lending are presented as part of the initial social problem analysis. Value-critical analysis continues as the author describes policy or program elements, then critically evaluates all of the parts, individually and as a whole, to identify any shortcomings, inconsistencies in logic, or ambiguities in everyday policy or program

operations (Chambers & Bonk, 2013). The thesis concludes with a summary of conclusions from the analysis and discussion of implications for future policies targeting payday lending.

The policy analysis supports the following conclusions. The regulation analyzed in Montana lacks a coherent program design and is unlikely to meet its goal of protecting citizens from short-term, high-rate loans due its inconsistency in regulations of payday loans as compared to other high-rate loans available in the state. Florida's regulation describes an intent to decrease residents' reliance on payday loans, but instead provided avenues for the payday lending industry to flourish throughout the state and resulted in a steady increase in the number of unique payday loan borrowers and the number of loans taken per borrower year over year. The regulation in Florida also generates a significant amount of money for the state each year, which indicates an additional incentive to allow the industry's continued growth. Due to Wisconsin's lack of regulatory legislation, the solutions analyzed are two community-driven programs that were found to be strategically planned, with clear goals and measureable objectives. The Wisconsin programs are well designed, but may require more diversified funding in order to be sustainable.

Future comparative analysis of regulatory and community-driven solutions is needed. Implications for future policy include expanding the scope from payday lending to the larger fringe-banking industry, providing a mechanism for lower-income families to build savings while paying off debt, and evaluating revenue-generating tools and measureable objectives for effectiveness in achieving overarching goals.

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Chapter 1

Introduction

Payday lending has been a topic of great debate in the US and other developed countries. While some argue that lenders prey on low income and minority populations and trap them in a cycle of debt, others maintain that payday loans fulfill an otherwise unmet need for those in unexpected financial distress. Furthermore, although a consensus has not yet been reached concerning why, there exists a population of payday loan borrowers who continue to roll over short-term loans in an effort to solve their long-term financial problems. This is of particular concern to the field of social work because as this population becomes increasingly impoverished, they will be at greater risk for ill-health, loss of housing, and loss of employment. Further, as social workers, we have a responsibility to recognize social injustices when they arise to pursue changes to rectify them.

This thesis applies methods of social problem analysis and “value-critical appraisal of social policy and programs” derived from Chambers and Bonk (2013, p. 37). Because the value-critical model of analysis does not emphasize a link with theory, that aspect was taken from the Popple and Leighninger model (2015). To begin the analysis of the social problem of economic dependence as it intersects with payday lending practices, the thesis first presents definitions, relevant human behavior theories, a review of the literature, and a historical overview of policy governing payday lending. From the literature review and historical material on social policy approaches, the author identified three states with current policies that differ markedly in their underlying assumptions about human behavior and the role of state regulation: Montana, Wisconsin, and Florida. The balance of the thesis applies to each state the value-critical model as presented by Chambers and Bonk (2013), which allows the policy analyst to make judgments about the policy or program using a wide range of perspectives on six policy elements: goals and objectives, forms of benefits and services, eligibility rules, administration and service delivery, financing, and interactions among the foregoing elements. The thesis is not a comparative policy analysis due in part to the widely different policy approaches and the challenge of finding comparable data about them. Three independent analyses are presented, and limited comparative conclusions are included

within the discussion section. The thesis concludes with a summary of conclusions from the analysis and discussion of implications for future policies targeting payday lending.

Chapter 2

Problem Definition

According to Chambers and Bonk (2013), "to understand a social problem is to understand how and what another person (or group) thinks and believes about the social events being defined as a problem" (p. 9), and the first step in engaging in social problem analysis is to identify and define it. This section provides an overview of accepted definitions and an introduction to the core value assumptions in which differing public policies surrounding payday lending are rooted.

The term *fringe economy* has been used to describe a broad range of financial institutions which service those who, for a myriad of reasons, cannot or do not use traditional financial services, such as checking and savings accounts, standard personal loans, and investment portfolios. *Fringe financial services*, otherwise known as *Alternative Financial Service Providers* (Prager, 2014), may include high-interest home refinancing, high-interest credit cards, pawn shops, auto-title loans, and payday loans (Karger, 2005). This paper will focus on one particular aspect of the fringe sector: the payday lending industry.

Payday loans are designed to be paid back on the borrower's next payday, and are typically secured with a post-dated check or an authorization to deduct from the borrower's checking account. If the borrower is unable to repay the loan on the due date, he or she may renew or "rollover" the loan if the state permits, or default (Carter, 2015).

The U.S. Department of Housing and Urban Development and the Department of Treasury (2000) defined *predatory lending* as "engaging in deception or fraud, manipulating the borrower through aggressive sales tactics, or taking unfair advantage of a borrower's lack of understanding about loan terms" (p. 1). In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act defined an *abusive practice* as one which either significantly hinders a consumer's understanding of a financial product or takes "unreasonable advantage" of the vulnerabilities of a consumer; i.e. a consumer's lack of understanding of a financial product, the inability of a consumer to protect his or her own interests, or a

consumer's "reasonable reliance" on the lender to act in the consumer's interests (Dodd-Frank Wall Street Reform and Consumer Protection Act, 2014). Due to differing underlying assumptions about human behavior, public opinion is divided on the notion that payday lenders engage in predatory lending practices and, consequently, on the ideal role of state regulation.

Chapter 3

Theoretical Perspectives

The second step in social problem analysis is to identify the causal explanations that are being offered to understand the problem (Chambers & Bonk, 2013). This section describes three perspectives on the human behavior of payday loan borrowers, as well as a perspective on the nature and growth of the payday lending industry.

Perspectives on payday lending most commonly fall in two camps when attempting to explain why people continue to borrow from payday lenders when it ultimately only furthers their debt: the first blames payday lenders, and the second blames payday loan borrowers. A third perspective that appears far less frequently in the literature blames neither, instead viewing economic dependence as being directly correlated with higher ratios of debt to income. Finally, a fourth perspective from macro human behavior theory provides insights into the success and growth of the payday lending industry.

Social constructionism views human behavior as stemming from subjective experiences that are unique to a person or group (Hardcastle, 2011; Robbins, Chatterjee, & Canda, 2006). Following the social constructionist view, the first argument is that financial insecurity and *scarcity*, "having less than you feel you need" (Mullainathan & Shafir, 2013, p. 4), cause chronic stress, which impairs one's ability to make sound financial decisions (Mullainathan & Shafir, 2013; Weller & Helburn, 2010), making this population vulnerable to the predatory nature of payday lenders.

In contrast, social exchange theory explains human behavior as being motivated by rewards and benefits, and argues that people generally act in their own self-interest (Robbins, Chatterjee, & Canda, 2006). The second argument follows this perspective claiming that people make rational, informed decisions when they enter into payday loan agreements and fully understand the high costs as compared to other financial services.

Bertrand and Morse (2011) studied the effects of information disclosure interventions on payday loan borrowers, and their findings support the scarcity/stress perspective. They implemented three different disclosure interventions that either: compared payday loan APR to that of the average credit card, auto loan, or subprime mortgage; showed the APR in total dollar amounts over time, or provided a simple infographic showing the average time a typical person refinances a payday loan before paying it back. As a result of the second intervention, adding up APR in dollar amounts over time, there was an 11% decline in subsequent borrowing after the initial loan as compared to the control group (2011). The results of this study support the scarcity/stress perspective because the borrowers responded to interventions which were inspired by specific cognitive biases.

However, Carvalho, Meier, and Wang investigated the effects of poverty on decision-making through the use of surveys and found no evidence that willingness to take risks, quality of decision-making, or being prone to heuristic judgments differed from before-payday and after-payday groups. It is important to note that while the researchers found no differences in cognitive functioning, their study was limited to testing short-term variations in financial resources (2014).

Carter (2015) posited that when given the chance, payday loan borrowers will take out a pawnshop loan or a second payday loan rather than repaying the initial loan immediately, indicating that they may not fully understand the financial impact of payday loans. She suggested that disclosure statements showing the debt cycle that may occur if the loan is not repaid may assist in reducing the use of payday loans and pawnshops (2015).

In the third perspective, Mullainathan and Shafir (2010) also posited that the actions of the poor are not calculated adaptations to their circumstances nor a byproduct of impaired decision-making due to financial strain. Instead, the poor display the same attitudes and natural tendencies as those from other walks of life, but because of their poverty, the margin for error is narrower and can lead to far worse outcomes (2010). In this behavioral view*,* Mullainathan and Shafir acknowledge the role of *person in environment,* “human behavior is a function of both the person and the situation,” as well as *social constructionism*, “people act not based on how the world is, but on how they think it is” (p. 1). They also propose that “the actual way people use mental accounting – compartmentalizing wealth and spending

into distinct budget categories and viewing cash, credit and debit differently – suggests that a core economic assumption about the fungibility of money often fails" (p. 1). And they advise that "certain behaviors can be facilitated or blocked by opening or closing a channel, and seemingly minor situational changes can sometimes have large impacts" (p. 2).

Finally, the accelerated growth of the payday lending industry as a whole can be viewed clearly through the *conflict and power* perspective. Redmond (2015) suggests that payday lenders purposefully put their storefronts in neighborhoods with a $20,000-$40,000 income range, targeting individuals with jobs but low incomes, as well as those with poor credit histories. He maintains that payday lenders are now a part of "big business" that would be virtually unable to operate without funding from large banks (2015). Financial Service Centers of America, a trade and lobbying association, is predominately comprised of payday lenders (2015). Further, according to the National People's Action network and the Public Accountability Initiative, Wells Fargo, Bank of America, JPMorgan Chase, and US Bank all provide significant financial support to payday lenders (Connor & Skomarovsky, 2010).

Chapter 4

Literature Review

The third step in social problem analysis is to identify the underlying ideological perspectives and the "value biases" embedded within the description of the problem (Chambers & Bonk, 2013, p. 17). This paper will use the term *value* consistently with the value-critical model as presented by Chambers and Bonk (2013) as "simply a conception of what is preferred" and an expression of "how things 'ought' to be" (p. 17). The final step is to identify who loses and who gains from the existence of the social problem. There are several pieces of literature that focus on the losses experienced by payday loan borrowers, but it is equally important to understand who profits from the situation because it may "reveal the forces that act against its elimination" (p. 21). This section discusses the varying ideological perspectives and perceptions of gains and losses within payday lending.

Following is a review of selected literature surrounding payday lending. Research was conducted utilizing the following databases: Academic Source Complete, Business Source Complete, Google Scholar, PAIS Archive, Social Services Abstracts and Social Work Abstracts. The following search terms

were used: “payday loan,” “payday lending,” “predatory lending;” and the terms were also used in combination with “regulation”, “policy”, and “human behavior.” Searches generated over 7,000 results with several crossovers among databases. After eliminating articles which were solely focused on subprime or predatory mortgage lending, pawnshops, or auto-title lending, 42 articles were selected as encompassing widely accepted yet diverse views on payday lending.

Typical Borrowers

In 2001, Lawrence and Elliehausen conducted a national survey of customers of payday lenders belonging to the Community Financial Services Association of America (CFSA), which represented just over half of the estimated payday lending offices in the US at the time (2008, p. 304). They found that payday customers were “early life-cycle, moderate income, credit constrained consumers” who lacked viable alternatives (p. 306). The Pew Safe Small-Dollar Loans Research Project found that most payday loan borrowers were white females, 25 to 44 years of age; however, they also found disproportionate rates of payday loan borrowing among those without a four-year college degree, those who rent their homes, African Americans, those earning below $40,000 annually, parents, and those who are separated or divorced (The Pew Charitable Trusts, 2012). The Pew research project contracted with Social Science Research Solutions to conduct a nationally representative telephone survey using random-digit-dialing methodology, and with the exception of race, the results reflected demographic trends similar to those in the Elliehausen and Lawrence (2001) study. The Elliehausen and Lawrence study did not include race or ethnicity.

Research also shows that customers with higher levels of education typically possess a greater awareness of APRs and finance charges (Brandt & Shay, 1979; Durkin & Elliehausen, 1978). But though a majority of the payday loan customers surveyed by Lawrence and Elliehausen (2008) had sufficient education levels to indicate an awareness of APRs, more than half mistook the finance charge for the APR. The researchers also pointed out that customers’ “awareness of the cost of payday advances relative to returned check and late payment fees that payday advances are often used to avoid suggests that customers may weigh costs of alternatives in their decisions” (p. 315). With results that similarly indicated awareness of costs and alternatives, Agarwal, Skiba, and Tobacman (2009) analyzed a unique

dataset consisting of people who were customers of both a major payday loan lender and a large financial institution offering checking accounts, credit cards, and home and auto loans. They found that "most account holders with a major credit card issuer have substantial unused liquidity on their credit cards at the time they borrow on payday loans" (p. 416), implying that they make a conscious decision to borrow from a payday lender rather than charging to a credit card.

In a qualitative study of a small group of Hispanic payday loan borrowers with medical debt, Gray and Villegas (2012) confirmed a link between medical debt and payday lending. Overall, the participants had "confusion over health care coverage, had debt additional to medical debt, lived in households with other working adults with debt, forwent seeking health care due to cost, had multiple predatory loans, had anxiety over debt, and had little financial literacy" (p. 176). Melzer (2011) found that increased access to high-risk credit caused households' more difficulty in paying mortgage, rent, and utilities bills. His research also indicated that it increased the "likelihood of delaying needed medical care, dental care and prescription drug purchases" (p. 550).

Payday Lenders

Kirsch, Mayer, and Silber (2014) suggest that spiraling financial insecurity among borrowers can be framed as either an issue arising from "the lenders' material interference with a borrower's ability to understand the product and how it functions" or as an issue inherent to the product design of the payday loan, itself (p. 11). In evaluating the nature of payday lending and the effects it has had on borrowers, it is imperative that both perspectives be considered.

Payday Lenders are not "Overly" Profitable

Literature critical of payday lenders often suggests that they are "overly" profitable (Faux, 2014; National People's Action, 2012), however Huckstep (2007) argues that their operating costs, (consisting mostly of wages, occupancy costs, and loan losses) are high. In order to provide convenience to their customers, they keep longer business hours and a much larger quantity of store fronts than traditional lenders. Huckstep also contends that though there is a large body of research regarding payday lending, "most studies can be associated with either a consumer advocate or industry position" (2007, p. 230), leading to confusion and contradictory information. In order to advance efforts for fair regulation, there is a

need for more unbiased studies of borrowers and payday lenders (2007). Further, Chambers and Bonk (2013) caution against vilifying those who profit from a social problem:

> Showing that a professional makes a profit isn't enough to establish that professionals themselves contribute to continuing existence of a social problem. Profit by professionals is not a serious issue unless it can also be shown that personal profit rather than benefits to clients/patients or consumers has first priority. (p. 21)

Payday Lenders are "Big Business"

Four large publicly-traded companies accounted for approximately $2 billion in nationwide payday loan revenue in 2006: Cash America, Advance America, EZCorp, and First Cash Financial Services. Ace Cash Express, another major competitor in the market, became a privately held company in the same year. The remaining local and regional firms tend to be "family owned and operated with limited capital resources" (Lawrence & Elliehausen, 2008, p. 300). In Texas, 92% of approximately 2,000 payday lending storefronts are owned and operated by just seven large firms: Ace Cash Express, Advance America, Cash America, The Cash Store, First Cash/Cash & Go, Check 'N Go, and EZMoney (Baylor, 2008). Five of those firms are headquartered in Texas (Irving, Arlington, Fort Worth, and Austin,) while Advance America and Check 'N Go are headquartered in South Carolina and Ohio respectively.

Location Strategies of Payday Lenders

Payday loan storefronts are more densely located in areas which are predominately African American and with high poverty rates (Barth, Hilliard, & Jahera Jr., 2015; Graves, 2003; Prager, 2014; Smith, Wackes, & Smith, 2013), but there is a lesser density of stores in the poorest counties as well as in rural areas with high concentrations of Hispanics or high ratios of bank branches to the population (Prager, 2014). Prager also found credit scores to be a strong indicator of prevalence of payday lenders, check cashers, and pawn shops. There is a greater density of payday lenders in areas where most of the population has no credit score or a credit score that would place them in the subprime category (2014). State regulations have a significant impact on the prevalence of payday lenders as well, with strict rate limits significantly lowering the per-capita density of stores (2014). At the same time, traditional banks have shown themselves to be more "in favor of neighborhoods that are wealthier and whiter than

countywide means," particularly in counties with populations over 250,000, and they also appear to "avoid poor and minority neighborhoods at a rate greater than payday lenders target such neighborhoods" (Graves, 2003, pp. 311-312).

Damar (2009) found that payday lenders have started to serve markets that are also being served by banks and found no evidence of payday lenders only entering "underbanked" markets. However, he also confirmed that "minority populations continue to create new business opportunities for payday lenders" (p. 190). Importantly, Damar notes that existing payday lenders have some cost advantages over new firms which could potentially lead to lower levels of competition in certain markets. He states that more research would be needed to determine whether higher fees could be caused by weak competition rather than high operating costs (2009).

Perspectives from Other Countries

Similarly to the US, payday borrowers in the UK have experienced high interest rates and fees that were frequently exacerbated by excessive rollovers of payday loans. Payday loans are also commonly used by low-income borrowers or those with existing debt problems who typically took out multiple payday loans as well as other forms of expensive credit (Fejős, 2015). The New Economics Foundation (2009) has argued that the poorest people shouldn't have to rely on credit in order to make ends meet, and that creditors should not be viewed as an "important social service" (p. 28). Rather than banning payday lending, the U.K. designed regulation that reduces the risk that loans will be issued to those who cannot afford the high fees, limited loan extensions to two rollovers, and instituted cost caps for initial charges, total charges, and default charges. Payday lenders are also "now subject to interventionist, rigorous and consumer-centric supervision, which seems to stand a good chance of securing compliance with the new rules" (Fejős, 2015, pp. 199-200). Fejős further argues that in order for the new regulations to be effective, it would be essential for credit reference agencies to hold up-to-date and correct information at all times, and that steps must be taken to enhance price competition within the boundaries established by the new regulatory cap (2015).

In Australia, the regulatory responses to payday lending have included more stringent licensing, greater contract transparency around fees and charges, and mandatory conflict resolution schemes.

Shevellar and Marston (2011) studied payday loan borrowers in Queensland and confirmed that, similarly to the US, the typical age profile to be late twenties or early thirties (Lawrence & Elliehausen, 2008). The main source of income in their sample of borrowers was Centrelink income support payments, with very few people with part-time or full-time employment. Several borrowers described their financial situation with words like “surviving” and “struggling” and routinely accessed emergency relief for food vouchers (Shevellar & Marston, 2011, p. 206). As in the US, some payday loans were used to meet basic necessities rather than unexpected expenses, and the survey data highlighted the extent to which borrowers face multiple barriers to breaking out of the cycle of debt (2011). The key factor in deciding to take out a payday loan was a simple application process, while price of the loan was considered second. There was also less stigma associated with payday loans as opposed to loan options through Centrelink (2011). The researchers concluded that policies seeking to improve fee transparency or financial literacy would not be effective at reducing payday lending because borrowers choose to accept loans from payday lenders “on the basis of economic and social constraints, in a context where there are few alternatives. In other words, people on low incomes are likely to borrow from fringe lenders regardless of the high costs of this form of credit” (p. 219). Marston and Shevellar (2014) later argue that structural social inequality is more to blame for the popularity of the payday lending industry than consumer culture and instant gratification and point out that Australian social security payments have fallen behind the wage increases and are well below standard poverty measures.

The Australian Treasury proposed the creation of “one-stop shop financial services hubs” to:

> Address financial exclusion by providing a retail service delivery model which could compete with the service offered by high-cost small amount lenders . . . through offering financial counselling, access to microfinance products, Emergency Relief, money management education and referrals to the Home Energy Saver Scheme . . . Additional products could also be developed to directly compete with small amount loans currently provided by payday and fringe lenders. (Australian Government, the Treasury, 2012, p. 27)

Marston and Shevellar (2014) posit that research would be needed to determine if the hubs would directly compete with payday lenders because the timeframes and purpose of the products may not meet

the needs of existing payday lending customers. Though microfinance organizations offer products for one-off expenses, they may take days to process a claim. And payday lending borrowers are more likely to need the loans immediately for basic necessities rather than irregular expenses (Banks, Marston, Karger, & Russell, 2012). Therefore, Marston and Shevellar argue that microfinancing organizations “operate in a complementary market space in the mixed economy of credit, compared with the payday lending industry” (2014, p. 167). They further assert that the policy debate of regulation versus non-regulation oversimplifies a principally social issue that stems from an inadequate and patchy welfare state (2014).

Opposing Findings

Pro-Regulation

According to the Center for Responsible Lending, payday lending targets low-income people, “snaring them in financial traps that can seem impossible to escape” (Phillips-Fein, 2008, pp. 1-2). And when regulations forced payday lenders out of North Carolina, borrowers “reported that the absence of payday lending had a positive household effect, while they preferred other options to bridge financial shortfalls” (Baylor, 2008, p. 2), and the new rate cap “had either no effect on their household’s financial security or improved financial security” (Morgan-Cross & Klawitter, 2011, pp. 5-6).

Fraser Sutherland, Policy Officer for Citizens Advice Scotland argues that the inequitable distribution of wealth and corresponding rise in poverty calls for a “new form of healthy finance” that is both easy to access and affordable for the individual (Hamblin-Boone & Sutherland, 2014, p. 102). He further states that this “new model of credit” should not be run for profit, but in an effort to achieve social fairness (p. 102).

Weiler’s (2015) research showed a strong relationship between the state-level regulations put forth in Washington, Virginia, and Colorado and sharp decreases in payday loan usage (2015). By examining data from eight states over a six year period, he was able to estimate that banning payday lending led to a 10.5% decrease in the probability of experiencing economic hardship (2015).

Montezemolo (2013) argues that certain payday loan features “create problems for borrowers”, and that a combination of all of them create a “high likelihood of repeat borrowing and a long-term cycle

of debt” (p. 2). The features identified were: lack of financial underwriting, high fees, a short payback period, a balloon repayment feature, and post-dated checks or authorization of debit on a deposit account as collateral (2013). Montezemolo also examined state reforms across the US, and highlighted Washington State as an example of having good regulatory policies. From 2009 to 2011, Washington saw a sharp decrease in annual loans per borrower, total days of indebtedness, statewide loan volume, and overall, borrowers paid “75% less in in annual payday loan fees” (p. 14). Montezemolo further encourages Congress to expand the 36% APR limit beyond the military to all borrowers, to require financial underwriting that would incorporate ability to repay and affordability, to limit the time in which borrowers may be in debt-status to 90 days per year, and to prohibit the use of post-dated checks or authorized debits of deposit accounts as collateral for a loan (2013).

Anti-Regulation

Lawrence and Elliehausen (2008) argue that only a “small percentage of high frequency users rely on payday loans for an extended period,” and that severely restricting the payday lending industry may be harmful for the majority of consumers who use the loans as designed in moments of great need (p. 315). They further recommend that “public policy should be concerned with eliminating barriers to entry and promoting competition rather than limiting prices or otherwise restricting availability” (p. 315). Empirical analysis of state regulations indicated that low-income counties had a limited number of alternatives to payday lenders, and that consumers in counties without access to payday lending had lower credit scores than those in counties with access (Edmiston, 2011).

Morgan-Cross and Klawitter (2011) reason that if payday loans are paid back on time without rollovers, high interest rates might be justified; and access to those loans could “improve an individual’s ability to cope with financial hardship, improving financial security overall” (p. 2). Additionally, they cite the aftereffects of regulation passed in Georgia and North Carolina which effectively banned payday lending, but corresponded with a rise in bounced checks, bankruptcy filings, and consumer complaints. After Oregon passed similar legislation, consumers in the state reported deteriorating financial security. The researchers recommend incentivized savings programs, financial education, and budgeting as the best tools for improving financial stability in households who currently rely on payday loans. In terms of

regulation, they advocate for regulated fee disclosures, longer repayment terms, installment plans, verification of repayment ability, and savings components (2011).

Russell Hamblin-Boone (2014), Chief Executive of the Consumer Finance Association in the United Kingdom, states consumers prefer to view interest on payday loans as flat-rate fees versus annual percentage rates, arguing that “in reality, no one pays thousands of per cent interest on a short-term loan” because they never realize an annual period before repayment (Hamblin-Boone & Sutherland, p. 97). He also posits that capping interest rates would only further limit access to credit for high-risk consumers by driving lenders out of business. Stango (2012a) points out that the APR is “only a good metric of the loan markup when financing costs are the most important component of costs to the lender” (p. 28). So it may be misguided to use the APR in the debate over whether payday lenders charge fees that are excessive in relation to their profit margin. Additionally, lenders maintain that payday loans are not designed to be year-long credit options, making the use of APR to evaluate total loan cost problematic.

Alternative Solutions

Short-term, Small Loans from Traditional Institutions

Finance companies previously offered small installment loans, but due to high production cost, have largely withdrawn from the market (Lawrence & Elliehausen, 2008). Very few credit unions offer payday loans, regardless of minimal legal obstacles, and it has been argued that banks and credit unions do not enter the payday loan market “because they earn greater marginal returns on checking overdrafts. Overdraft revenue is now the single greatest component of non-interest income for banks” (Stango, 2012a, p. 29). It should also be noted that credit union payday loans frequently have total borrowing costs that are comparable to standard payday loans (2012a). Furthermore, even when traditional payday lenders are more costly, consumers prefer them over similar products from Credit Unions because the Credit Union product is unattractive to the borrower. Less flexible hours and a negative effect on the credit score if the loan is defaulted are two of the main unappealing aspects. They also sometimes require direct deposit, a savings deposit, a long application time, or a 60-day membership in order to obtain a loan (Stango, 2012a). If regulation limits the availability of payday loans to consumers, some may turn to credit union short-term loan programs, but research suggests that most will utilize

pawnshops, checking account overdraft, or late bill payment to cope with their financial instability (Morgan-Cross & Klawitter, 2011).

Mainstream Inclusion

In 2005, San Francisco created a program called "Bank on San Francisco" which challenged mainstream banks in the area to provide services to 20%, or 10,000, of the city's unbanked residents (Phillips & Stuhldreher, 2011). Over a dozen banks and credit unions participated and advocated for looser banking policies in order to serve the lower income customers, and the program was marketed in low income neighborhoods through billboards, bus advertisements, radio and television spots, and brochures in local community gathering places (Caplan, 2014). However according to C. Reid of the Federal Reserve Bank of San Francisco, while the Bank-On program has been intensely replicated, they have not established a reliable way to track data which weakens their ability to show evidence of success and outcomes (Caplan, 2014).

Community-Based Financial Services – Community Development Financial Institutions (CDFI)

San Francisco also established the Low Income Investment Fund (LIIF), one of the first CDFIs in the country to be certified by the U.S. Treasury's CDFI Fund. The nonprofit organization issues over $100 million in loans and grants to build infrastructure and finance projects in the areas of child care, education, housing, and policy (Caplan, 2014). But like "Bank-On," LIIF also lacks empirically validated outcomes. And though CDFIs in general are intended to be a locally based solution (Green & Haines, 2008), they are sometimes disconnected from the local community (Caplan, 2014).

Community-Based Financial Services – "Lending Circles"

The Mission Asset Fund (MAF) provides a 10-member peer lending circle based on traditional lending circles "known as 'tandas' within the Mexican immigrant community" (Mission Asset Fund, 2014a, para. 4). Members contribute $50-$200 per month to a common pool, and the $1,000 sum is loaned to one member each month without fees or interest (Mission Asset Fund, 2014c). MAF has reportedly saved its members $1.1 million in fees and interest while providing $4 million in peer loans, with a 99.42% loan repayment rate (Mission Asset Fund, 2014b). However, while lending circles in other countries have been

highly praised, United States based organizations tend to perform poorly due to high overhead and lack of demand (Bhatt, Painter, & Tang, 1999; Conlin, 1999).

Community Advocacy

ACORN, a nationwide grassroots nonprofit, began a successful campaign against predatory mortgage financing in 1999, sharing stories of hundreds of people who had suffered due to predatory lending policies. In addition to bringing legal action against Household Finance, a prominent subprime lender, ACORN also lobbied Congress to ensure a $600 million trust fund for affordable housing in areas that had been hit the hardest by foreclosures. Unfortunately, ACORN became embroiled in a scandal the very next year and by 2010 had filed for bankruptcy" (Caplan, 2014, pp. 153-154). Large community organizers like ACORN "risk political vulnerability when the leadership becomes diffuse" (Caplan, 2014, p. 154).

Chapter 5

Historical Legislative Influences

To fully understand the scope of payday lending in the US, it is important to review the federal policies that contributed to the industry's growth. Interestingly, two significant pieces of legislation which ultimately allowed opportunity for exponential growth in fringe banking were initially intended to benefit middle class and low income populations.

As part of their response to the Great Depression, Congress passed the Banking Act of 1933 (commonly called "Glass-Steagall") which, among other provisions, mandated that interest could not be paid on checking accounts, and allowed the Federal Reserve to establish ceilings on the interests that could be paid on other kinds of deposits (Maues, 2013). By 1980, interest rates had risen to double digit levels due to inflation, but the rates institutions were allowed to pay on their deposits were still limited by Glass-Steagall. As a result, consumers opted to turn to unregulated options such as money market mutual funds rather than investing their savings in banks, options low-income households could not easily access. Congress then passed the Depository Institutions Deregulation and Monetary Control Act of 1980, which phased out the interest rate restrictions over a six-year period (Robinson, 2013). In addition, the act also effectively exempted any "depository institution", a broad term which included federally

chartered savings banks and installment plan sellers, from existing state usury laws (Depository Institutions Deregulation and Monetary Control Act of 1980, 2014).

The deregulation of banks throughout the 1980s and 1990s resulted in “large-scale banking consolidations, which in turn created a withdrawal of mainstream banking services from low-income and working-class communities” (Caplan, 2014, p. 151). At the same time, the exemption of depository institutions from existing state usury laws allowed them the opportunity to issue high-risk loans with APRs that far exceeded previous state limits.

Short-term lending existed in one form or another in the US for decades, but “the modern version of payday lending initially appeared in the late 1980s and eventually morphed into a sizable industry during the 1990s” (Baylor, 2008, p. 1). Because large banks were no longer as accessible, low-income customers turned to payday lenders, which had grown from an estimated 200 loan offices to nearly 24,000 by the mid-2000s (Caskey, 2001; Bianchi, 2012).

Chapter 6

Federal Regulation Affecting the Payday Lending Industry

Federal regulation has framed how the public views the financial service industry by establishing rules for fair business practices. As a result of these regulations, US citizens expect financial service providers to protect sensitive information, be transparent regarding fee requirements and credit reporting, offer services to all consumers regardless of race, disability, ethnicity or sexual orientation, and to not engage in abusive or deceptive lending practices. All financial service providers, including payday lenders, are subject to the following federal regulatory legislation:

- Gramm-Leach-Bliley Act: Financial institutions are required to disclose their information sharing practices to their customers, and to protect any sensitive information that they collect (Federal Trade Commission, n.d.).
- Truth in Lending Act (TILA): Lenders are required to disclose the price of the loan, including the finance charge and the annual percentage rate (Federal Trade Commission, 2008). The intent of TILA is to provide consumers with adequate information to enable them to comparison shop for loans (Office of the Comptroller of the Currency, n.d.).

- Equal Credit Opportunity Act: Lenders may not decide whether to issue credit based on race, color, religion, national origin, sex, marital status, age, or due to the receiving of public assistance (Federal Trade Commission, 2013).
- Fair Credit Reporting Act (FCRA): Consumer reporting agencies are required to follow protective standards, and the number of people allowed to view personal and identifiable information is limited. Under FCRA, consumers have a right to access their credit report and credit score, to accurate reporting, to have inaccurate or outdated data removed, to limit unsolicited credit offers, to know when the credit report is used against them, and to seek damages (Krulick, 2015).
- Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA): Passed in conjunction with the FCRA. Among other provisions, DFA created the Consumer Financial Protection Bureau (CFPB), which was tasked with protecting consumers from corrupt business practices by lenders (Koba, 2012; Prager, 2014).
- Fair Debt Collection Practices Act: Lenders and/or debt collectors are prohibited from using abusive, unfair, or deceptive practices to collect from borrowers (Federal Trade Commission, 2015).
- Talent-Nelson Amendment to the 2007 Defense Authorization Bill: Military bases and families had been targeted by the payday lending industry for over a decade (Graves, 2003). The Talent-Nelson amendment to The Military Lending Act provided for a 36% rate cap to protect active duty military personnel from high-cost loans (Baylor, 2008; Morgan-Cross & Klawitter, 2011).

With the exception of the Talent-Nelson amendment, federal regulation of the financial services industry does not provide national standards for fee structure or interest rates. As evidenced by the recent indictments of payday loan store owners in Pennsylvania and Missouri, federal regulation has been successful in monitoring and prosecuting those who violate usury laws (McGuire, Rosen, & Campbell, 2016; United States Attorney's Office, 2016), but the lack of established national standards for fees and interest rates has left any state attempts to regulate vulnerable to evasion.

Chapter 7

State Regulation of Payday Lenders

Prior to the creation of the Consumer Financial Protection Bureau (CFPB), storefront payday lenders were regulated at the state level. Though fees and interest rates are still left to the states; product features, lending practices, and marketing are now subject to regulations by the CFPB (Kirsch, Mayer, & Silber, 2014). Following is a review of state regulations of the payday loan industry, their effects on the industry and borrowers, and industry responses to state regulation.

Oregon and Montana cap interest rates on payday loans at 36%, while Iowa, Minnesota, North Dakota, and Washington cap interest rates between 390%–520% on a $100 loan. The remaining Northwest Area Foundation states, Idaho and South Dakota, do not cap interest rates or fees (Morgan-Cross & Klawitter, 2011). There is shown to be a significant decrease in supply of payday loans when rates are capped at 36% or less, and household financial security does not necessarily improve under those conditions (2011). One contributor to this may be that there are very few attractive alternatives to payday lending in the area, and borrowers need to use overdrafts, pawnshop loans, and late bill payment when payday loans are not available (2011).

In Texas, payday lenders historically partnered with out-of-state banks in order to utilize higher lending rates under the “rent-a-bank” business model. But in 2005, the FDIC banned the “rent-a-bank” model, and all Texas payday lenders registered as Credit Service Organizations, allowing them to operate with no maximum loan amount under the Texas Credit Services Organization Act (Baylor, 2008, pp. 1-3). Several Texas cities have enacted municipal ordinances regulating payday lenders. The city of Richardson was the first to adopt a municipal ordinance in 2008 that applied to payday lenders, check cashers, and car-title lenders (Baylor, 2008).

Tennessee was one of 23 states that legalized payday lending during the 1990s and grew from a few storefronts to nearly 850 locations statewide by the end of the decade. This rapid growth was due in large part to Advance America and Check Into Cash, which as of 2014, had nearly 3,700 locations combined (Kasper, 2014). Advance America alone had revenues close to $650 million in 2013 (Chattanooga Times Free Press, 2010). While the legalization of payday lending in Tennessee capped

prices and added mechanisms for regulation and consumer protection, it allowed high interest charges and returned check fees, and the state has thus far displayed weak enforcement of the existing regulations (Kasper, 2014).

In an effort to regulate the payday lending industry, South Carolina passed the following measures:

- Mandated disclosure agreements to include APRs
- Fees capped at 15% of the loan amount
- Total dollar amounts of loans limited to $550
- Created a database to ensure that no borrower had more than one outstanding loan at a time
- Required lenders to offer extended payment plans to borrowers (borrowers are eligible once every 12 months)
- Prohibited lenders from charging “returned check fees” for borrower’s checks that do not clear.

They also closed a loophole that was being exploited by lenders by amending the definition of supervised loans to include credit arrangements of at least 120 days and prohibiting post-dated checks from securing supervised loans (Williams, 2011). Williams argues that more could be done in South Carolina, such as establishing an agency to oversee rules and regulations of the state’s financial institutions to provide quicker authoritative action when uncertainty about statutory definitions or unforeseen issues arise, or passing an act that would uniformly regulate all short-term consumer loans to eliminate the grey area that currently exists in the fringe banking industry (2011).

State attempts to regulate fees and interest rates of payday loans have typically resulted in either eliminating payday loan stores in their area or in allowing tremendous growth in the industry. However, none of the above-mentioned state-level regulations have succeeded in lessening the reliance of borrowers on payday loans or other similarly risky financial products (Kasper, 2014; Morgan-Cross & Klawitter, 2011; Williams, 2011).

Chapter 8

Policy/Program Analysis Model

Three theories were proposed in Chapter 3 to explain why borrowers utilize risky, high-cost loans to meet their financial needs. In the remaining sections, they will be referred to as: the *scarcity/stress* perspective, the *limited alternatives* perspective, and the *cost disadvantage* perspective. Solutions based on those perspectives have been proposed, and three states have been identified as exemplifying one model each: Montana, Wisconsin, and Florida. Finally, policy analysis will be completed for each state to examine the adequacy, equity, and efficiency of their solutions.

Value-Critical Model of Analysis

The model chosen for all three states is the value-critical approach as presented by Chambers and Bonk (2013), which allows the policy analyst to make judgments about the worth of the policy or program using a wide range of perspectives on six policy elements: goals and objectives, forms of benefits and services, eligibility rules, administration and service delivery, financing, and interactions among the foregoing elements. Description is the important first component of this model, followed by "critically evaluating all of the parts and how they fit together as a whole using strong, value-based criteria by which to make judgements of their goodness, fitness, and appropriateness… It seeks to uncover shortcomings, inconsistencies in logic, and ambiguities in the everyday program operations" (Chambers & Bonk, 2013, p. 30)

There are several possible criteria by which each of the aforementioned policy elements may be evaluated, but overall the policy or program being analyzed must satisfy the core criteria of adequacy, equity, and efficiency in order to be judged as a good policy with likelihood for success in meeting the needs of its targeted population (Chambers & Bonk, 2013). Adequacy is met when the policy or program meets "most of the needs of most of the intended recipients" (p. 2). Equity is achieved when the policy or program treats "most of the recipients of the program in the same way and most people benefit to the same extent" (p. 2). Efficiency is accomplished when the policy or program meets the "criteria of adequacy and equity within the means of society" (p. 2) and focuses on to what extent policies or programs can be delivered "with the least cost consistent with quality" (p. 4).

Criteria for Analyzing Policy/Program Elements

In value-critical analysis, policy or program elements "must fit the social problem viewpoint to which the program is intended to be a solution" (Chambers & Bonk, 2013, p. 55). Goals and objectives are evaluated in terms of clarity and measurability. Types of benefits and services offered by the policy or program are evaluated for potential stigmatization, target efficiency, substitutability, and cost-effectiveness. Eligibility rules are also evaluated for potential stigmatization, as well as over- or under-utilization, and work incentives or disincentives. Chambers and Bonk (2013) use the term *program theory* to describe the connections between causal explanations of a social problem and proposed solutions. The program theory is utilized to evaluate whether the policy or program has integrated and continuous delivery of benefits and services, and it is also used to evaluate for accessibility and accountability. Financing is evaluated for potential for theft or corruption, financial risk, and *perverse incentives*, which are identified as "funding sources that inadvertently increase the problem they are trying to address" (2013, p. 147). Chambers and Bonk (2013) provide additional criteria for each program or policy element that are only relevant for certain types of programs and further note that not all of the criteria they list will be applicable to all types of policies or programs.

Once the program or policy elements have been evaluated individually, they are examined for possible interactions with the other elements or with outside policies or programs. Examples of such interactions include *coentitlement* when one benefit entitles a beneficiary to another benefit, *disentitlement* when one benefit makes a beneficiary ineligible for another benefit, *contrary effects* when one program or policy feature nullifies the effects of another feature, *government-level interaction* when a benefit at one level of government effects a benefit at another level of government (e.g., federal and state levels), or duplication of services (Chambers & Bonk, 2013).

Determination of State Solutions

The value-critical model was chosen due to its flexibility. Depending on which perspective is utilized, the state-level solution may be in the form of legislative policy or community-driven programs. It is important to note that while a community-driven program may be available to citizens throughout the entire state, it is possible that it is most often utilized by citizens living in the same region. Conversely, a

state policy would be employable by all residents of the state. For this reason, when analyzing the state solution that relies on community programs, two programs in different areas of the state are examined in order to adequately represent a majority of the state population.

Scarcity/Stress Perspective - Montana

The scarcity/stress perspective assumes that a vulnerable population needs protection from predatory lending practices, and that payday lenders take advantage of people and keep them in a cycle of debt. Proposed solutions based on this perspective include: regulating payday lenders by aggressively capping interest rates, fees, and rollover limits and mandating clear and concise loan disclosures. Analysis of policy based on this perspective of human behavior focuses on Montana. Utilizing a dataset compiled by Weiler (2015), states with no payday loan restrictions in 1998 and an APR restriction of 100% or below in 2011 were identified (p. 26, Table 1). Montana was the only state in this group that maintained APR restriction through 2015; the others have either prohibited payday loans entirely or removed all payday loan regulations (National Conference of State Legislatures).

Limited Alternatives Perspective - Wisconsin

The limited alternatives perspective assumes that individuals understand the risks and high costs of payday loans before accepting them; therefore, they use payday loans due to lack of viable alternatives. A proposed solution based on this perspective is to create alternative financial services either through existing traditional lenders, through use of community-based organizations, or both. Analysis of policy based on this perspective of human behavior focuses on Wisconsin. In order to isolate the effectiveness of alternative financial services from regulatory factors that could impact payday loan usage, Weiler's (2015) dataset was used to identify states with minimal or no payday lending regulations between 1998 and 2011 (p. 26, Table 1). Eliminating states that enacted regulations after the dataset was compiled yielded only two: Maine and Wisconsin. Maine imposed a rate cap in 2011 while Wisconsin imposed minor fee restrictions for lenders. Minor fee restrictions are not as limiting to the payday loan industry because they do not cap total fees, but rather limit the occurrences of late or insufficient fund fee charges per consumer. Wisconsin was chosen because it had fewer regulations limiting the payday loan industry. Two very different community-based financial services were identified for the analysis: Ways to

Work in Milwaukee (EST. 1984), and Wisconsin Native Loan Fund in Lac du Flambeau (EST. 2006). Ways to Work was chosen because it is a national program with 44 independent regional offices operating throughout the US, including Wisconsin, and Wisconsin Native Loan Fund was chosen for its recognized success in serving the Native American population of Wisconsin.

Cost-Disadvantage Perspective - Florida

The cost disadvantage perspective assumes that a majority of people misunderstand or misuse various currencies and credit, but when an impoverished individual makes a poor financial decision, the margin for error is narrow and the cost in relation to what the individual can afford is too high. Proposed solutions based on this perspective include: regulating to limit numbers of loan rollovers and the maximum loans an individual can accept in a year, instituting grace periods in conjunction with financial management counseling programs, and offering opportunities to build savings. Analysis of policy based on this perspective of human behavior focuses on Florida, which is the only state to simultaneously regulate lenders through maximum loan amounts, fees, and rollovers while also mandating a 60-day grace period for consumer credit counseling if the borrower is unable to pay back the loan in full (Florida Office of Financial Regulation, n.d.).

According to Chambers and Bonk (2013), "social policies and programs should be judged against the needs and causal analysis implied in the conclusions of the study of the social problem" (2013, p. 22). The following value-critical analyses uses specific criteria described earlier in this chapter to separately assess the solutions put forth in Montana, Wisconsin, and Florida and judge the "goodness" (p. 29) and fit of their policies or programs. Each chapter concludes with a summary specifying whether the policy or program meets the core criteria of adequacy, equity, and efficiency.

Chapter 9

Value-Critical Analysis of Montana Payday Lending Regulation

The Montana Deferred Deposit Loan Act (Mont. Code Ann. § 31-1-702) was originally enacted in as HB 526 1999, and was sponsored by Caucasian Democrat, Jeff Mangan. Jeff Mangan has been President and CEO of Mountain Peaks, Inc., which provides a youth re-entry mentoring program, drug screening, and youth counseling, since 1998 (Mangan, J. [jmangan]; Mountain Peaks, Inc., 2005). The

Montana Deferred Deposit Loan Act was amended in 2010 with the passing of Initiative No. 164 (I-164) to cap the total amount of APR and fees to 36% of the loan amount. I-164 was the result of a grassroots campaign and was approved by 71.76% of voters (Cap the Rate, 2010; Montana Secretary of State, n.d.).

The following review of demographics and political climate in Montana will provide context for the policy solution to be analyzed. Montana has a population of 1,032,949, which has increased by 4.4% over the last five years (United States Census Bureau, 2015). A little under half are female, and 16.7% are over the age of 65. Montana has little racial diversity, with white, non-Hispanic persons accounting for 86.7% of the population while 6.6% are American Indian or Alaskan Native and 3.5% are Hispanic or Latino. 4.2% of the population speak a language other than English at home and 2% are foreign born. Veterans account for 8.9% of the population. Median selected monthly owner costs with a mortgage are $1,290 and median gross rent is $696. Median annual household income is $46,766 and 15.4% of households are living below the official poverty level (2015). See Appendix B for 2015 US poverty thresholds.

The Montana Senate and House of Representatives have been consistently led by the Republican party since 2009 and 2011, respectively, and have had mostly conservative leadership since the early 1980s (Montana Legislature, 2015b; Montana Legislature, 2015a). The percentage of female legislators hovered from 23% to 26% from 2003 to 2011, but rose to 31.3% of the legislature in 2015 (Montana Legislature, 2015c). The Office of the Governor has been held by Democrats since Brian Schweitzer was elected in 2004 (2016b). Steve Bullock, his successor, was elected in 2012 (2016a). Schweitzer was known for his extensive use of the veto, having issued 130 vetoes in the 2011 session alone (Johnson, 2011b), and was quoted by the *Helena Independent Record* as referring to several bills that same year as “frivolous, unconstitutional and just ba-a-a-d ideas” (Johnson, 2011a, para. 7). It is therefore noteworthy that the policy to limit interest rates on payday lending in Montana was not initiated by the legislature but was driven instead by a grassroots campaign by citizens of Montana.

Program Goals and Objectives

The purpose of the Montana Deferred Deposit Loan Act is “to protect consumers who enter into short-term, high-rate loans with lenders from abuses that occur in the credit marketplace when the

lenders are unregulated" (Mont. Code Ann. § 31-1-702). A *deferred deposit loan* is defined as one in which a check for the loan amount and fees is provided to the lender upfront, but the lender agrees not to cash or deposit the check until an agreed upon date in the future; or one in which written authorization is provided to a lender for electronic deduction of the loan amount and fees on an agreed upon future date (Mont. Code Ann. § 31-1-703). The Montana Loan Interest Rate Limit Initiative, an initiated state statute titled Initiative No. 164 (I-164) on the November 2, 2010 ballot, was approved by 71.76% of voters to cap the APR and fees on deferred deposit loans at 36%. The key findings stated in I-164 suggest that higher rates lead to repeat borrowing (Montana Secretary of State, n.d.). Though objectives are not specifically stated in the state code or in the initiated state statute, the key findings indicate that the intended objective of I-164 is a reduction in incidence of repeat borrowing.

The terms used in the purpose of the Montana Deferred Deposit Loan Act fit closely with the scarcity/stress perspective, and the objective is consistent with one of the causal explanations for repeat borrowing argued by Montezemolo (2013), which included a combination of high fees, lack of financial underwriting, a short payback period, a balloon repayment feature, and post-dated checks or authorization of debit on a deposit account as collateral.

Overall, the goal statement lacks clarity. While it clearly defines the target population, it does not define the term *abuse.* It also indicates a condition of lenders being unregulated, but does not specify to what extent they are unregulated. Since all lenders are subject to certain federal regulations, it could be argued that the goal statement does not describe an accurate setting in which abuses may occur. No objective or performance standards were specifically stated within the program; however, the intended objective to reduce incidence of repeat borrowing can be measured.

Eligibility Rules

The benefit provided by the Montana Deferred Deposit Loan Act is protective regulation for everyone who borrows or might borrow in the future from a deferred deposit lender.

Administration and Service Delivery

The Montana Deferred Deposit Loan program theory is drawn from the scarcity/stress perspective, derived from social constructionism, and assumes that financial insecurity and scarcity cause

chronic stress, which impairs one's ability to make sound financial decisions. Providing additional program theory components, the creators of I-164 cite higher interest rates as a causal explanation of repeat borrowing, and Montana legislators propose that lack of regulation leads to abusive lending practices in the credit marketplace. As seen in Table 9.1, the *program specification*, or program activity, to address the needs presented by the scarcity/stress perspective is to protect citizens from borrowing more than they can afford by capping the total deferred deposit loan amount at $300. The program specification to address high interest rates as a leading factor in repeat borrowing is to regulate lenders so that they may not charge fees that exceed 36% APR. To combat abusive lending practices that arise in an unregulated environment, the program specifies consumer protections so that borrowers may rescind a deferred deposit loan without penalty if the full amount is returned to the lender within one business day, loan agreements are not permitted to contain language that would be a substantial derogation of consumer rights, borrowers' bank account and other personally identifiable information are kept confidential, loan disclosures are consistent among payday lenders, loan documents are provided to borrowers immediately, and deferred deposit loans may not be renewed or extended.

This program utilizes a centralized service-delivery system wherein the department of administration "may adopt rules to implement the provisions" of the program (Mont. Code Ann. § 31-1-702). No logic model was located for the policy, and it lacks an articulate program design. There was a single short-term outcome, (identified as a decrease in incidence of repeat borrowing,) and no apparent intermediate or long-term outcomes.

Table 9-1 Montana Deferred Deposit Loan Act Program Theory and Specification

Program Theory Elements	**Program Specification (practice)**
Financial insecurity and scarcity cause chronic stress, which impairs one's ability to make sound financial decisions. (social constructionism, scarcity/stress perspective)	• Protect citizens from borrowing more than they can afford by capping the total deferred deposit loan amount at $300.
Higher interest rates lead to repeat borrowing (key finding within I-164)	• Regulate payday lenders so that they may not charge fees that exceed 36% APR. (excludes a maximum one-time fee of $30 for insufficient funds)
Abuses occur in the credit marketplace when the lenders are unregulated (stated within the policy)	Provide consumer protections so that: • Borrowers may rescind the loan without penalty if the full amount is returned to the lender within one business day. • Loan agreements are not permitted to contain language that would be a substantial derogation of consumer rights. • Borrowers' bank account and other personally identifiable information are kept confidential. • Loan disclosures are consistent among payday lenders, and loan documents are provided to borrowers immediately. • Loans may not be renewed or extended; note that a new loan may be issued once the previous loan is paid in full.

Form of Benefit and/or Service

The form of benefit provided by the Montana Deferred Deposit Loan Act is protective regulation, and does not fit well with the scarcity/stress perspective. A key assumption in the scarcity/stress perspective is that financial stress and scarcity can cause chronic stress, impairing one's ability to make sound financial decisions, so an effort was made to protect consumers from entering into loans that were too high for them to afford by capping the loan amount at $300 and prohibiting rollovers and extensions. However, the terms of the legislation also specify that a new loan may be issued once the previous loan is paid in full, and does not limit the timeframe in which that may occur. Therefore, it is possible that there could be instances where borrowers may repay a $300 loan only to borrow a new loan in the same day. Additionally, since the passage of I-164, payday lenders have closed down all storefront operations in Montana (The Pew Charitable Trusts, 2014) stating that the 36% APR is not enough to keep them in business (Calderon, n.d.; Cederberg, 2011). The elimination of payday loans as viable options for borrowers in Montana could result in increased scarcity of resources to consumers who are already under financial strain.

Financing

Fees paid by deferred deposit lenders finance the supervision of the Montana regulation (Mont. Code Ann. § 31-1-702). As deferred deposit lenders have closed all storefronts in Montana since the passage of the act, licensing fees paid to the state for online lenders are not likely to account for a large amount of funds, which leaves little opportunity for theft or corruption. The funding is stable with respect to broad economic change because it will rise and fall with the amount of lenders that require oversight under the Act.

Interactions between Basic Policy Elements and between This and Other Programs/Policies

This policy does not directly interact with any other public policies in Montana, but there is inconsistency between the protective regulations laid out for deferred deposit loans and the statutes for other high risk alternatives such as auto title loans. Payday lenders recommend auto title loans as a good alternative to payday loans for obtaining quick cash in Montana (Payday Advance, 2016), which is of particular concern since auto title loans, while also capped at 36% APR, do not have a maximum loan

amount and are eligible for unlimited rollovers (Mont. Code Ann. § 31-1-816-817). The closing of payday loan storefronts in Montana has been an unintended consequence of the combined regulations of a 36% annual rate cap and a $300 maximum loan amount. Instead of protecting their citizens' access to a loan product geared toward borrowers with little or no credit history, the policy in Montana may merely be relocating the problem to the auto title loan industry.

Adequacy, Equity, and Efficiency

The Montana regulation has resulted in the closing of all deferred deposit loan storefronts in the state, effectively eliminating one of the resources available to consumers who cannot or do not use mainstream financial services. The need for financial services that were previously provided by deferred deposit lenders has not been met for most of the intended recipients; therefore the Montana Deferred Deposit Loan Act does not meet the core criteria of adequacy. The regulation is judged to be equitable due to Montana's prohibition of discriminatory practices by financial institutions (Mont. Code Ann. § 49-2-306). There is little cost associated with the Montana regulation, but it is inefficient in providing a high quality policy for that cost. Overall, the Montana Deferred Deposit Loan Act does not meet the needs presented by the scarcity/stress perspective because its ultimate result is to increase the scarcity of resources to lower income citizens.

Chapter 10

Value-Critical Analysis of Florida Payday Lending Regulation

The Florida Deferred Presentment Act (Fla. Stat. § 560.402) was enacted in 2001 after SB 1526 was passed unanimously by the House and Senate. It was written by Lee Constantine, a Caucasian Republican, who is Founder and Chairman of Charity Challenge, Inc. (Est. 1987). Charity Challenge, Inc. (2016) is an annual event in which local businesses compete in co-ed athletic events to raise funds for local charities.

The following review of demographics and political climate in Florida will provide context for the policy solution to be analyzed. Florida has a population of 20,271,272, an increase of 7.8%from 2010 (United States Census Bureau, 2015). Just over half are female, and 19.1% are over the age of 65. Wisconsin has more racial diversity than Montana or Wisconsin, with white, non-Hispanic persons

accounting for 55.8% of the population while 24.1% are Hispanic or Latino and 16.8% are black or African American. A little over a quarter of the population speak a language other than English at home and nearly 20% are foreign born. Veterans account for 7.6%of the population. Median selected monthly owner costs with a mortgage are $1,480 and median gross rent is $998. Median household income is $47,212 and 16.5% of households are living below the official poverty level (2015). See Appendix B for 2015 US poverty thresholds. Though Florida government has historically been led by the Democratic Party, it has had had solidly Republican government since 1999 (Ballotpedia, n.d.).

Goals and Objectives

The stated legislative intent of the Florida Deferred Presentment Act is “to provide for the regulation of deferred presentment transactions” and “to prevent fraud, abuse, and other unlawful activity associated with deferred presentment transactions” (Fla. Stat. § 560.408). *Deferred presentment transaction* is defined as “providing currency or a payment instrument in exchange for a drawer’s check and agreeing to hold the check for a deferment period” (Fla. Stat. § 560.402).

While the terms used in the goal statement are clear, they fit more closely with the scarcity/stress perspective than the cost disadvantage perspective. This could be due in part to the nature of legislative change. As an existing statute is amended to fit new causal explanations for social problems, the terms used in the initial intent of that statute may remain unchanged. However in this case, the entirety of the act including legislative intent was added for the first time with the passage of SB 1526 in 2001, so it is concluded that the intent was written with the rest of the act and not left unchanged by legislative oversight.

Included in the legislative intent are the provision for regulatory authority and resources to monitor transactions, the prevention of rollovers, and regulation of allowable fees (Fla. Stat. § 560.408). This indicates that the measurable objectives of the Florida Deferred Presentment Act are to decrease incidence of rollovers and to decrease the amount of fees paid by deferred presentment loan borrowers.

Eligibility Rules

The benefit provided by the Florida Deferred Presentment Act is protective regulation for everyone who borrows or might borrow in the future from a deferred presentment lender.

Administration and Service Delivery

The Florida legislation program theory is drawn from the cost disadvantage perspective, derived from social constructionism and systems theories, and assumes that a majority of people misunderstand or misuse various currencies and credit, but when an impoverished individual makes a poor financial decision, the margin for error is narrow and the cost in relation to what the individual can afford is too high. Additionally, the legislators assume that deferred presentment transactions are generally associated with fraud, abuse, and other unlawful activities. As seen in Table 10.1, the program specifications to address the needs presented by the cost disadvantage perspective are: to provide protective regulations that prohibit rollovers and extensions, ensure that borrowers only have one loan out at a time with any lender, and allow borrowers a 60-day grace period in conjunction with credit counseling if they notify the lender in person that they cannot pay back the loan on the due date. The program specification to address fraud, abuse, and other unlawful activities associated with deferred presentment lenders is to provide additional protective regulations that: ensure clarity in disclosure agreements, limit loan amounts to $500, limit fees to 10% of the loan amount, and prohibit provisions within loan agreements that could be harmful to borrowers. This program utilizes a centralized service-delivery system wherein the office maintains supervisory powers and rulemaking.

Table 10-1 Florida Deferred Presentment Act Program Theory and Specification

Program Theory Elements	**Program Specification (practice)**
A majority of people misunderstand or misuse various currencies and credit.	Provide protective regulations to: • Prohibit rollovers and extensions • Ensure that borrowers only have one loan out at a time with any lender (statewide database has been established to track activity), and may not open a new loan within 24 hours of paying a previous loan in full • Allow borrowers a 60-day grace period in conjunction with credit counseling if they notify the lender in person that they cannot pay the loan on the due date
Deferred presentment transactions are associated with fraud, abuse, and other unlawful activities.	Provide protective regulations to: • Ensure clarity in disclosure agreements (contact information, amount due, length of loan term, last day of loan term, description of payment obligations, database transaction number) • Limit loan amounts to $500 • Limit fees to 10% of the loan amount

Program Theory Elements	Program Specification (practice)
	• Prohibit the following provisions within loan agreements: o A hold harmless clause. o A confession of judgment clause. o Any assignment of or order for payment of wages or other compensation for services. o A provision in which the drawer agrees not to assert any claim or defense arising out of the agreement. o A waiver of any provision of this part.

No logic model was located for this policy, and it lacks an articulate program design. There were two single short-term outcomes identified: elimination of loan rollovers, and a decrease in total fees paid by borrowers. There were no apparent intermediate or long-term outcomes. There also appears to be an issue with *accessibility*, "the extent to which obstacles prevent ready use" (Chambers & Bonk, 2013, p. 130). While a 60-day grace period is offered and encouraged by the Florida legislature when borrowers are unable to repay loans by the due date, less than 1% of borrowers take advantage of this opportunity (Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013).

Form of Benefit and/or Service

The form of benefit provided by the Florida Deferred Presentment Act is protective regulation, and is an insufficient fit with the cost disadvantage perspective because while it authorizes some provisions to regulate abusive practices, it does not adequately address the root of the problem. Rollovers are prohibited and new loans cannot be taken out within 24 hours of repayment, but borrowers still take out an average of 8.8 loans per year, and 65% of all deferred presentment loans are issued to borrowers who take out five or more loans per year (Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013). This represents an increase in deferred presentment loan usage from when the bill was first enacted. As seen in Figure 10.1, 54% of borrowers took out five or more loans per year in 2002, and there were 118,855 unique borrowers (State of Florida Department of Banking and Finance, 2003). As of 2012, the number of unique borrowers had risen to 417,437 (Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013). Moreover, 45% of repeat deferred presentment loans occur as soon as the 24-hour period expires (KIng & Parrish, 2007).

The 60-day grace period is an attractive benefit, but only 0.12% of all transactions utilize the option (Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013). A potential reason for this is that there is no accompanying benefit by which a person of limited financial means and little or no credit might build their savings, and therefore give themselves a wider margin within which to operate. If a borrower needs a deferred presentment loan, averaging $391 in Florida (2013), and is unable to pay back the loan on the due date, it is possible that he or she will not be able to afford to wait 60 days and complete credit counseling before taking out a new loan. In fact, it is highly probable that the initial loan was used to meet regular monthly expenses (The Pew Charitable Trusts, 2012), and unless income or circumstances change, a similar amount will be needed every subsequent month to continue to pay those same expenses.

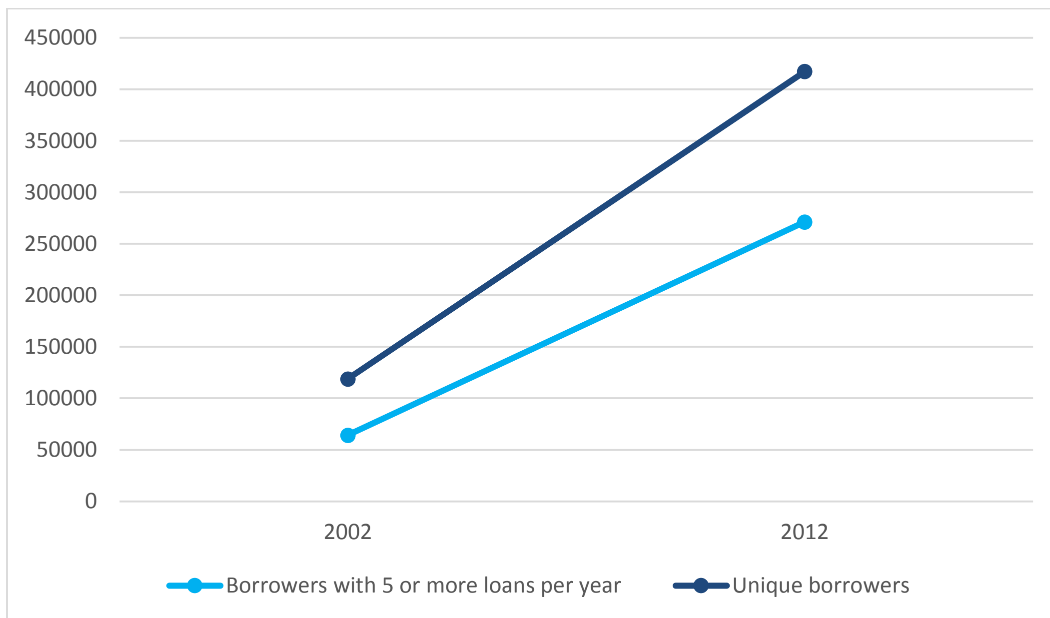

Figure 10-1 Increase of Payday Loan Usage in Florida, 2002-2012

(State of Florida Department of Banking and Finance, 2003; Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013)

Financing

Fees paid by deferred presentment lenders are placed into the Regulatory Trust Fund and used by the office to carry out its supervisory responsibilities of the Florida regulation (Fla. Stat. § 560.144). A transaction fee of $1 per transaction is assessed each time lenders use the database to ensure borrowers

do not currently have an outstanding loan, and at least $1,639 in initial licensing fees are assessed per lender, with additional fees required for lenders with multiple storefronts. Lenders are required to renew their licenses every two years. The Regulatory Trust Fund receives at least $4.48 million annually from database transaction fees alone (Government Operations Appropriations Subcommittee, 2013). As of 2012, there were nearly 1,600 active deferred presentment locations in the state, a steady rise from 833 in early 2002 after the act was passed. This represents a large sum of money, indicating potential for theft or corruption and a disincentive for achieving borrower outcomes. Since the regulatory authority stands to make more money off of payday lenders growing their businesses, there is more of an incentive to allow growth in the industry with a disregard to consumer welfare.

Interactions between Basic Policy Elements and between This and Other Programs/Policies

The Florida Deferred Presentment Act does not interact with any other programs or policies, but there is potential for contrary program effects. While the program objectives of decreasing incidence of rollovers and fees paid by borrowers have technically been met, borrowers do not appear to have integrated into mainstream financial services after paying off their loans. As previously discussed, the payday industry in Florida has doubled since the policy was enacted, a large portion of borrowers take out at least five payday loans per year, and borrowers rarely complete the credit counseling recommended by the state. The method by which Florida measures success against policy objectives focuses on whether a loan was renewed in the system and only counts loan fees in relation to loan amounts (State of Florida Department of Banking and Finance, 2003; State of Florida Office of Financial Regulation, 2004). A better way to gauge whether citizens are benefiting from the policy would be to measure the percentage of days an individual spends in debt to a deferred presentment lender per year, and to set an objective that focuses on number of loans accepted per year rather than renewals or rollovers.

Adequacy, Equity, and Efficiency

The Florida Deferred Presentment Act has corresponded with growth in the payday loan industry. From 2002 to 2010, the number of unique payday loan borrowers more than tripled (State of Florida Department of Banking and Finance, 2003; Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013), which indicates increased reliance on payday loans rather than an increase in

financial self-sufficiency of past payday loan borrowers; therefore, the policy does not meet the core criteria of adequate provision of benefits. Florida prohibits discriminatory practices (Fla. Stat. § 760.01-760.11), which enables the policy to meet the core criteria of equitable delivery of the benefits. The policy is cost-effective but does not deliver high quality benefits to its target population, so it does not meet the criteria of efficiency. Overall, the Florida Deferred Presentment Act does not meet the needs presented by the cost disadvantage perspective because it increases dependence on deferred presentment loans and does not address the need for a mechanism by which the target population could build savings.

Chapter 11

Value-Critical Analysis of Wisconsin CDFIs – Ways to Work

Wisconsin has not implemented any regulations that would either restrict the payday lending industry or support its growth (Weiler, 2015). Nor has the state pursued the creation of alternative financial services through existing traditional lenders. In absence of regulatory factors, the solution in Wisconsin is provided by community-driven programs. As mentioned in Chapter 8, while the two community programs analyzed for Wisconsin may be available to citizens throughout the state, the population that most often takes advantage of their services resides in one of the two program counties. Because the two counties have significant differences in demographics, it is of value to the analysis to examine them in more detail. Ways to Work is based in Milwaukee County, which mirrors Wisconsin demographics with the exception of income, so the remainder of this section will provide demographics and political climate for Wisconsin as a whole. Chapter 11 focuses on the Wisconsin Native Loan Fund in Villas County and will highlight key distinctions in the demographics from Milwaukee and the rest of the state. An important similarity between the two counties is that while they are vastly different, the annual income of their residents is much more likely to be lower than that of Wisconsin as a whole. See Tables 10.1 and 11.1 for comparisons to Wisconsin and the US.

Wisconsin has a population of 5,771,337, an increase of 1.5% from 2010 (United States Census Bureau, 2015). Just over half are female, and 15.2% are over the age of 65. Wisconsin has little racial diversity, with white, non-Hispanic persons accounting for 82.2% of the population while 6.6%are black or African American and 6.5%are Hispanic or Latino. 8.6%of the population speak a language other than

English at home and 4.7%are foreign born. Veterans account for 6.9%of the population. Median selected monthly owner costs with a mortgage are $1,431 and median gross rent is $772. Median household income is $52,738 and 13.2% of households are living below the official poverty level (2015). See Appendix B for 2015 US poverty thresholds. Wisconsin has historically been a “politically independent state, where partisan affiliation changes often” (Senator Sheila Harsdorf, 2010). For four decades, no political party controlled both the Governor’s office and the entire State Legislature for a full session, with one exception in 1985. The bipartisan governance ended when the Democratic Party took control briefly in 2009, and the Republican Party has had control for every session since (Marley, 2014; Senator Sheila Harsdorf, 2010; Thompson, 2014).

Goals and Objectives

The program goal states that the “Ways to Work program is designed to meet the immediate needs of low-income working families by providing skills and knowledge to build and maintain financial security” (ICF International, 2011, p. iii). The goal statement is clear, but does not fit closely with the limited alternatives perspective, which assumes that individuals understand the risks and high costs of payday loans and use them due to lack of alternatives. It focuses on building skills and knowledge of borrowers without acknowledging their provision of a viable alternative. The listed objectives for Ways to Work are to increase the wages and advance the educational careers of borrowers participating in the program and that borrowers will join the mainstream financial marketplace after receiving Ways to Work loans (ICF International, 2011, p. iv). Value-critical analysis directs the analyst to address whether the stated objectives of policy can be measured. Although the objectives of Ways to Work do appear to be readily measurable, the measurement data is not publicly available.

Eligibility Rules

Program participation is limited to the following:

- Continuous employment for at least six months OR enrolled in a post high school educational program
- Involved parent(s) of dependent child(ren), and
- Have exhausted conventional loan resources, and

- Have disposable income sufficient to make repayment (for no more than a 30 month term and at an interest rate at no greater than 8%) , and
- Have a household income no greater than 80% of the area's median income, and
- Reside in geographic service area.

(Ways to Work, 2016)

It is important to note that while this analysis focuses on the Ways to Work program as operated in Milwaukee, Ways to Work is a national program that provides program resources to 44 sites throughout the US. Some program specifications are designed by the national program, but eligibility rules are by administrative discretion at each local office. The Ways to Work program in Milwaukee utilizes a "volunteer loan committee" to evaluate whether an applicant would be a good candidate for a loan (YWCA Southeast Wisconsin, 2015b). The eligibility rules fit well with the target population of those who would typically use payday loans. Eighty percent of Milwaukee County's median annual income is $34,708 (United States Census Bureau, 2014a) and a disproportionate rate of payday loan borrowers earn below $40,000 annually (The Pew Charitable Trusts, 2012). This indicates that a large portion of the population shares a key characteristic with those who use payday loans. Milwaukee County has a higher proportion of households living with less than $35,000 income per year than the rest of the state or the US as a whole (see Table 11.1). Further, 27.5% of Milwaukee County families with children lived below the official poverty level for the past 12 months, a much higher rate than Wisconsin and the US at 15.5% and 18.1% respectively (United States Census Bureau, 2014c).

Table 11-1 Milwaukee County Population with Annual Income Less than $35,000

Location	**Percent of population with annual income less than $35,000**
Milwaukee County	41.5
Wisconsin	32.9
United States	33.4

The eligibility rule requiring clients to be involved parents of at least one dependent child also fit well with the description of a typical borrower since parents are far more likely to use payday loans than nonparents (The Pew Charitable Trusts, 2012). Further, the eligibility rule of continuous employment or

enrollment in post high school education fit well within the limited alternatives perspective, which values a strong work ethic and associates financial self-sufficiency with the ability to maintain employment.

Chambers and Bonk (2013) note that when “the consumption or acquisition of benefits is public, certain kinds of items become associated with ‘being on welfare;' and negative attributions are made to those so identified” (2013, p. 71). Ways to Work is administered by member agencies of the Alliance for Children and Families, and in Milwaukee by the YWCA of Southeast Wisconsin. Participation in the program is not known to the public and therefore cannot “bear the burden of public disapproval” (Chambers & Bonk, 2013, p. 91), and the administration of programs by nonprofits that serve the general public, like the YMCA, may serve to reduce stigma; therefore the program is not judged to be stigmatizing.

Administration and Service Delivery

The Ways to Work program theory is drawn from the limited alternatives perspective, derived from social exchange theory, and assumes that that individuals understand the risks and high costs of payday loans before accepting them; therefore, they use payday loans due to lack of viable alternatives. Additionally, Ways to Work assumes that the households they serve are in a state of economic instability. As seen in Table 11.3, the program specification to address the needs presented by the limited alternatives perspective is to facilitate intake, provision of loan products, and collection of payments when due. The program specification to address the needs of households facing economic instability is to provide financial education and credit education. The program utilizes a centralized service-delivery system. The national Ways to Work headquartered in Milwaukee makes decisions and designs program rules with which the local Ways to Work programs may operate.

The national Ways to Work organization has designed a comprehensive logic model which articulates realistic and attainable short-term, intermediate, and long-term outcomes (see Table 11.2). Ways to Work has incorporated both national and local activities into its program design which provides clarity of roles and responsibilities for the local offices. In terms of accessibility, the YWCA which administers the Ways to Work program for the Milwaukee area is located 75 feet from a local bus station.

Table 11-2 Ways to Work Logic Model

Inputs	Activities	Short-Term Outcomes	Intermediate Outcomes	Long-Term Outcomes
National Services • Local site capacity support • Ways to Work loan system • Program stewardship • Local Services • Market the program • Manage loan committee • Provide case management and cross referrals • Partner with mechanics • Process asset purchase	National Activities • Select sites and guide management • Raise loan funds • Provide underwriting of agencies • Provide IT systems • Provide local funding support • Perform loan origination servicing Local Activities • Intake assessment • Financial education and credit education • Loan payment counseling and case management mirroring real world borrowing • Car maintenance counseling • Collection of loan in its entirety or vehicle repossession • Client borrower underwriting	National and Local Outcomes • Current employment of participants is protected • Job attainment of participants enhanced by promoting increased mobility • Increased job readiness by increasing access to training and skill building • Transportation time reduced for participants, freeing time for family involvement, education, or more work hours • Increased financial literacy and participants encouraged to open savings accounts • Building of soft skills by improving self-esteem	National and Local Outcomes • Removal of barriers to employment by promoting reliable transportation, which reduces work absence or tardiness • Financial literacy skills translate into job skills • Increased income for participants from reliable transportation • Increased creditworthiness of participants to access additional assets • Better care for children supported with more access to child care programs, after school activities, and health care facilities	National and Local Outcomes • Economic stability for participating households • Loan repaid in full • Households reduce reliance on public assistance programs • Households can access traditional financial markets due to increased credit scores CONTEXT: • Household is in a state of economic instability. • Household/applicant is a parent who is working and/or in post-high school education. • Household/applicant has limited access to traditional, affordable & responsible credit resources. • Participants can increase their annual wages

(ICF International, 2011, p. ii)

Table 11-3 Ways to Work Program Theory and Specification

Program Theory Elements	Program Specification (practice)
Household/applicant has limited access to traditional, affordable and responsible credit resources. (cited in Ways to Work logic model; social exchange theory, limited alternatives perspective)	• Facilitate intake, provision of loan products, and collection of payment when due • Provide loan payment counseling and case management mirroring real world borrowing • Provide car maintenance counseling
Household is in a state of economic instability. (cited in Ways to Work logic model)	• Provide financial education and credit education

Ways to Work services are well integrated. The financial education course is required before receiving the loan, and the car maintenance counseling is provided throughout the life of the loan as part of case management. With respect to racial, gender, and ethnic diversity, the YWCA Ways to Work program addresses any potential issues in two ways: loan applications are anonymously submitted to the loan committee for approval, and as a separate initiative, the YWCA offers several tools and services to the community in an effort to “unlearn racism” (YWCA Southeast Wisconsin, 2016a).

Form of Benefit and/or Service

Ways to Work lists cash in the form of auto loans as their primary benefit. This program offers additional benefits that differ from one location to another, but the following expert services and credits/vouchers are also provided directly or by referral to at least 50% of all clients: financial literacy classes, credit repair, family counseling, life skills, access to affordable housing, job search, job retention, access to public benefits, job training, education, access to medical care, and day care (Table 11.4). The Milwaukee program offers financial education, credit repair, and case management in conjunction with loans.

Table 11-4 National Ways to Work Benefits and Services in Addition to Auto Loans

Additional Benefits/Services	Direct Assistance	Referral to Outside Agencies
Financial literacy classes	86%	14%
Credit repair	62%	34%
Family counseling	54%	36%
Life skills (goals, action steps)	50%	36%

Additional Benefits/Services	Direct Assistance	Referral to Outside Agencies
Other	43%	29%
Access to affordable housing	29%	64%
Job search	25%	61%
Job retention	14%	54%
Access to public benefits	10%	83%
Job training	7%	75%
Education (GED/college)	7%	71%
Access to medical services	4%	78%
Day care	4%	61%

(ICF International, 2011, p. 8)

The loans provided by Ways to Work fit well with the limited alternatives perspective because they provide a low cost alternative to payday loans. Limiting their use to auto purchase does not necessarily negate the goodness of fit because payday loan borrowers most often use payday loans to pay recurring "regular" monthly expenses including "utilities, car payment, credit card bill, or prescription drugs" (The Pew Charitable Trusts, 2012, p. 14). An argument could also be made that an affordable loan for a used car in good condition could increase the availability of family funds that would have otherwise been used for high cost repairs on an existing, older vehicle.

The remainder of this section addresses how the benefits and services offered in addition to auto loans fit within the perspective. The limited alternatives perspective assumes that while people weigh the costs of their financial decisions to the best of their ability, they may not be equipped with the skills or knowledge to fully comprehend the risks of those decisions. Therefore, the provision of financial literacy classes, credit repair services, family counseling, and life skills coaching also fit very well with this perspective. Additional services such as providing access to affordable housing, public benefits, and medical care; job search, training, and retention services; and affordable access to day care support families whose multiple needs include but are not limited to the need for financial assistance. The Ways to Work program operates on an understanding that simply providing a low cost loan is not enough to help a family achieve financial self-sufficiency, and addresses these other corresponding needs within its services.

Financing

As seen in Table 11.5, the national Ways to Work organization is funded through tax revenue appropriation (Community Development Financial Institutions Fund), private endowments, and fee for service (interest on loans to consumers). The Milwaukee program is provided loan capital from the national Ways to Work office, and is otherwise responsible for its own operational fundraising, including a loan loss reserve. As seen in Table 11.6, 72.6% of their operational budget is provided by United Way of Greater Milwaukee and Waukesha Counties, and the remainder is raised through grants. Banks receive credit under the Community Reinvestment Act (CRA) for investment in the program, so most of the grant funding is provided by banks (J. de Montmollin, personal communication, March 4, 2016). Loan losses accounted for 10% of 2015 expenses. The Milwaukee Ways to Work program does not have diverse sources of funding, and is therefore at risk for sustainability during economic fluctuation. Due to the size of the operating budget, there is not much risk for theft or corruption.

Table 11-5 National Ways to Work 2014 Revenue

Contributions/Grants (59.3%)	**$1,732,156**
Government grants	$1,411,263
All others	$320,893
Program service revenue (29.9%)	**$872,804**
Interest on loans to consumers	$731,451
Fees and contract revenue	$141,353
Investment income (10.8%)	**$314,655**
Total revenue	**$2,919,615**

(Internal Revenue Service, 2014a)

Table 11-6 Milwaukee Ways to Work 2014 Program Budget

United Way of Greater Milwaukee and Waukesha Counties (72.6%)	$236,000
Grants - mostly through banks (27.4%)	$89,000
Total budget	**$325,000**

(J. Montmollin, personal communication, March 4, 2016)

Interactions between Basic Policy Elements and between This and Other Programs/Policies

With respect to the primary benefit of a loan product, Ways to Work does not directly interact with any other existing programs or policies in Wisconsin. However, additional benefits often include referrals to other local agencies for services such as job training and access to public benefits. Accepting a Ways to Work loan does not make clients eligible or ineligible for other policies or programs. The Milwaukee program is unlikely to duplicate services, since their focus is on financial education and case management during the life of the loan, and there is little potential for contrary program effects

Adequacy, Equity, and Efficiency

Ways to Work Milwaukee is a well-designed program that meets the core criteria of adequacy, equity, and efficiency. The eligibility rules are designed to be inclusive of most citizens with a high likelihood of borrowing from payday lenders, and recipients of the program receive benefits consistently. In 2011, ICF International conducted a program evaluation for the national Ways to Work program, inclusive of all regional offices, to assess program outcomes, impacts to borrowers' credit scores, and return on investment. In addition to showing increases in net monthly income for program participants, 82% "sustain themselves without Temporary Assistance for Needy Families (TANF) cash assistance despite receiving it before receiving their Ways to Work loan" (2011, p. v). Overall, the program has proven to be efficient in implementing cost-effective strategies to deliver quality benefits that result in increased financial self-sufficiency for participants (2011). Ways to Work Milwaukee also meets the needs presented by the limited alternatives perspective by providing a viable alternative to payday loans, while addressing additional corresponding needs of the population.

Chapter 12

Value-Critical Analysis of Wisconsin CDFIs – Wisconsin Native Loan Fund

Dewees and Sarkozy-Banoczy (2008) of First Nations Development Institute and Oweesta emphasize that "the three interwoven challenges that distinguish the economic environment in many Native communities from other high poverty areas are the unique legal status of tribes, the presence of land held in trust by the federal government, and intergenerational poverty." (p. 4). While Ways to Work is

available to the Native American population, it may not adequately meet the cultural needs of Wisconsin tribes, whose population grew by 24.3% from 2000 to 2010 (Norris, Vines, & Hoeffel, 2012).

The Wisconsin Native Loan Fund (WINLF) is located in Lac du Flambeau, a small town in Vilas County. It is 290 miles north of Milwaukee and far less populated. While Milwaukee County mirrors Wisconsin State demographics, Vilas County is distinctly different. The following review of demographics will provide context for the policy solution to be analyzed. Nearly a third of Vilas County population are over the age of 65 (United States Census Bureau, 2014b). Eighty-five percent are white non-Hispanic and 11.3% are American Indian or Alaska Native. Vilas County has higher proportions of veterans, persons under 65 with a disability, and persons under 65 without health insurance. Additionally 76.6% of homes in Vilas County are owner-occupied as opposed to 67.7%in all of Wisconsin, and the median home value is 16.6% higher than the state as a whole (2014b).

Goals and Objectives

The mission of WINLF is "to increase the financial self-sufficiency of Wisconsin Native American Communities" (Wisconsin Native Loan Fund, 2016a), and it strives to be "the affordable solution to the predatory lenders that pervade [their] Reservations" (Wisconsin Native Loan Fund, 2015a, p. 4). As further stated in their 2014 annual report to the community:

> WINLF has the mission and the passion to elevate tribal members towards building capacity for individuals and families to help them become stronger and navigate through these tough economic times. The ultimate goal of Wisconsin Native Loan Fund is to keep money in the community and to teach people to become more self- reliant and economically independent. (2015a, p. 4)

Both the mission and goal are clearly stated and fit closely with the causal explanation of the problem. There are no stated objectives, but the intended measureable outcomes are that tribal members will clear their debt and become homeowners (2015a).

Eligibility Rules

Like Ways to Work, the WINLF is a 501(c)(3) nonprofit organization, but it operates on a much smaller scale. Program participation is limited to the following:

- Enrolled Lac du Flambeau Tribal Member
- Homeowner, located on or near the Lac du Flambeau Reservation
- Steady income for loan repayment
- Homeowners insurance (can be rolled into loan if needed)
- Payroll deduction or ACH transfer for monthly or bi-weekly loan payments

(Wisconsin Native Loan Fund, 2016c)

Eligibility rules are by administrative regulation, and are not subject to discretion. Overall, the eligibility rules do not quite fit with the target population of those who would typically use payday loans. While renters are more likely than homeowners to borrow payday loans across the US (The Pew Charitable Trusts, 2012), this ratio might be different among the Native American population. Data showing the ratio of homeowners to renters among Native American payday loan borrowers is not readily available. Because Native Americans constitute a small portion of the US population, national studies such as those conducted by Pew Charitable Trusts have often combined them with Alaskan and Hawaiian natives. As such, it is imperative that nonprofits, such as the WINLF, who solely support the Native American population, conduct their own studies to determine how these ratios might differ from the US population as a whole. If in fact, there is a higher ratio of homeowners to renters who typically use payday loans among the Native American population, then the eligibility criteria of homeownership makes sense for the WINLF. But if the ratio mirrors that of the US as a whole, then under this eligibility rule, not everyone who needs this benefit would be eligible to receive it.

The eligibility rule of steady income fits well within the limited alternatives perspective, which values a strong work ethic and associates financial self-sufficiency with the ability to maintain employment. WINLF recently expanded beyond the Lac du Flambeau reservation to administering the program on every Indian Reservation in Wisconsin (Wisconsin Native Loan Fund, 2015a). Participation in the program is not known to the public and therefore cannot “bear the burden of public disapproval” (Chambers & Bonk, 2013, p. 91). Additionally, WINLF has been nationally recognized for its success in serving the Native American community (Wisconsin Native Loan Fund, 2015b).Therefore participation in the program is not judged to be stigmatizing.

Vilas County's population lives with less than $35,000 annually at a rate disproportionate to the rest of the state and the US (see Table 12.1), which fits well with the description of a typical borrower (The Pew Charitable Trusts, 2012). Further, 20.1% of Vilas County families with children lived below the poverty level for the past 12 months, a rate much higher than Wisconsin and the US at 15.5% and 18.1% respectively (United States Census Bureau, 2014c).

Table 12-1 Vilas County Population with Annual Income Less than $35,000

Location	**Percent of population with annual income less than $35,000**
Vilas County	42.3
Wisconsin	32.9
United States	33.4

Administration and Service Delivery

The WINLF program theory is also drawn from the limited alternatives perspective, derived from social exchange theory, and assumes that that individuals understand the risks and high costs of payday loans before accepting them. Additionally, WINLF states that financial education combined with affordable financing can lead to home ownership, and views home ownership as a key component in achieving self-sufficiency. As seen in Table 12.2, the program specification to address the needs presented by the limited alternatives perspective is to provide loans for home improvement, homebuyer down payment assistance, debt consolidation, home purchase, or emergency situations. The program specifications to address the necessary links between financing, education, home ownership, and self-sufficiency are to provide financial education and VITA to any tribal member in Wisconsin. The program utilizes a centralized service-delivery system. The WINLF has recently expanded to offer services to any tribal member in Wisconsin, and is a certified CDFI for the state.

The WINLF is accessible by all tribal members in Wisconsin, and the services provided are well integrated. They were one of two award winners in 2015 for excellence in the Native CDFI industry (Wisconsin Native Loan Fund, 2015b). Though the WINLF does not have a logic model, their program activities of providing loans, financial education, and VITA are intended to result in a short-term outcome

of increased homeownership, an intermediate outcome of safer neighborhoods, and long-term outcomes of economic growth and pride in the community (Wisconsin Native Loan Fund, 2015a).

Table 12-2 Wisconsin Native Loan Fund Program Theory and Specification

Program Theory Elements	**Program Specification (practice)**
Many tribal members in low-income communities lack access to financing for a home. (Wisconsin Native Loan Fund, 2015a, social exchange theory, limited alternatives perspective)	Provide loans for home improvement, homebuyer down payment assistance, debt consolidation, home purchase; and emergency consumer loans
Financial education combined with access to affordable financing can lead to success in home ownership, and subsequent self-sufficiency. (Wisconsin Native Loan Fund, 2015a)	Provide financial education and VITA (Voluntary Income Tax Assistance)

Form of Benefit and/or Service

WINLF provides a primary benefit of cash in the form of loans. These are to be used specifically for either home-improvement, down-payment assistance, debt consolidation, home purchase, or emergency consumer loans (2015a). Additionally, they offer expert services: financial education and Voluntary Income Tax Assistance (VITA). WINLF is very active in the direct provision of financial education services. As a founding member and leader of the collaborative group, *Zhoonyia Gikendasowin* (Money Knowledge), they partner with other local agencies "to collectively operate, rather than duplicate services to increase effectiveness and provide direct services to tribal members in the community" (2016b).

The loans provided by WINLF do not quite fit with the limited alternatives perspective because while they provide a low cost alternative to payday loans, only 10% of payday loan borrowers indicated they use payday loans to pay rent or mortgage expenses (The Pew Charitable Trusts, 2012). Payday loan borrowers are less likely to be homeowners than renters, but pursuing a community development program that would encourage home buying and make this type of investment more attainable is an interesting way to address the problem of financial instability within the community. The limited alternatives perspective assumes that while people weigh the costs of their financial decisions to the best

of their ability, they may not be equipped with the skills or knowledge to fully comprehend the risks of those decisions. Therefore, the provision of financial education and VITA fit very well with this perspective.

Financing

As seen in Table 12.3, the WINLF is funded by tax revenue appropriation (Native American Community Development Financial Institutions Assistance Program), and fee for service (interest on loans to consumers.) Total revenue for 2014 was less than $250,000, and their expenses were just under $200,000 (Internal Revenue Service, 2014b). Salaries and benefits for employees administering the program accounted for 46% of expenses, with administrative costs and loan losses accounting for 26 and 28% respectively. According to Martin (2001), general administrative expenses for human services organizations should be less than 35%, and WINLF falls well within that standard. The WINLF does not have diverse sources of funding, with 86% being supplied by the Native American CDFI Assistance Program. Therefore, there is a potential risk to long-term program sustainability due to its reliance on federal funding.

Table 12-3 Wisconsin Native Loan Fund Program 2014 Revenue

Contributions/Grants (86%)	
Native American CDFI Assistance Program	**$218,400**
Program service revenue (12%)	
Interest on loans to consumers	**$30,300**
Other Revenue (2%)	
All other revenue	**$6,726**
Total revenue	$255,426

(Internal Revenue Service, 2014b)

Interactions between Basic Policy Elements and between This and Other Programs/Policies

WINLF does not interact with any other programs or policies. Accepting a WINLF loan does not make clients eligible or ineligible for other policies or programs. They are unlikely to duplicate services in the community, but there is some potential for contrary program effects. Since homeownership is an eligibility requirement for any loan product, even a consumer emergency loan, and given that payday loan

borrowers are more likely to be renters (The Pew Charitable Trusts, 2012), the program is likely to not be available to a significant portion of the target population.

Adequacy, Equity, and Efficiency

The WINLF program lacks an articulate program design, but it has had recognized success in the community it serves. More data is required in order to determine whether the program is adequately meeting the needs of those in the Native American population who are likely to use payday loans, but it has demonstrated both equity and cost-efficiency in the delivery of benefits (Internal Revenue Service, 2013; Internal Revenue Service, 2014b; Wisconsin Native Loan Fund, 2015a; Wisconsin Native Loan Fund, 2015). WINLF also meets the need presented by the limited alternative perspective by providing a viable alternative to payday loans.

Chapter 13

Discussion

This thesis applies methods of social problem analysis and value-critical analysis to examine the problem of economic dependence as it intersects with payday lending practices and to analyze the policies and programs of three states with differing underlying theoretical assumptions about human behavior and the role of state regulation: Montana, Florida, and Wisconsin. Value-critical analysis first seeks to describe policy or program elements, then critically evaluates all of the parts individually and as a whole to identify any shortcomings, inconsistencies in logic, or ambiguities in everyday policy or program operations (Chambers & Bonk, 2013). Following is a summary of conclusions from the analysis, limitations of the analysis, implications for future policy, and policy and program recommendations.

Summary of Conclusions

As demonstrated in the analysis within Chapters 9-12, the two policies or programs with the highest likelihood of success in building financial self-sufficiently among current and former payday loan borrowers are Wisconsin's Ways to Work and the Wisconsin Native Loan Fund, though their reliance on federal funding is potentially problematic. While appropriations for the CDFI Fund are $233.5 million for fiscal year 2016, they have both risen and fallen depending on the state of the US economy. From 2001

to 2007, appropriations dropped from a previous high of $115 million to less than half of that amount (CDFI Coalition, n.d.).

CDFIs do exist in both Montana and Florida, but they have not flourished in the same way as they have in Wisconsin (See Table 13.1). The success of these programs may be attributed in part to the bipartisan governance that existed in Wisconsin from 1970 to 2010. Senator Harsdorf (2010) states that "split governance inevitably requires compromise and consensus building, since either house can block partisan action" (para.3). However, the one-party Republican rule that has been in effect since 2010, and the actions of Governor Scott Walker, in particular, have many citizens concerned that their transparent, open, and progressive government practices are now in jeopardy (Cronon, 2011; Kaufman, 2016; Valencia, 2015).

Table 13-1 CDFI Program Statistics by State

	Montana	Wisconsin	Florida
Number of CDFIs in the state	11	21	30
Total CDFI Fund awards to the state 1996-2014	$19,616,045	**$54,952,135**	$28,683,299
New Markets Tax Credit Awards to the state 2002-2014	$306 million	**$1.557 billion**	$409 million

(Community Development Financial Institutions Fund, 2015a; 2015b; 2015c)

Though the language used in the Montana and Florida legislation claims an intent to protect citizens, the enacted policies do not benefit them. In Montana, the grassroots solution won by the passage of I-164 to cap annual interest rates at 36% was too limited. Payday lenders are not solely in the business of payday lending. The fringe banking industry spans a myriad of expensive, high-risk alternatives. Restricting one financial product to the point where it is no longer profitable does not eliminate the problem. In Montana, these companies simply refocused their efforts on auto-title loans, which are considerably less regulated by the state (Mont. Code Ann. § 31-1-816-817, Payday Advance, 2016). Further, though the APR cap indicated an alignment between policy benefit and the scarcity/stress perspective, the law actually resulted in increasing the scarcity of resources for those who are likely to

need payday loans. One reason for this is that the key policy benefit of protective regulation in the form of a 36% APR cap was written separately from the rest of the policy as a ballot initiative. This created an inconsistency between the stated goals of the policy and the program specifications, as well as between these regulations and those applicable to other financial products within the fringe banking industry in Montana, specifically auto-title loans. These inconsistencies make it difficult to establish any link between legislative intent and policy or program operations (Chambers & Bonk, 2013).

In Florida, the consumer right to a 60-day grace period has in effect been nothing more than symbolic gesture, and the regulations currently in place do not achieve meaningful objectives. As stated in Chapter 12, less than 1% of borrowers utilize the 60-day grace period, and the decreased incidence of rollovers does not equate to fewer payday loans taken per borrower. In reality, the number of loans taken per person has grown consistently over the last 15 years while the law has been in effect. The stated measurable objectives are not meaningful in that they do not contribute to meeting the needs presented by the corresponding theoretical perspective (cost disadvantage.) Beyond the inherent flaws in program design, the state receives a substantial amount of revenue from mandatory use of a database created to ensure that borrowers are not taking out more than one loan at a time. However, such tracking is meaningless when it does not address the amount of indebtedness of each borrower. The number of people using payday loans in Florida has increased since the law's inception, as has the percentage who are taking out five or more loans per year. In light of those facts, the database does little more than act as a mechanism to generate revenue for the state. Overall, there is an inconsistency between the legislative intent and service delivery. The intent of the policy to both protect consumers and prevent further debt by restricting fees and offering a 60-day grace period aligns well with the cost disadvantage perspective, which assumes that the margin for error is narrower for an impoverished person and regulations that would limit how fees contribute to further indebtedness could serve to widen that margin. However, the measureable goals and objectives do not provide incentive to limit further indebtedness, and there is no accompanying mechanism for consumers to build savings, making it unlikely for them to afford to be able to wait a 60-day grace period before taking out an additional loan.

Recommendations for Future Research

Chambers and Bonk (2013) emphasize the importance of organizations and other facilitators of policy or program benefits “to be able to relate to ethnic diversity” and maintain sensitivity to potential for racism, sexism, and ethnic prejudices (p. 136). Additionally, when analyzing policies and programs that address issues with payday lending, it is helpful to note any similarities or differences between the geographic area of the policy or program and the commonly held description of the typical borrower. If a program is implemented in an area and the demographics of that area are not similar to that of the typical borrower, then it is possible that the program may be underutilized. Chambers and Bonk (2013) define underutilization as occurring when “program benefits are not taken up by the people for whom they are intended” (2013, p. 96).

There were some similarities in demographics of all three states. Age, sex, and employment distributions were comparable for all three states, and veterans accounted for between 6.9% and 8.9% of the populations. However there were far more differences. Florida has greater racial diversity and is three times as densely populated as Wisconsin, and more than fifty times as densely populated as Montana. Montana has higher property values and significantly lower monthly homeowner and renter costs than Wisconsin and Florida. Montana’s median property value is 20% higher than that of Florida, while their median monthly owner costs (with mortgage) are 13% less, and their median monthly gross rent is 30% less. Still, Montana’s median household income is the lowest and its poverty rate is the second highest of the three states (See Appendix A).

Additional research into both regulation of payday lending and alternative programs should take into account how these differences may impact the amount of potential payday loan borrowers residing in the target geographic area. For example, since Florida has a higher population of African Americans than Wisconsin, and African Americans are more likely to borrow payday loans, it is possible that regulation and alternative programs are likely to be underutilized in Wisconsin and would have a better chance of serving more of the targeted population in Florida.

This analysis was limited by the absence of some important information and future research in this area should attempt to fill those gaps. None of the available data described how the Native American

population compared to the rest of the US in terms of demographics of typical payday loan borrowers. Exploring these statistics would help to strengthen programs such as the WINLF. Additionally, the payday lending industry consists of both publicly traded and privately held companies. As such, it is challenging to obtain data for payday loan borrowers that would be representative of the entire country. For example, data provided by the Community Financial Services of America (CFSA), a trade organization representing an estimated half of the payday loan industry, has been used to analyze payday loan customers, but the researchers acknowledged that higher standards set by the CFSA may not reflect behaviors of the rest of the industry (Lawrence & Elliehausen, 2008).

Comparison analysis is also recommended for future research, but will be challenging due to the differing policy approaches. In this analysis, two states instituted protective regulations and one state pursued community-driven programs. If approaches are to be compared, researchers will also need to account for differences in size and heterogeneity of the program jurisdictions. While Montana and Florida's programs featuring protective regulation could certainly be compared to each other, Montana's law has only been in effect for five years, and Florida's has been in effect for fifteen. Similarly, the two programs in Wisconsin have been operating for very different time periods: Wisconsin Native Loan Fund for ten years and Ways to Work for thirty-two. Further obstacles in side-by-side analysis of Ways to Work and the Wisconsin Native Loan Fund are the size and scope of their programs. In addition to serving a large population in and around Milwaukee County, Ways to Work has expanded nationally and manages a much larger program. Wisconsin Native Loan Fund operates on a smaller scale serving Native American communities within the state.

Implications for Future Policy

The scarcity/stress perspective, limited alternatives perspective, and cost disadvantage perspective all serve to better explain the social problems associated with the fringe banking industry, including payday lending. Further, key learnings from the value-critical analysis of solutions based on those perspectives can be readily applied at the federal level.

The Consumer Financial Protection Bureau (CFPB) has listed the "Open-Use Credit" market as one of its policy priorities for the next two years, and defined it as encompassing "a range of financial

products such as credit cards, overdraft products, payday loans, auto title loans, and installment loans" (Consumer Financial Protection Bureau, 2016, pp. 10-11). As illustrated by the policy in Montana, it is prudent of the CFPB to address regulations of varying loan products as a group rather than as separate entities.

In March of 2015, the CFPB published a list of policy proposals for the open-use credit market which included "two ways that lenders could extend short-term loans without causing borrowers to become trapped in debt": by determining the consumer's ability to repay prior to issuing the loan and generally adhering to a 60-day "cooling off" period between loans, or by offering affordable repayment options and limiting the total time a borrower can be in debt to a lender to 90 days within the course of a year (Consumer Financial Protection Bureau, 2016). In considering the Florida analysis, a 60-day cooling off period or imposed limit on number of loans may not be feasible for existing payday loan borrowers. The CFPB was to propose a draft of the regulation by the end of 2015, but that has since been pushed to April or June of 2016 (Mishkin, 2016). If the legislation is to truly be of benefit to consumers, it would be advantageous if it also provided a mechanism for lower-income families to build savings. If it does not, then it may have an unintended consequence of eliminating one of the few avenues that low-income families currently use to survive financially. President Obama's 2017 budget proposal is promising in this respect because it not only expands funding for CDFI programs, but also calls for $100 million fund "for the U.S. Treasury Department to encourage the development of financial products that would help low- to moderate-income workers build savings" (Bloomberg Law: Banking, 2016).

Policy and Program Recommendations

Community Development Financial Institutions play a vital role in helping low-income families achieve financial stability. Some states have developed their own CDFI funds to help offset the financial dependency that CDFIs currently have on federal funding, but more organizations should actively seek out diverse funding streams and opportunities to self-sustain where possible to increase their likelihood of survival during national economic downturn.

Regulation of payday lenders is necessary, but it must follow some basic rules that are consistent throughout the US to avoid potential loopholes that could be exploited across state lines and by online

lenders. Any revenue-generating tools that are required by the regulation should be evaluated on a regular basis to determine if they are aiding in the achievement of overarching objectives, such as the quest for financial self-sufficiency. As the policy in Florida has shown, the wording of objectives can sometimes lead to evaluations of data that do not necessarily equate to successfully meeting the overall objective. In Florida, the intent of one objective was to decrease the number of payday loans taken per borrower. The protective regulation framing that objective was to prohibit rollovers of existing loans and mandate that new loans could be taken out within 24 hours of repayment. However, since the measured objective centered on a limited definition of *rollover* and enforcement of a 24-hour waiting period without taking into account total number of loans per borrower in a given year, early state evaluation of the objective indicated that the policy was a success. Success was attributed to the data showing the average number of loans held at the same time by a borrower had gone down (State of Florida Department of Banking and Finance, 2003; State of Florida Office of Financial Regulation, 2004), but in fact the total number of loans per borrower actually increased from an average of six in 2002 to an average of nine in 2012 (State of Florida Department of Banking and Finance, 2003; Veritec Solutions LLC for the Florida Department of Banking and Finance, 2013). Goals and objectives should be regularly evaluated to ensure that they are guiding the regulation toward bettering the well-being of citizens, and not worded in such a way that allows measurements of success to be skewed. Finally, any regulation that could result in limiting the usage of an existing resource should be accompanied by a program that will provide a new and improved resource to ensure that it does not negatively affect the people it was designed to protect.

Appendix A

Demographics for Montana, Wisconsin, and Florida

Category	Montana	Wisconsin	Florida
People			
Population			
Population estimates, July 1, 2015	1,032,949	5,771,337	20,271,272
Population estimates base, April 1, 2010	989,417	5,687,289	18,804,623
Population, percent change - April 1, 2010 (estimates base) to July 1, 2015	4.4	1.5	7.8
Age and Sex			
Persons under 5 years, percent, July 1, 2014	6.0	5.9	5.5
Persons under 5 years, percent, April 1, 2010	6.3	6.3	5.7
Persons under 18 years, percent, July 1, 2014	22.0	22.6	20.4
Persons under 18 years, percent, April 1, 2010	22.6	23.6	21.3
Persons 65 years and over, percent, July 1, 2014	16.7	15.2	19.1
Persons 65 years and over, percent, April 1, 2010	14.8	13.7	17.3
Female persons, percent, July 1, 2014	49.8	50.3	51.1
Female persons, percent, April 1, 2010	49.8	50.4	51.1
Race and Hispanic Origin			
White alone, percent, July 1, 2014	89.4	87.8	77.8
White alone, percent, April 1, 2010	89.4	86.2	75.0
Black or African American alone, percent, July 1, 2014	0.6	6.6	16.8
Black or African American alone, percent, April 1, 2010	0.4	6.3	16.0
American Indian and Alaska Native alone, percent, July 1, 2014	6.6	1.1	0.5
American Indian and Alaska Native alone, percent, April 1, 2010	6.3	1	0.4
Asian alone, percent, July 1, 2014	0.8	2.6	2.8
Asian alone, percent, April 1, 2010	0.6	2.3	2.4
Native Hawaiian and Other Pacific Islander alone, percent, July 1, 2014	0.1	0	0.1
Native Hawaiian and Other Pacific Islander alone, percent, April 1, 2010	0.1	<0.05	0.1
Two or More Races, percent, July 1, 2014	2.6	1.8	2
Two or More Races, percent, April 1, 2010	2.5	1.8	2.5
Hispanic or Latino, percent, July 1, 2014	3.5	6.5	24.1
Hispanic or Latino, percent, April 1, 2010	2.9	5.9	22.5
White alone, not Hispanic or Latino, percent, July 1, 2014	86.7	82.2	55.8
White alone, not Hispanic or Latino, percent, April 1, 2010	87.8	83.3	57.9
Population Characteristics			
Veterans, 2010-2014	91,956	395,931	1,538,636
Foreign born persons, percent, 2010-2014	2	4.7	19.6
Housing			
Housing units, July 1, 2014	491,531	2,648,317	9,144,250
Housing units, April 1, 2010	482,825	2,624,358	8,989,580

Category	Montana	Wisconsin	Florida
Owner-occupied housing unit rate, 2010-2014	67.7	67.7	66.1
Median value of owner-occupied housing units, 2010-2014	187,600	165,900	156,200
Median selected monthly owner costs -with a mortgage, 2010-2014	1,290	1,431	1,480
Median selected monthly owner costs -without a mortgage, 2010-2014	385	533	469
Median gross rent, 2010-2014	696	772	998
Building permits, 2014	3,884	14,622	84,075
Families and Living Arrangements			
Households, 2010-2014	407,797	2,293,250	7,217,508
Persons per household, 2010-2014	2.40	2.43	2.62
Living in same house 1 year ago, percent of persons age 1 year+, 2010-2014	83.5	85.8	83.7
Language other than English spoken at home, percent of persons age 5 years+, 2010-2014	4.2	8.6	27.8
Education			
High school graduate or higher, percent of persons age 25 years+, 2010-2014	92.4	90.8	86.5
Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014	29.1	27.4	26.8
Health			
With a disability, under age 65 years, percent, 2010-2014	9.0	8.0	8.5
Persons without health insurance, under age 65 years, percent	16.9	8.6	20.1
Economy			
In civilian labor force, total, percent of population age 16 years+, 2010-2014	63.9	67.4	59.2
In civilian labor force, female, percent of population age 16 years+, 2010-2014	59.9	63.8	55.0
Total accommodation and food services sales, 2012 ($1,000)	2,420,455	10,303,256	49,817,925
Total health care and social assistance receipts/revenue, 2012 ($1,000)	6,469,475	40,680,625	12,400,000,000
Total manufacturers shipments, 2012 ($1,000)	11,535,236	17,800,000,000	96,924,106
Total merchant wholesaler sales, 2012 ($1,000)	12,645,824	77,066,883	25,300,000,000
Total retail sales, 2012 ($1,000)	15,623,573	78,201,822	27,400,000,000
Total retail sales per capita, 2012	15,544	13,656	14,177
Transportation			
Mean travel time to work (minutes), workers age 16 years+, 2010-2014	18.3	21.8	26.1
Income and Poverty			
Median household income (in 2014 dollars), 2010-2014	46,766	52,738	47,212
Per capita income in past 12 months (in 2014 dollars), 2010-2014	25,977	27,907	26,499
Persons in poverty, percent	15.4	13.2	16.5
Businesses			
Total employer establishments, 2013	36,529	137,983	510,389
Total employment, 2013	350,196	2,401,032	7,134,644
Total annual payroll, 2013	12,446,590	102,083,261	294,142,009

Category	Montana	Wisconsin	Florida
Total employment, percent change, 2012-2013	1.8	0.5	2.9
Total nonemployer establishments, 2013	84,251	335,177	1,838,864
All firms, 2012	112,419	432,980	2,100,187
Men-owned firms, 2012	55,913	236,252	1,084,885
Women-owned firms, 2012	35,449	133,859	807,817
Minority-owned firms, 2012	5,578	40,507	926,112
Nonminority-owned firms, 2012	102,746	379,934	1,121,749
Veteran-owned firms, 2012	11,486	39,830	185,756
Nonveteran-owned firms, 2012	93,393	370,755	1,846,686
Geography			
Population per square mile, 2010	6.8	105	350.6
Land area in square miles, 2010	145,545.8	54,157.8	53,624.76

(United States Census Bureau, 2015)

Appendix B

2015 US Poverty Thresholds

Household Size	Annual Income
1 person	$12,085
2 people	$15,397
3 people	$18,872
4 people	$24,259
5 people	$28,729
6 people	$32,512
7 people	$36,971
8 people	$41,017
9 people or more	$49,079

(United States Census Bureau, 2016)

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