

Unveiling the Impact: The Economic Ripple of Banning Payday Loans in Louisiana

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Introduction

Over the past few decades the Payday Lending Industry has observed rapid growth since its inception in the early '90s. However regulation has been rather lackluster, Louisiana itself is rather evident in this aspect in lack of proper regulation. Their neighbors up north, Arkansas, are almost the complete opposite in regulation outright banning the practice of lending, but some lenders have found ways around the regulations. In a report comparing Louisiana, Arkansas, and Mississippi, it was largely established that of the three Louisiana was the most lax when it comes to overall regulations. For the most part consumers are not properly advised of all the stipulations and financial penalties that could occur if they are not careful with their spending habits.

Payday Lending Practices and Consumer Impact

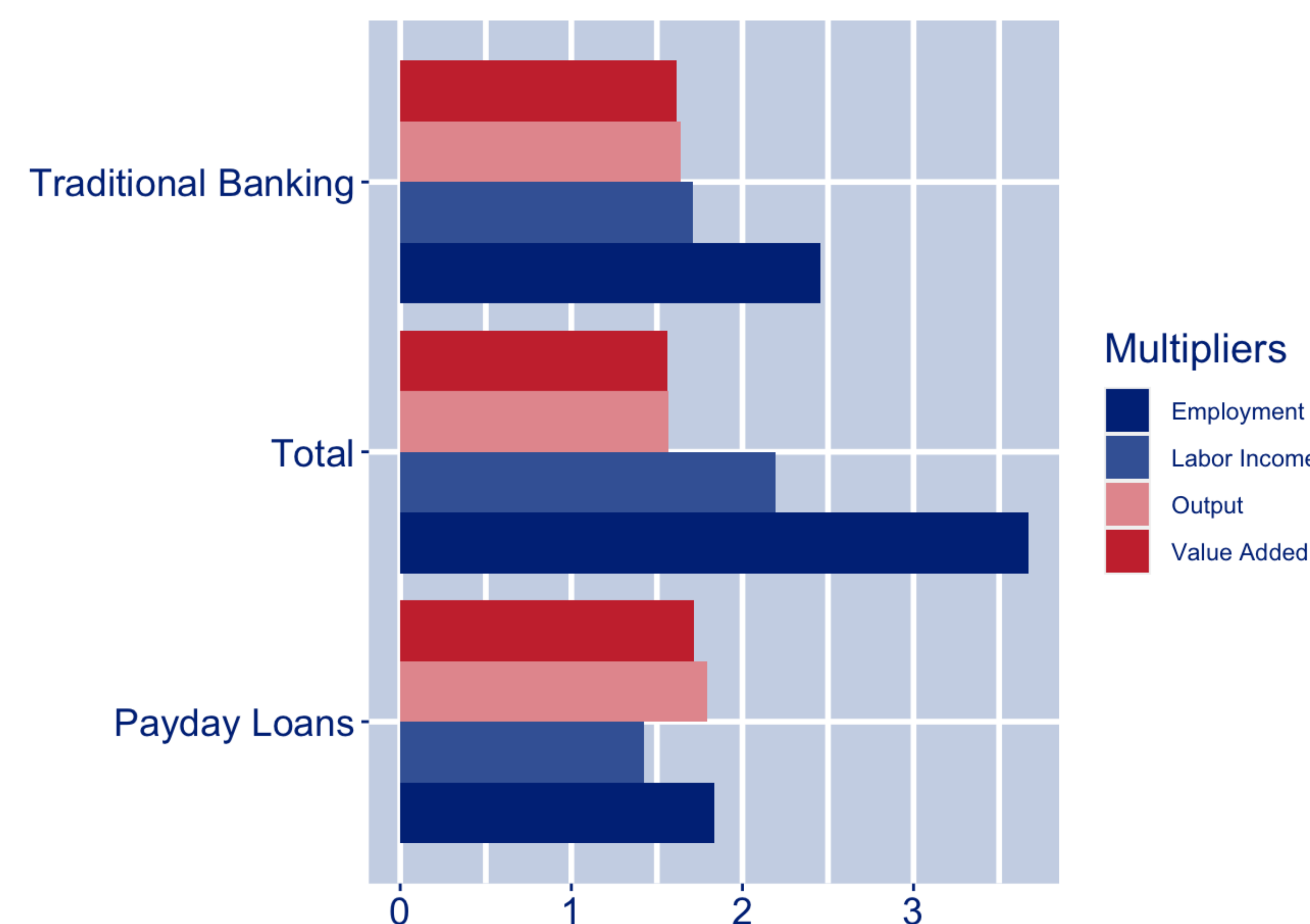
In most practices lenders offer biweekly loans with the customer's paycheck as collateral, they take off their "fee" ranging from \$15 to \$30 for every \$100 borrowed. On an annualized basis the average borrowing rate was well over 400% found in a report. In some cases borrowers would have to renew their loan thus renewing the loan for another period and in theory the loan could carry on for an undetermined time. In the figure above we measure the effect of outright banning the practice in Louisiana and across the board the state as a whole observes a net benefit.

Impact	Parish	State	Federal	Total
Direct	-\$405,763	-\$2,344,788	-\$11,251,819	-\$14,996,290
Indirect	-\$113,836	-\$648,122	-\$2,681,886	-\$7,322,670
Induced	-\$520,897	-\$1,980,016	-\$7,344,780	-\$5,721,459
Direct	\$514,798	\$2,435,803	\$21,463,522	\$27,475,337
Indirect	\$594,984	\$2,845,922	\$93,676,334	\$141,265,764
Induced	\$1,002,951	\$3,812,412	\$7,210,636	\$14,482,211

Economic Effects of Banning Payday Loans in Louisiana

A negative impact was also observed from the closure of payday loan businesses. It is important to highlight, however, that the majority of the jobs affected are in the low-income bracket. This effect is then counteracted by the opening of new positions in the broader financial sector, which in itself is caused due to the large majority of borrowers being unbanked with the latest report at an estimated 8.1%. Though the trend has largely been on a decline, when compared to the national average the state is double the metric. The reasoning behind this metric being so high can be found in a report published back in 2014 stating that "(check-cashing-establishments) generally meet the financial services needs of lower income communities better than do mainstream financial institutions". Even with the large influx of business that these institutions

may observe they will need to produce a product that is adequate for this consumer. That's where Salary Advance Loans (SALO) come into the picture, though they operate similarly to say a normal payday loan. However they differ in two specific ways, the first of which being that they are capped at an annual percentage rate of 11.75% along with a maximum advance of \$500. Along with this the loans are repaid automatically since the borrower is required to have direct deposit from their employer. NCSECU was the first bank to roll out a product of this kind back in 2001 and originated 40,000 new loans in the process.



The Popularity and Pitfalls of SALOs

It was quickly observed that SALOs themselves were massively popular for low-income families with renewals outpacing new loans by a margin of 3:1. This did highlight a growing issue as it began to create a habitual problem with consumers constantly renewing the lower cost product. Though it can be argued that it is more financially beneficial compared to their loan-shark counterparts. It does bring into question the average consumer's mindset and over borrowing, especially with the booming industry of ecommerce.

This does bring into question why payday lending came into existence to begin with, not just for families to borrow against their next paycheck to make sure food is on the table or that rent is paid for the month. The rapid growth of the industry happened mainly as a consequence for larger banks pulling up their operations from inner cities as they became less profitable over time. With this the businesses themselves began to pop up the biggest of which being Advance America currently operating over 1,700 locations across the country. Louisiana is home to 63 of these operations mainly dotted around our larger cities. Some of which are located around U.S. military bases, the most notable of which being Barksdale Air Force Base in Bossier City, which has 39 different payday lending and cash pawn services in its direct vicinity. This is especially

problematic as some current and former service members may find it hard to make ends meet. Their predatory practices are then exacerbated by their ease of access which in itself has become multiplied by the recent introduction of mobile payday lending along with by now pay later plans.

Conclusion

These issues will have greater and greater magnitude on the wealth of future generations as they themselves will be indoctrinated into complicit borrowing furthermore repeating the cycle. With the measured effects as a whole being largely a net positive for the state it will only be a bandaid for an ever increasing problem. The best solution by far would be proper and accessible financial education so that every borrower knows the risks and circumstances that they could be involved in.

- **Rapid Growth of Payday Lending:** Since the early '90s, the payday lending industry has seen significant growth, with regulation lagging behind, especially in Louisiana.
- **Comparison with Neighboring States:** Louisiana's regulatory framework for payday lending is less stringent compared to Arkansas, which has banned the practice, and Mississippi.
- **Consumer Advisory:** In Louisiana, there is a lack of comprehensive advisories for consumers regarding payday loans, often leaving them unaware of the financial penalties and terms.
- **Loan Terms and Costs:** Payday loans typically require biweekly repayments with high fees, leading to an annual borrowing rate exceeding 400%.
- **Effects of Banning Payday Loans:** The analysis suggests a net benefit for Louisiana from banning payday loans, despite initial negative shocks from business closures, primarily affecting low-income jobs.
- **Shift to the Financial Sector:** The closure of payday loan businesses could lead to new job opportunities in the broader financial sector, addressing the high unbanked rate in Louisiana.
- **Popularity and Issues of Salary Advance Loans (SALOs):** While SALOs offer a lower-cost alternative to payday loans, their high renewal rate indicates a potential for habitual borrowing.
- **Origins of Payday Lending:** The growth of the payday lending industry is partly due to large banks withdrawing from less profitable inner-city areas.
- **The Need for Financial Education:** The paper advocates for enhanced financial education to break the cycle of complicit borrowing and mitigate the broader economic impacts.