# Mile High Money: Payday Stores Target Colorado Communities of Color

Center for Responsible Lending

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## Summary Findings:

- **Majority-minority areas in Colorado (over 50% African-American and Latino) are nearly twice as likely to have a payday store than all other areas,** and 7 times more likely to have a store than predominately white areas (below 10% African-American and Latino).
- **Affluent communities of color have a higher likelihood of containing a payday store,** when compared to low-income, predominately white areas.
- **In 2016, payday loans drained nearly $50 million in fees from Colorado consumers.** The average Colorado consumer took out two longer-term loans over the course of the year, while one in four payday loans went into delinquency or default.

Payday lending involves small-dollar, high-interest loans that trap consumers into a long-term cycle of debt and fees. Payday lenders tout themselves as a needed service providing access to emergency credit. However, with weak underwriting and ability to repay standards, the payday loan model creates a debt trap that is easy to get into, but extremely difficult to escape. Each year, payday loans strip $4.2 billion in fees from consumers across the country.[1] In Colorado, payday lenders cost consumers nearly $50 million in fees for 2016.[2]

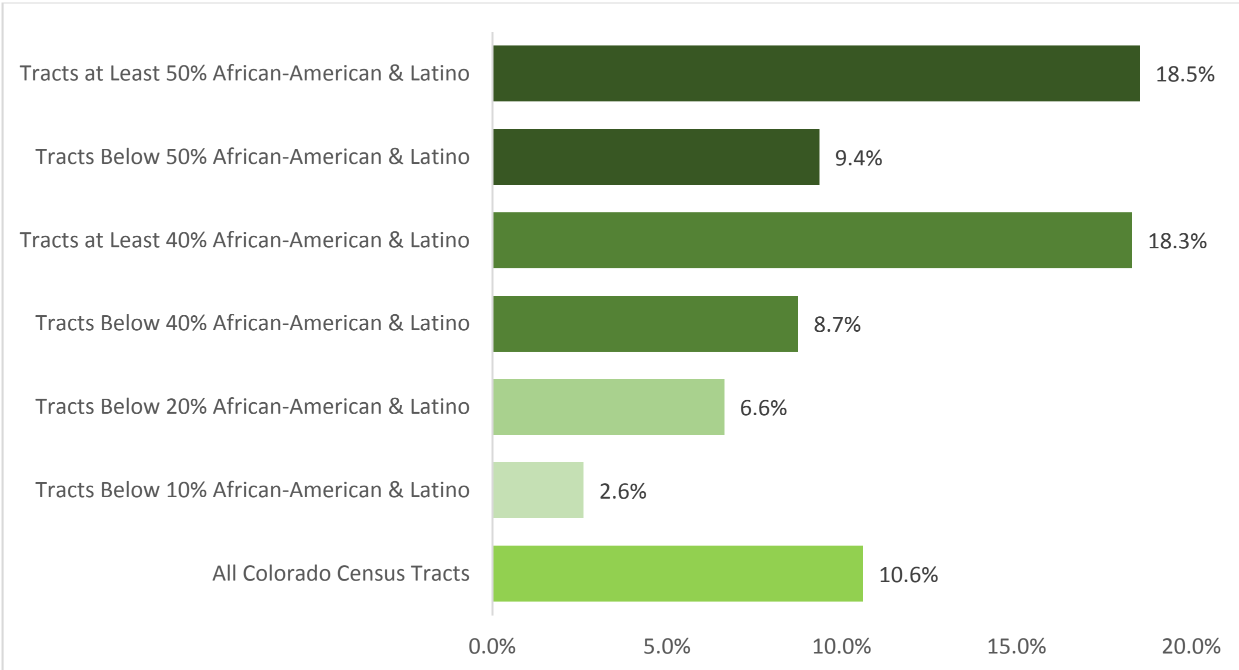
In 2010, Colorado enacted reforms to payday lending, which curtailed some of the most blatant abuses, and initially considered by some as a model for other states. Colorado reduced the price of the loans, extended their minimum loan term to six months, prohibited the sale of ancillary products, and made origination fees proportionately refundable which lessened the incentive to churn loans.

However, with the law change, a high-cost installment payday loan product has supplanted the pre-2010 short-term balloon payment model. While the number of loan transactions has decreased, Colorado law still allows loans with triple-digit APRs – averaging 129.5% in 2016 – with evidence of continued flipping that keeps many consumers mired in debt for more than half the year. In 2016, the average Colorado payday consumer took out two loans during the year, with each loan indebting consumers and average of 97 days. Also, nearly one in four payday loans (23.4%) show signs of distress by delinquency or default.[3]

Prior research has consistently found that payday loan storefronts are more likely to locate in communities of color, even when controlling for other factors, such as household income, that could explain store placement. The Center for Responsible Lending has found correlations between payday store addresses and neighborhoods with higher percentages of African-Americans and Latinos, specifically in North Carolina,[4] California[5], and Florida[6]. Given the nature of the payday loan debt cycle and the financial vulnerability of many minority neighborhoods, evidence of racial targeting could be a sign of exploitation rather than providing a helpful service.

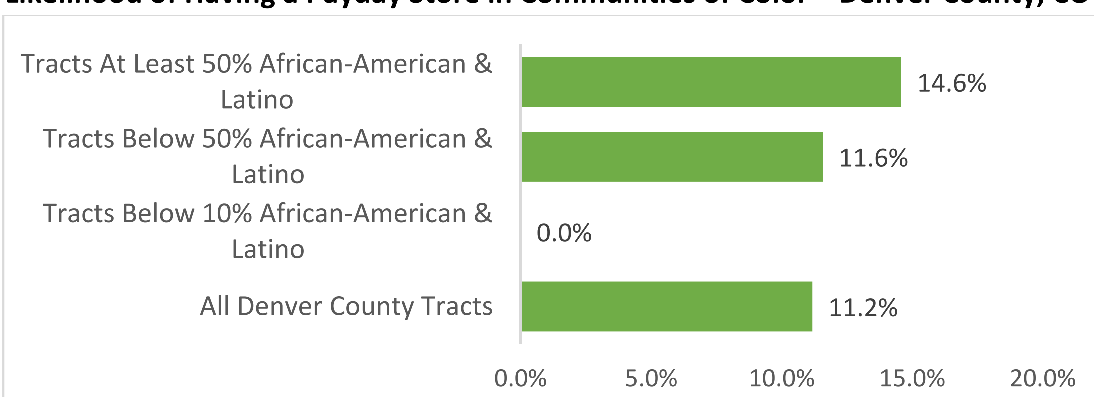
In Colorado, majority-minority areas (over 50% African-American and Latino) are nearly twice as likely to have a payday store than all other areas, and 7 times more likely to have a store than predominately white areas (below 10% African-American and Latino). Statewide, the greater the percentage of African-Americans and Latinos living in a neighborhood, the greater the likelihood of a payday store doing business near where they reside.

**Figure 1: Likelihood of Having a Payday Store in Communities of Color - Colorado**



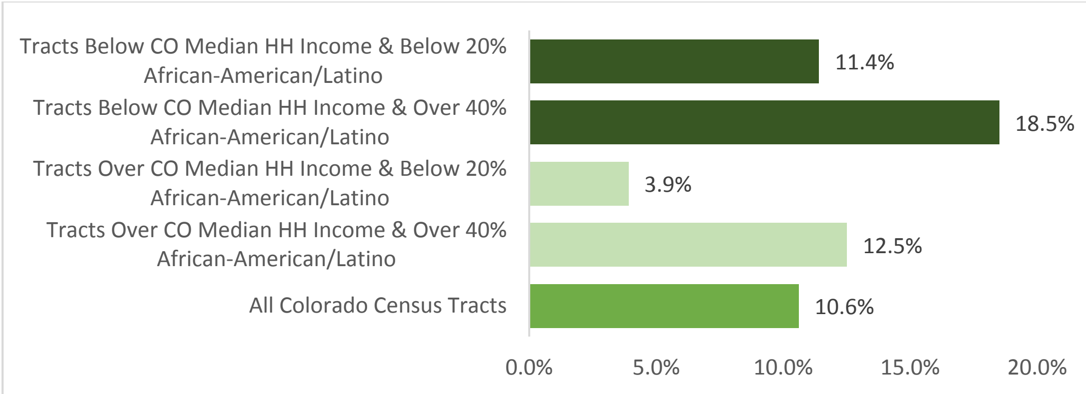

With Colorado's geography having a prevalence of rural, low-minority census tracts, there's a possibility that the racial disparities between state-wide tracts is largely measuring the differences between urban and rural counties. To account for this, we also took a similar view of tracts only in Denver County, Colorado's most populous area, to see if the disparities still held. For this urban center, majority-minority areas also had the highest likelihood of payday store presence, whereas tracts with populations below 10% African-American and Latino did not have a single payday store.

**Figure 2: Likelihood of Having a Payday Store in Communities of Color – Denver County, CO**




Income is also a key factor that could explain the location of payday stores. Given that payday lenders advertise themselves as viable solutions to financial shortfalls, locating stores in low-income areas could be strategically beneficial. However, when we compare lower-income white neighborhoods to more affluent communities of color, we see that the latter has a slightly higher likelihood of have a payday store.

**Figure 3: Comparing Likelihood of Payday Store Location by Income Level and Race/Ethnicity**




Using GIS mapping, we can also show graphically how payday stores tend to cluster in neighborhoods with higher percentages of minorities – as we see particularly with the Denver and Colorado Spring metro areas. In both graphics, we can see that payday stores tend to locate in areas with higher percentages of African-Americans and Latinos.

**Figure 4: Payday Store Locations in Communities of Color – Denver, CO**

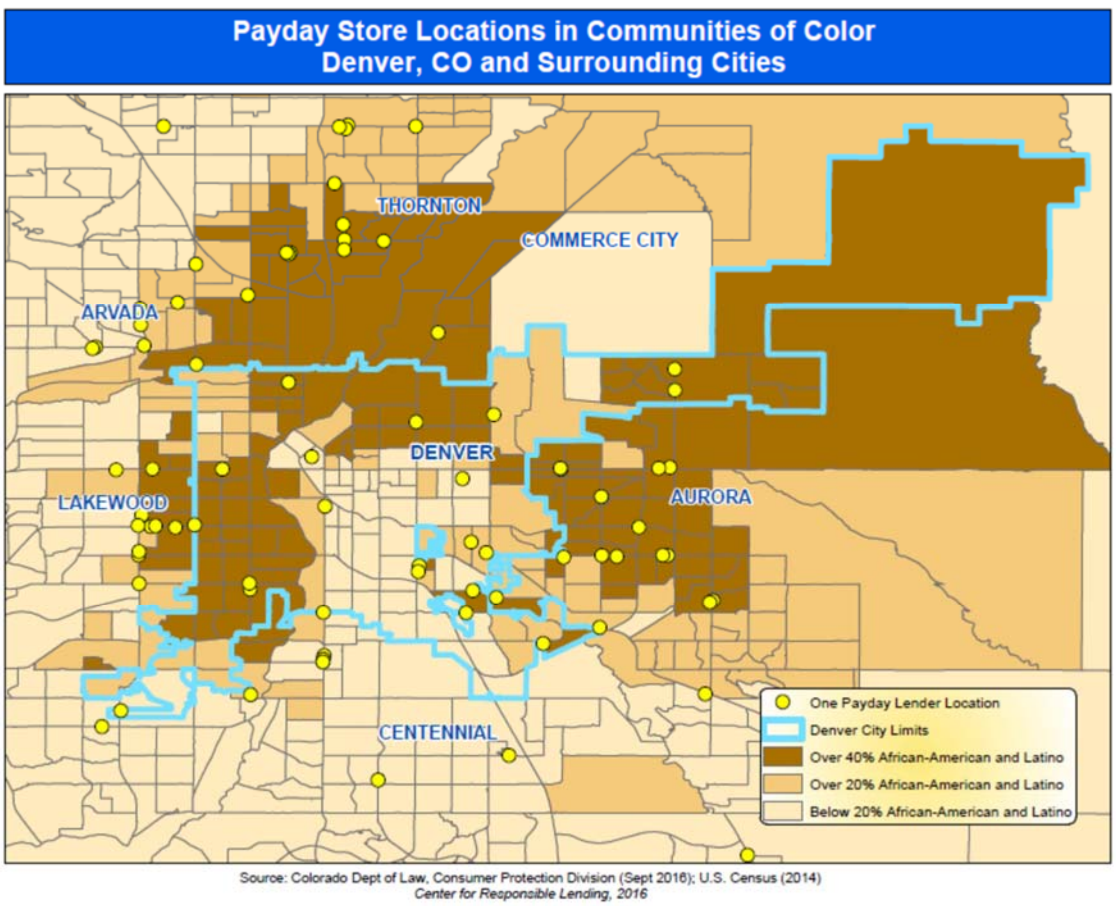
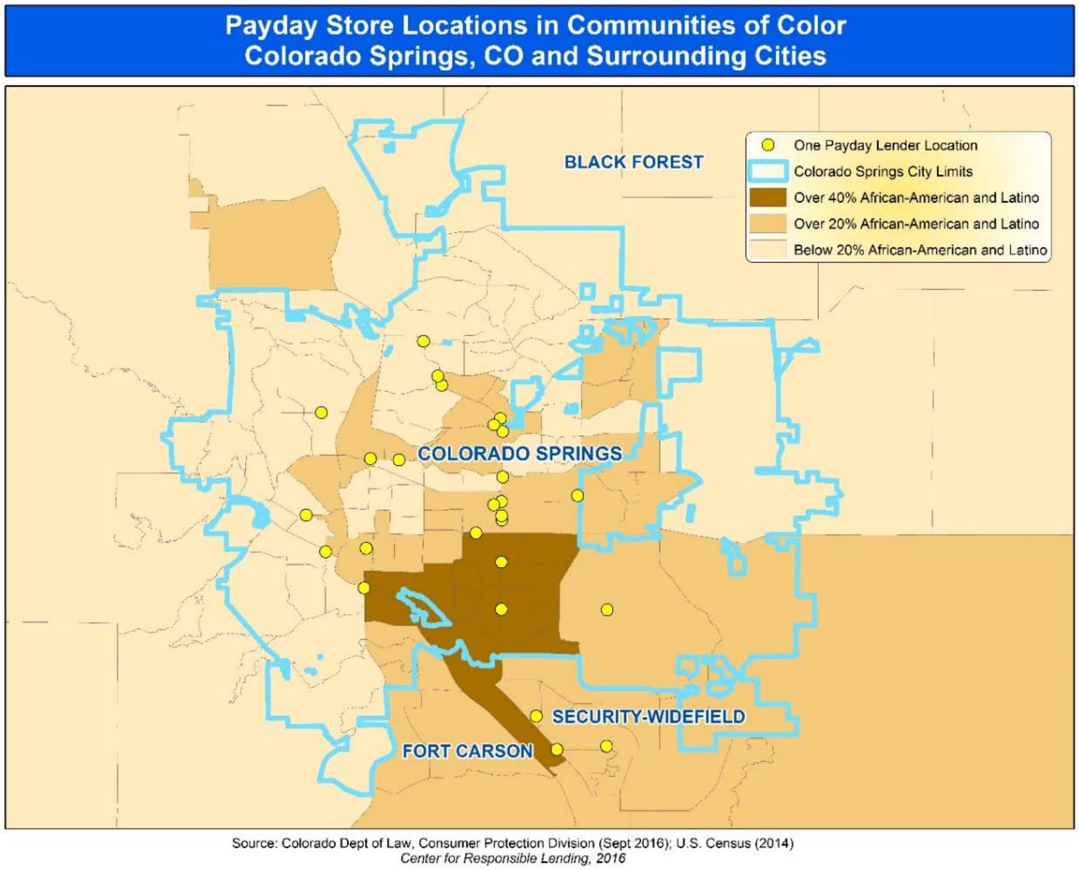


**Figure 5: Payday Store Locations in Communities of Color – Colorado Springs, CO**




## Conclusion

When Colorado reformed regulation on payday lending in 2010, it was touted as a model reform policy for other states to mirror. While post-reform payday loans are less expensive, they unfortunately are not any less predatory. With the concerning volume of drained fees, extended terms of consumer indebtedness, and rates of loan default, it raises the question of exactly how effective Colorado's payday reform was. Additionally, given the disparate nature that payday lenders have toward financially vulnerable people of color, and Colorado has reason to consider a stronger reform of high-cost lending than what they currently have.

[1] Standaert, Diane, and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, Center for Responsible Lending, January 2017.
[2] Calculation based on 2016 CO Department of Law Deferred Deposit/Payday Lenders Annual Report (414,284 loans x $119.46 average loan fees per loan = $49,490,367 total payday loan fees)
[3] Calculation based on 2016 CO Department of Law Deferred Deposit/Payday Lenders Annual Report (414,284 loans / 207,220 individual consumers = 2.0 loans per consumer; 96,952 defaulted payday loans / 448,792 loans = 23.4% payday loan default rate)
[4] King, Uriah, Wei Li, Delvin Davis, and Keith Ernst, Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina, Center for Responsible Lending, Mar 2005.
[5] Li, Wei, Leslie Parrish, Keith Ernst, and Delvin Davis, *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California*, Center for Responsible Lending, Mar 2009.
[6] Coleman, Brandon, and Delvin Davis, *Perfect Storm: Payday Lenders Harm Florida Consumers Despite State Law*, Center for Responsible Lending, Mar 2016.