

University of Chicago Researcher Finds Payday Loans Benefit Communities Affected by Natural Disasters

The working study “*Payday Lenders: Heroes or Villains?*” by Adair Morse, University of Chicago, finds that the existence of payday lenders benefits communities struck by natural disasters. Morse concludes that these findings may be expanded to apply to individuals who experience disasters in their personal lives.

The study assessed the impact of payday lenders in communities which experienced a natural disaster by looking at four measures of community welfare: death rates; drug and alcohol treatment rates; foreclosure rates and birth rates. The existence of payday lenders increased community welfare for all four measures.

While financial institutions were beneficial to communities, banks and other forms of credit were no substitute for payday loan products. The study found that they did not provide finance to individuals in distress in the same manner as payday loans.

Adair Morse is an assistant professor of finance at University of Chicago. Her findings have been presented at numerous conferences and symposiums, including a seminar with the Federal Reserve Bank of Cleveland.

Read the full study at

<http://faculty.chicagogsb.edu/adair.morse/research/MorsepaydayJune07.pdf>

Noted in Professor Morse’s study:

Payday loans raise welfare, benefit communities hit by natural disasters

“...communities with payday lenders show greater resiliency to natural disasters.”

“Natural disasters induce an increase in foreclosures, but the existence of payday lenders significantly offsets this increase.”

“For these individuals, the existence of payday loans raises welfare.”

Banks cannot serve as substitutes for payday lenders

“In the majority of specifications, banks cannot serve the welfare-enhancing role for individuals in distress that payday lenders serve.”

“Finance is valuable for community resiliency, but for the most part, the value does not come from mainstream banking.”

Payday loans offer valuable service, should not be banned

“The results indicate that payday lenders offer a valuable service to community....”

“If the existence of payday lending is valuable for those facing personal disaster in a way that other financial institutions cannot provide, then regulators should strive to make access to finance easier and more affordable, not ban it.”



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