



Georgians *for* Cash Advance

Federal Reserve Bank of New York Staff Study: A cash advance does not meet the definition of “predatory”.

A forthcoming study, *“Defining and Detecting Predatory Lending,”* by Donald P. Morgan, Research Officer, Federal Reserve Bank of New York, and Samuel G. Hanson, Graduate Student, Harvard Business School, concludes that cash advances are not a “welfare reducing” form of credit. To the contrary, the authors suggest that a cash advance enhances the welfare of households by increasing the supply of credit.

Noting the difficulty in defining, “predatory,” the authors set out to distinguish predatory lending from “the kind that helps households maintain consumption even as their incomes fluctuate.” They examined differences in household debt and delinquency across states that allow cash advances and those that do not and compared the change in those differences before and after the advent of cash advances. Particular attention was paid to households that seem more vulnerable to predation (those with income uncertainty or less education).

Noted in the report:

A cash advance is not welfare reducing, or “predatory”

“We define predatory lending as a welfare reducing provision of credit.”

“Our findings seem mostly inconsistent with the hypothesis that a cash advance preys on, i.e., lower the welfare of, households with uncertain income or households with less education.”

“On the whole, our results seem consistent with the hypothesis that a cash advance represents a legitimate increase in the supply of credit, not a contrived increase in credit demand.”

A cash advance may enhance the welfare of households

“Credit delinquency rates are not higher for households in states with higher cash advance limits.”

“Households with uncertain income who live in states with unlimited cash advances are less likely to have missed a debt payment over the previous year...consistent with claims by defenders of cash advances that some households borrow from cash advance providers to avoid missing other payments on debt.”

“Those types of households who happen to live in states that allow unlimited cash advances are less likely to report being turned down for credit, but are not more likely, by and large, to report higher debt levels...”

Price does not make cash advances “predatory”: limiting access raises prices

“Higher prices are neither necessary nor sufficient to conclude that a certain class of credit is predatory.”

“We find somewhat lower cash advance prices in cities with more cash advance stores per capita, consistent with the hypothesis that competition limits cash advance prices...The problem of high prices may reflect too few cash advance providers, rather than too many.”

“Before cash advances...very small, short-term cash advances may not have been worthwhile for banks. Cash advance technology may have lowered those fixed costs, thus increasing the supply of credit...That suggests the cash advance innovation was welfare improving, not predatory.”