



Predatory Charity Strikes Again

Self-Helping “Center for Responsible Lending” Cynically Cherrypicks Data to Play “Race Card” in Effort to Push Bogus Consumer Regulations

On March 26, 2009 the Center for Responsible Lending issued a troubling report titled “Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California.” The group is right to seek “efforts to help low- and moderate-income families build emergency savings...” However, a careful analysis of the “study” reveals that there are grave problems with the group’s methodology, assumptions, and motivations.

Bad Assumptions, Dubious Methods

The Center for Responsible Lending claims payday lenders are 2.4 times more concentrated in African American and Latino communities in California than in comparable white neighborhoods.¹ Moreover, the report seeks to compare the location choices of traditional banking retail centers with that of payday lenders. Finally, the group claims that availability of this credit option actually harms consumers. However, the authors make several seemingly indefensible choices in the structure of their calculations, including:

- Failing to include Asian Americans in a study on race and ethnicity; this is significant since Asian Americans make up approximately 13.6% of all California residents;
- Intentionally dropping one out of 11 California payday stores from the group’s final analysis *based on their location* in smaller communities, which could have a significant impact on a study purporting to deal with store location;
- Failing to consider or control for critical factors in consumer credit and capital costs such as consumer credit scores and retail office space cost;

In addition to those methodological issues, the Center failed to include a comparison of high bank overdraft fees versus lower-cost credit options such as payday loans (this is especially odd since each overdraft charge can exceed the cost of one payday loan). So while the group claims payday loan fees “cost” consumers in California, they neglect to measure the alternatives. The FDIC has estimated that overdraft fees are a critical portion of traditional institutions’ business model, bringing in 74 percent of their income.² Even the Center has rightly noted that overdraft fees account for \$17.5 billion each for banks and

¹ It is important to note the authors’ statement that **the study “cannot be used to draw conclusions in other states.”**

² Chu, Kathy. “FDIC: Bank overdraft fees hit young, low-income customers.” USA Today. December 2, 2008.

credit unions. The Center's failure to account for the significant difference in cost between payday loans and overdraft fees in and of itself impeaches the credibility of their report and could have the negative consequence of driving consumers to costlier alternatives.

A Track Record of Troubling Motives

The Center for Responsible Lending's race-baiting report is only the most recent of its kind; the organization routinely attacks the reputation of and seeks to ban financial institutions that compete with the group's Self-Help network of lenders. The Self-Help network can make more loans (at a profitable rate) when the Center is able to drive competitors away.

The organization's aggressive and destructive lobbying and public relations campaigns have misled and harmed consumers. Researchers from the Federal Reserve Bank of New York concluded that the Center for Responsible Lending's ban on payday loans actually cost consumers millions of dollars per year in extra bounced checks.³

It is therefore troubling (but not surprising) to see the Center for Responsible Lending, (which is run by many of the same executives that manage Self-Help) launch an offensive new attack in the California market -- where Self-Help is seeking expansion.

Important Lessons

Given the serious problems that undercut the report's validity, it is troubling that the Center for Responsible Lending would publish an incendiary report using "the race card." But while the intent of this report is misguided, the text does manage to highlight several reasons some consumers have sought an alternative to traditional banks:

- The Center for Responsible Lending is apparently troubled that consumers actually like "(1) the speed and convenience of getting a payday loan; (2) the assured approval of almost anyone with a checking account and source of income; and (3) the seemingly clear pricing of a simplistic, short-term product with no hidden or complex fees."
- "... the ease of taking out a loan is generally the most attractive feature," while many customers are referred by friends or family.

While those are some reasons that consumers thus far approve of payday loans, there is ample evidence that they have not been satisfied with traditional lenders' products or that traditional banks have yet to broadly meet the need of consumers who need quick access to inexpensive credit.

The report notes, "There is somewhat greater concentration of banks within areas with the smaller share of African Americans and Latinos." It points to the fact that African Americans and Latinos are dramatically underserved by traditional banks, with 19.4

³ Morgan, Donald P. and Strain, Michael R. "Payday Holiday: How Households Fare after Payday Credit Bans." Federal Reserve Bank of New York Staff Reports, no. 309. November 2007.

percent of each minority population going without a checking account. Those are important statistics but have been misused by the Center.

The issue of whether populations are being fully served by traditional banks is an important one and raises important questions. Unfortunately, the Center's race-baiting report ignores the serious issues at hand – including access to credit, credit scores, credit history, and the relative ease of obtaining credit – and instead makes wild and unfounded accusations using race and ethnicity.

Economics 101

The Center for Responsible Lending is once again calling competitors racist, consumers stupid, and regulators lazy.

It is indeed ironic that the Center for Responsible Lending seeks a cap on annual percent rates for loans in the state of California, a dramatic and punitive new regulation (especially since the actual cost of a payday loan is usually less than an overdraft fee). After all, location has become important to payday lenders precisely because other key aspects of that business are heavily regulated and therefore the firms are best served by locating nearest consumers who find their inexpensive, easy-to-use credit options attractive.

There is reason to be skeptical of the Center's motives. As detailed in the report, *Predatory Charity*, the Self-Help network has lobbied to ban helpful consumer financial products in the areas where the organization's credit union and other lending operations are competitors.

Given the fatal flaws in methodology and assumptions used to produce this report, it appears that the most significant predatory targeting revealed in this report is the blatant attempt by the Center to manipulate data in furtherance of their campaign for self serving regulations.