ORDINANCE NO. _____

AN ORDINANCE TO AMEND CHATTANOOGA CITY CODE, PART II, CHAPTER 38, ZONING ORDINANCE, ARTICLE II, SECTION 38-2, DEFINITIONS AND ARTICLE V, DIVISION 13, SECTION 38-185; DIVISION 14, SECTION 38-205; DIVISION 15, SECTION 38-224; DIVISION 16, SECTION 38-246, USES PERMITTED AS SPECIAL EXCEPTIONS BY THE CITY COUNCIL; DIVISION 17, SECTION 38-266, PROHIBITED USES AND STRUCTURES; AND ARTICLE V, DIVISION 18, SECTION 38-289, USES WHICH REQUIRE A SPECIAL PERMIT; AND ARTICLE V, DIVISION 19, SECTION 38-303, USES PERMITTED AS SPECIAL EXCEPTIONS BY THE CITY COUNCIL; AND ARTICLE V, DIVISION 9, SECTION 38-125, PROHIBITED USES AND STRUCTURES; AND ARTICLE V, DIVISION 10, SECTION 38-134, GENERAL FUNCTION (PERMITTED USES); AND ARTICLE VI, DIVISION 2, SECTION 38-529, SPECIAL EXCEPTION PERMIT FOR ALTERNATIVE FINANCIAL SERVICES ESTABLISHMENT.

WHEREAS, pursuant to Title 45 of *Tennessee Code Annotated*, certain rules and regulations governing financial institutions have been established which regulate pawnbrokers, title pledge lenders, deferred presentment services, check cashers, and other similar uses which are considered as non-banking institutions; and

WHEREAS, the Regional Planning Agency completed a study of alternative financial services and referred a Planning Commission resolution at the request of City Council in 2006; and

WHEREAS, the study noted that efforts to promote economic revitalization through diversification of land uses in certain areas may be impeded by the clustering of certain alternative financial services; and

WHEREAS, the office of the City Mayor has requested the assistance of the City Attorney and Regional Planning Agency to review and update the 2006 Planning Commission resolution for City Council adoption by ordinance; and

WHEREAS, it is the determination of the Chattanooga City Council that the following uses should require a Special Exceptions Permit within the allowed zones; and

SECTION 1.   BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article II, Section 38-2, Definitions, be amended by adding a new definition in alphabetical order as follows:

"Alternative Financial Service" means establishments that are:

(a)   not licensed by an appropriate state or federal agency as a bank, savings and loan association, or credit union, industrial loan and thrift offices, insurance premium finance companies, or mortgage companies;

(b)   regulated by the Tennessee Department of Financial Institutions; and

(c)   categorized for purposes of this Ordinance as:

   1)   "Pawnbrokers" as defined at T.C.A. § 45-6-203; or

   2)   "Title Pledge Lenders" as defined at T.C.A. § 45-15-103; or

   3)   "Deferred Presentment Services" as defined at T.C.A. § 45-17-102; or

   4)   "Check Cashers" as defined at T.C.A, § 45-18-102 except that Check Cashers do not include Check Cashers exempt from state regulation pursuant to T.C.A. § 45-18-103, or

5)   any combination of Alternative Financial Services which include, but are not limited to, "Pawnbrokers", "Title Pledge Lenders", "Deferred Presentment Services" and/or "Check Cashers" as defined herein.

SECTION 2. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 13, C-2 Convenience Commercial Zone, Section 38-185, Uses permitted as special exceptions by the City Council, be amended by adding a new subsection (4) Alternative Financial Services.

SECTION 3. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 14, UGC Urban General Commercial Zone, Section 38-205, Uses permitted as special exceptions by the City Council, be amended by striking the section and inserting in lieu thereof the following:

(1)   The following uses may be permitted as special exceptions by the City Council as authorized by Tennessee Code Annotated, 57-3-208 and Chattanooga City Code, Part II, sections 5-101 through 5-126:

     (a)   Liquor stores;
     (b)   Wineries, including vineyards, processing, bottling and sales facilities; and
     (c)   Alcohol Distillery, Small to the UGC Urban General Commercial Zone.

(2)   Alternative Financial Services.

SECTION 4. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 15, C-3 Central Business Zone, Section 38-224, Uses permitted as special exceptions by the City Council, be amended by adding a new subsection (3) Alternative Financial Services.

SECTION 5. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 16, C-4 Planned Commerce Center Zone, Section 38-246, Uses permitted as special exceptions by the City Council, be amended by adding a new subsection (3) Alternative Financial Services.

SECTION 6. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 17, C-5 Neighborhood Commercial Zone, Section 38-266, Prohibited uses and structures, be amended by adding a new subsection (9), renumbering old subsection (9) and adding subsection (10) as follows:

(9)   Alternative Financial Services.

(10)   In general, any use or structure not of a nature permitted under "Principal Uses Permitted" and "Permitted Accessory Uses and Structures" above.

SECTION 7. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 18, C-7 North Shore Commercial/Mixed Use Zone, Section 38-289, Uses which require a special permit, be amended by striking subsection (2) and inserting in lieu thereof the following:

(2)   City Council.

(a)   The following uses in this zone shall require a special permit from the City Council as authorized by Tennessee Code Annotated, 57-3-208 and Chattanooga City Code, Part II, Sections 5-101-126:

(i)   Liquor Stores

(b)   Alternative Financial Services.

SECTION 8. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 19, M-1 Manufacturing Zone, Section 38-303, Uses permitted as special exceptions by the City Council, be amended by adding a new subsection (5) Alternative Financial Services.

SECTION 9. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 9, R-4 Special Zone, be amended by adding a new Section 38-125, Prohibited uses and structure as follows:

> Alternative Financial Services are found to be not in keeping with the Special Zone and is therefore specifically prohibited within any R-4 Special Zone.

SECTION 10. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article V, Division 10, MXU Use Zone, Section 38-134, General Function (Permitted Uses) by striking subsection (7) and inserting in lieu thereof the following:

> (7)   Prohibited Uses: Manufacturing Facilities, Warehouses and Mini-Warehouses, Adult-Oriented Establishments, Vehicle Sales or Vehicle Repair Facilities, Fuel Service Stations, Convenience Markets, Outdoor Commercial Storage, Alternative Financial Services, Outdoor Display or Sales. Signage-Signs not relating to identification of or direction to premises and occupants, or to products sold or services rendered on the premises are prohibited.

SECTION 11. BE IT FURTHER ORDAINED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that Chattanooga City Code, Part II, Chapter 38, Zoning Ordinance, Article VI, Division 2, Section 38-529, Special Exception

Permit for Alternative Financial Services Establishment be amended by adding a new

Section 38-529 as follows:

(1)   Intent:

The Special Exceptions Permit for an Alternative Financial Services
Establishment is intended to establish reasonable regulations in order to
minimize the impact or characteristics of such special use on the
community adjacent to and surrounding such use and to assure and
maintain the public safety and welfare.

(2)   Permit Approval and Transferability:

Chattanooga City Council approval of the Special Exceptions Permit shall
be issued for the specific site location and/or address of the proposed
Alternative Financial Services Establishment under review. The Special
Exceptions Permit is non-transferable to another site, property or location.

(3)   Application Procedure:

(a)   The applicant shall apply for a Special Exceptions Permit which
shall be issued by the City Council. The applicant shall apply to
the City Council through the Chattanooga-Hamilton County
Regional Planning Agency.

(b)   The applicant for this permit shall submit to the Chattanooga-
Hamilton County Regional Planning Agency a site plan and a
vicinity map showing the property, which is the site of the
proposed Alternative Financial Services Establishment and all
parcels of property within a fifteen thousand foot (1,500') radius.
The vicinity map shall show the distance from the proposed
Alternative Financial Services Establishment to the nearest
property being used as an Alternative Financial Service
Establishment and to the nearest residential zoned property.
Distances are to be measured from property line to property line.

(c)   The application will be placed on the City Council agenda no less
than thirty (30) days from the initial application for the permit with
the Regional Planning Agency.

(d)   Regional Planning Agency will contact the City Attorney's Office
for the date of the City Council meeting that the Special
Exceptions Permit will be placed on the agenda.

(e) The applicant will be given notification sign(s) for placement on the property at least seven (7) days before the City Council meeting advertising of the date and time of the scheduled public hearing.

(f) Regional Planning Agency will send a notice of the public hearing held by the City Council by regular mail to each property owner(s) within a minimum of 500' radius from the property line of the proposed Alternative Financial Service Establishment. Notification letters will be mailed at least seven (7) days prior to the public hearing by the City Council.

(4) <u>Minimum Development Requirements</u>:

(a) No Alternative Financial Services Establishment shall be located within 1,320 feet of any other Alternative Financial Services Establishment, with the interval distance to be measured from property line to property line

(b) No Alternative Financial Services Establishment shall be located within 500 feet of any residential zoned property, with the interval distance to be measured from property line to property line.

(c) The City Council, if the Special Exceptions Permit request is approved, may require additional conditions that must be met by the applicant.

<u>SECTION 12</u>.   BE IT FURTHER ORDAINED, that if any provision of this Ordinance be declared unconstitutional or otherwise invalid by the judgment of decree of any court or competent jurisdiction, such unconstitutionality of invalidity shall not affect any remaining provisions of this Ordinance.

SECTION 13.   BE IT FURTHER ORDAINED, That this Ordinance shall take effect within two (2) weeks from and after its passage as provided by law.

Passed on second and final reading:_____

_____
CHAIRPERSON

APPROVED:_____ DISAPPROVED:_____

_____

_____
MAYOR

/mem

Alternative Financial Services: Chattanooga, Tennessee

Chattanooga-Hamilton County Regional Planning Agency
July 2006

Introduction

In the fall of 2004, the Chattanooga City Council Legal and Legislative Committee requested that the Chattanooga Hamilton County Regional Planning Agency research alternative financial services. This request was in response to concerns expressed by neighborhood residents that the proliferation of such businesses may negatively affect property values and increase the rate of crime. This report summarizes current research on the alternative financial business sector, reviews methods that other municipalities have used to control the location of such businesses, and investigates the possible negative secondary effects of alternative financial services on local property values and crime rates.

Background

The following section provides a discussion of the businesses that are the focus of this report as well as a description of the regulatory environment for each in the state of Tennessee.

Alternative Financial Services

The alternative financial services industry is a loose term for non-bank entities providing some type of financial service. Sometimes included in this group (but not this report) are rent-to-own businesses and specialty auto and mortgage lenders. There are a total of 101 alternative financial service businesses in Chattanooga.

Payday advance loans: Payday loans are typically very small consumer loans, usually $150 to $300, backed by a postdated check or authorization to make an electronic debit against an existing financial account. The check or debit is held for an agreed-upon term, usually about two weeks or until an applicant's next payday, and then cashed unless the customer repays the loan to reclaim his or her check. If the customer does not have funds for the check to clear, the same process is followed to obtain an additional loan or extend the existing loan, commonly referred to as a rollover or renewal. There are 64 payday loan/check cashing business located in the city of Chattanooga.

The payday advance industry emerged in the 1990s in response to the demand for small, short-term consumer loans. According to fringe banking scholar John Caskey, the rise in payday advance services is attributed to three complementary factors: (1) With the rise of direct deposit, check cashing companies are looking for new business because there are fewer checks to cash; (2) friendly state legislatures allow payday lenders to charge fees that, while moderate in absolute terms, translate into extremely high and profitable annual interest rates; and (3) strong demand is driven by a steady increase in the number of people with impaired credit. In addition, in the 1980s traditional financial institutions exited the small-denomination, short-term credit market, largely due to its high cost structure and deregulation of the industry. Tennessee began regulation of payday advance and check cashing businesses in 1997.

Tennessee has one of the highest rates of payday lending in the country, with several counties and ZIP codes ranking among the most densely crowded with payday lenders in the country (Peterson and Graves, 2004). Chattanooga has five of the top 30 ZIP codes ranked by payday

lending in Tennessee. Peterson and Graves attribute the high concentration of payday lenders in Chattanooga to the laws restricting their operation in neighboring Georgia. Approximately 44 percent of payday advance locations in Chattanooga have begun operation since 2002.

In Tennessee no minimum loan term is specified for cash advances, the maximum loan term is 31 days. Tennessee legislation exempts payday advance services from state *usury* laws that regulate conventional financial institutions (T.C.A. 45-17-118). Usury laws regulate the practice of lending money and charging the borrower interest, especially at an exorbitant or illegally high rate. Regulations authorize payday advance businesses to issue loans up to $500 and charge a fee equaling the lesser of 15 percent of the face value of the check or $30.00. Under this formula a one hundred dollar loan with a 14 day term would equal an annual percentage rate (APR) of 391 percent. A loan with an 8-day term would yield an APR of 684%. However, industry advocates point out that a payday loan is designed as a short-term loan with an appropriately scaled fee for the risk involved. Other common fees—like late fees on movie rentals or credit card payments, bounced checks—carry similarly high rates if converted to annual percentages.

Industry analysts estimate that more than 15,000 payday advance locations across America extend about $25 billion in short-term credit to millions of households experiencing cash-flow shortfalls between paydays. Approximately 44 percent of payday advance locations in Chattanooga have begun operation since 2002. Statewide, between June 2002 and June 2003 payday advance offices increased in number from 1042 to 1186, a 13.8% increase. Between June 2003 and June 2004, the number of offices increased to 1,299, a 9.5% increase.

Consumer advocacy groups argue that payday advance lenders prey on the poor because they generally have few other credit alternatives, and encourage them to get further into debt. The payday lending industry has countered this argument with an industry-sponsored study by Georgetown University's Credit Research Center. The study found that borrowers are typically moderate-income younger families—35 percent are married with children and nearly 25% are single parents. Over half have some education beyond high school. Fully half of all borrowers have household incomes between $25,000 and $49,999. The requirement that payday advance customers have a checking account likely reduces the number of low-income customers. The typical borrower is more likely to use consumer credit and have a higher debt to income ratio than the general population, which, as might be expected, leads to credit problems. The study concluded that most borrowers are informed about their alternatives and are aware of the high costs of payday loans, although not always in terms of annual percentage rates. The results of the Georgetown study may be questioned based on the small sample size of participants. Out of 5,400 payday borrowers, 726 denied using payday lending services, and only 427 borrowers actually completed the survey.

The Georgetown study also found that payday borrowers tend to be repeat customers, with 48 percent taking out seven or more total advances in a year, and 22 percent taking 14 or more. Borrowers also tend to roll over or renew the same loan, postponing final payment and accruing significant interest charges; about 40 percent had renewed loans five times or more. These numbers concur with a study by Michael Stegman of the University of North Carolina at Chapel Hill, which found that the practice of payday lending encourages repeat usage and debt rollovers.

Tennessee regulations do not allow a borrower to renew a cash advance transaction with the proceeds of another cash advance transaction *made by the same licensee*. However, this

regulation would not prevent a customer in Tennessee from taking out a new loan with a different licensee, and using the proceeds of the new loan to settle the original loan. This regulation may contribute to the proliferation of payday lenders as consumers switch loans between licensees concentrated in a specific area. Tennessee regulations are designed to prevent debt rollover and to cap the maximum amount a customer can have in outstanding loans from all payday lenders at $500.

Violations of the regulations do occur. For the year ending December 31, 2002, the Tennessee Department of Financial Institutions Compliance Division conducted a random sample of licensee's transactions in 924 payday advance offices. As a result, 93 licensees made total refunds of $41,528 to 667 customers for charging excessive or unauthorized fees pursuant to Tennessee Code Annotated § 45-17-115. From January 1 through June 30, 2003, the Department conducted an additional 672 examinations resulting in refunds of $21,672 to 593 customers.

Title pawn: Title pawn loans are also small consumer loans that leverage the equity value of a car as collateral. The car title must be owned free and clear by the loan applicant; any existing liens on the car cancel the application. Loan terms are often for 30 days, and failure to repay the loan or make interest payments to extend the loan allows the lender to take possession of the car. Tennessee began regulation of title pawn businesses in 1995. Title Pawn businesses are allowed to charge a one time administrative fee of up to 20 percent of the total loan amount, plus 2 percent monthly interest. There are 22 title pawn locations in Chattanooga.

Pawnbroking: Pawnbrokers provide financing based on the value of tangible property brought to a store. Typically, a flat fee is charged for the transaction, and the merchandise is held for an agreed-upon period of time for repayment and reclaiming of property. Upon contract expiration, if the loan is not repaid or extended by an interest payment, the broker assumes ownership of the merchandise and can put it up for resale. Tennessee began regulation of pawnshops in 1988. Pawnshops, like title pawn businesses, are allowed to charge a one time administrative fee of up to 20 percent of the total loan amount, plus 2 percent monthly interest. There are 15 pawnshops located in Chattanooga, with the majority beginning operation prior to 1999.

Pawnshops have existed for centuries. In large part, pawnshops serve the "working poor." Based on a 1998 study by the Credit Research Center, the majority of pawnshop customers come from the family-raising stage of life, ages 25 to 44 years, when the demands upon household frequently are greater than the income. Pawnshop customers tend to have larger households, marital instability, and less education than the general population. The result is lower incomes and job instability. Similar to payday advance services, pawnshops have incurred public criticism because their rates are higher than those of other lenders who make larger loans.

A criticism of pawnshops is that they act as intermediaries for the trade of stolen goods. In general, research by scholars and journalists suggests three things. First, pawnbrokers do have some role in recycling stolen goods. Second, frequent pawners present the highest likelihood of acting as main agents through which pawnshops acquire stolen goods. Third, the volume and value of stolen goods may be substantially greater than the tiny fractions that have been proposed.

A recent University of Texas study on the role of pawnshops in the trade of stolen goods concludes that the best solution to the problem is the "support of actions to render more efficient monitoring of people and things circulating through pawnshops, secondhand stores, and similar establishments." The study advocates, "…efficient monitoring of suspicious pawners and goods achieved through strengthened police pawn details, speedier transfer of transaction records from pawnshops to police computers, and accelerated analysis of the data."

Analysis

Secondary Effects: Property Value

It is perceived that the location of alternative financial services may have a negative impact on local property values. Residents of Chattanooga neighborhoods have expressed concern with the tremendous growth and concentration of alternative financial businesses along area major roads. The following table illustrates the major concentration of alternative financial services along Brainerd Road, Highways 58 and 153, and Rossville Boulevard. In the entire city of Chattanooga, there are 101 alternative financial service locations, with 59 (58 percent) concentrated along four major roads.

Alternative financial services: concentration on major roads	
	Alternative financial
Chattanooga (total)	101
Brainerd Rd	22
Highway 58	10
Highway 153	9
Rossville Blvd	18

Two methods were used to determine the possible effect of alternative financial services on property value. First, the median appraised value of residential property between 2000 and 2004 was analyzed citywide according to proximity to alternative financial services. Second, single-family property sales from 1990 to 2004 were analyzed citywide and for the four areas with major concentrations of alternative financial services. Single-family property sales were analyzed by the average sales price paid per square foot according to proximity to the alternative financial service locations.

Appraised value

The following map shows the location of the types of businesses in question with a range of buffers in quarter mile increments used to summarize property appraisal data.

Alternative financial services location

Legend:
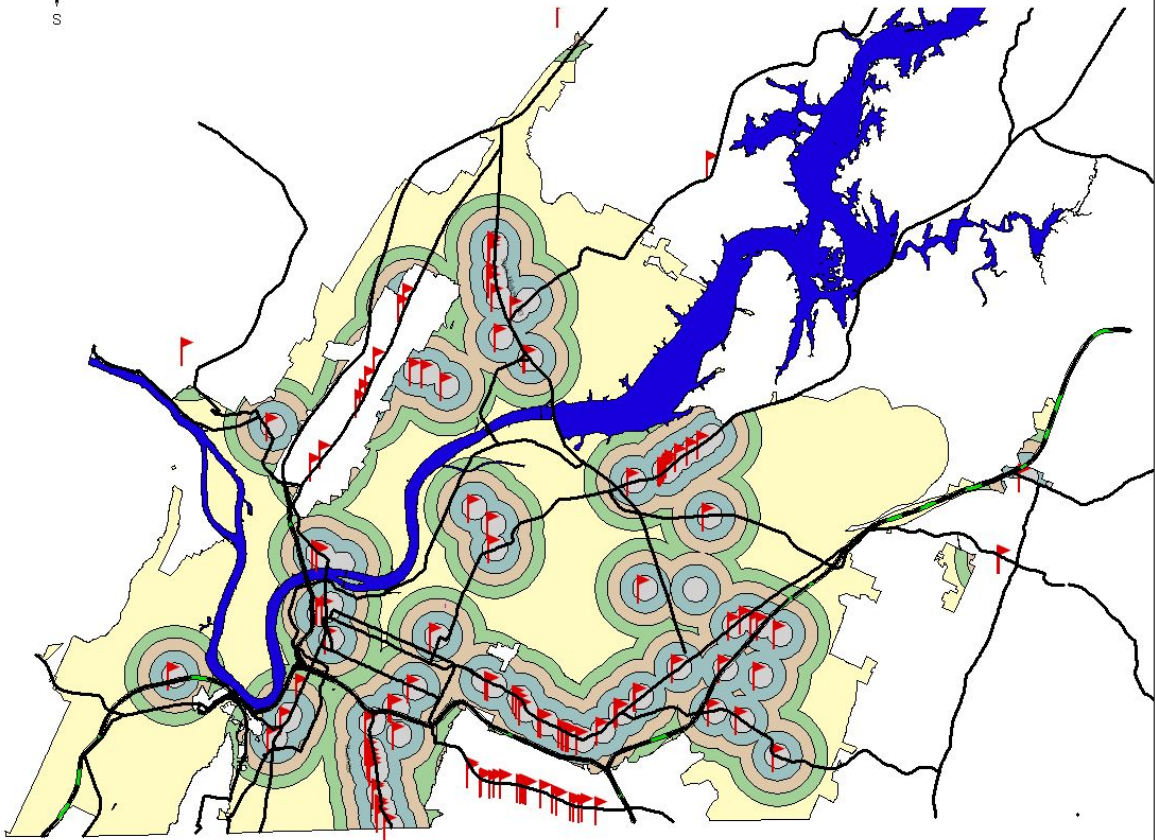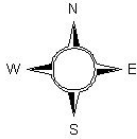
Outside buffer zone

Buffer zone
- 1/4 mile
- 1/2 mile
- 3/4 mile
- 1 mile

Alternative financial service

Interstate
Major road

0   2   4   6   8   Miles

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INFORMATION & RESEARCH

June 2005

The following table illustrates the results of the analysis of the median appraised value of residential property according to proximity to alternative financial service locations. Residential property located within one-quarter mile of alternative financial services had the smallest percentage gain in appraised value between 2000 and 2004, and was 8 percent below the citywide gain.

2000-2004 percentage change in the median appraised value of residential property	
0 to 1/4 mile	23%
1/4 to 1/2 mile	27%
1/2 to 3/4 mile	29%
3/4 to 1 mile	33%
> 1 mile	29%
Citywide	31%

Average sales price per square foot

Single-family property sales from 1990 to 2004 were analyzed citywide and for the four areas with major concentrations of alternative financial services, Brainerd Road, Highway 153, Highway 58, and Rossville Boulevard . Single-family property sales were analyzed by the average sales price paid per square foot according to proximity to the alternative financial service locations. The percentage change in the average sales price per square foot is summarized for each area in five-year intervals. Five-year appreciation rates are considered negative if they are 5 percent or more below the citywide average. The results of the analysis show a pattern of increasing negative results for portions of the study areas that are located within a quarter mile of alternative financial services. Brainerd Road, which has the largest number of alternative financial services, shows the clearest pattern of decreasing appreciation rates in relation to the citywide average.

The following map illustrates the location of the study areas. The table on page eleven illustrates the results of the analysis.

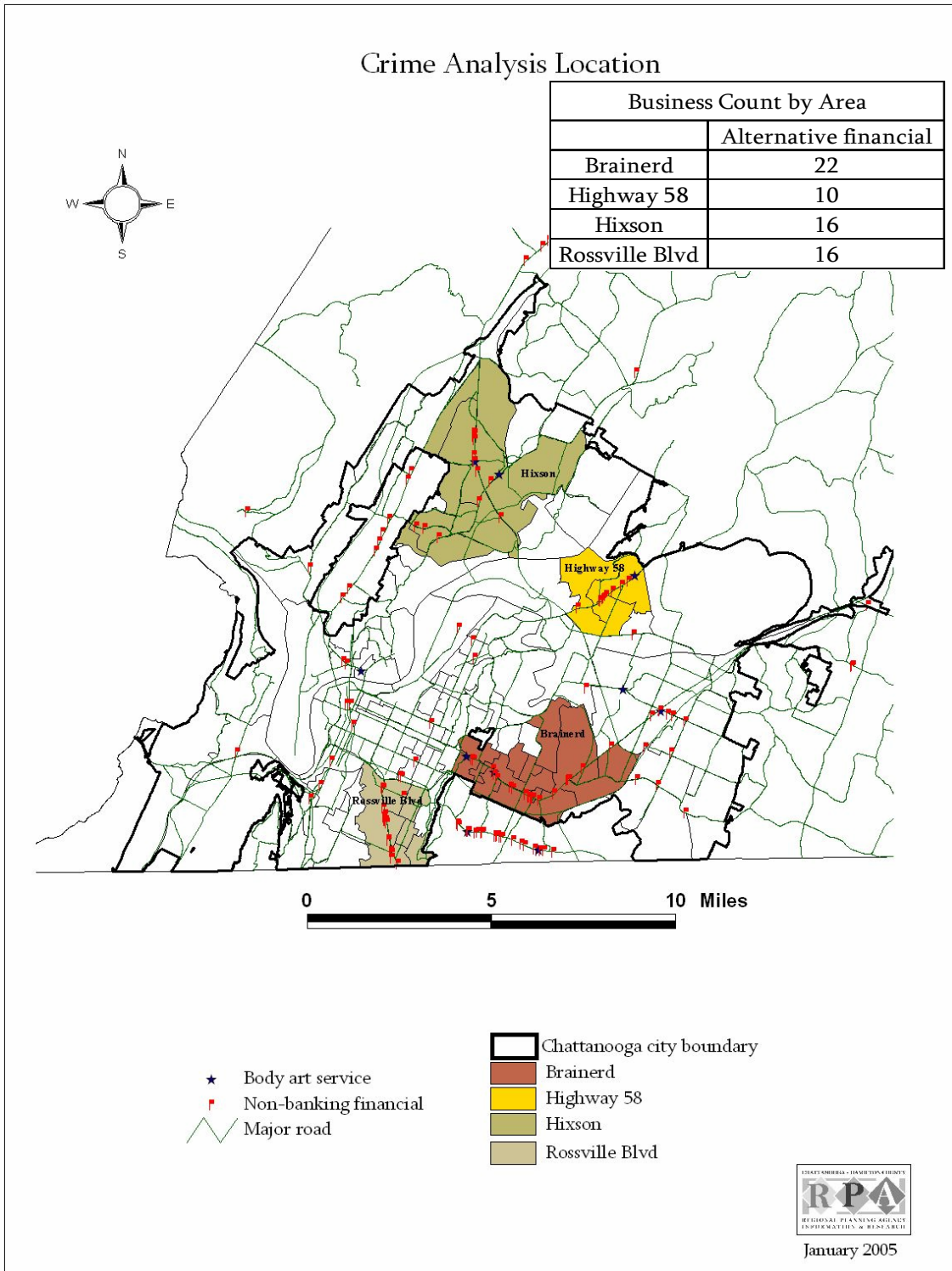Alternative financial services: location and study areas
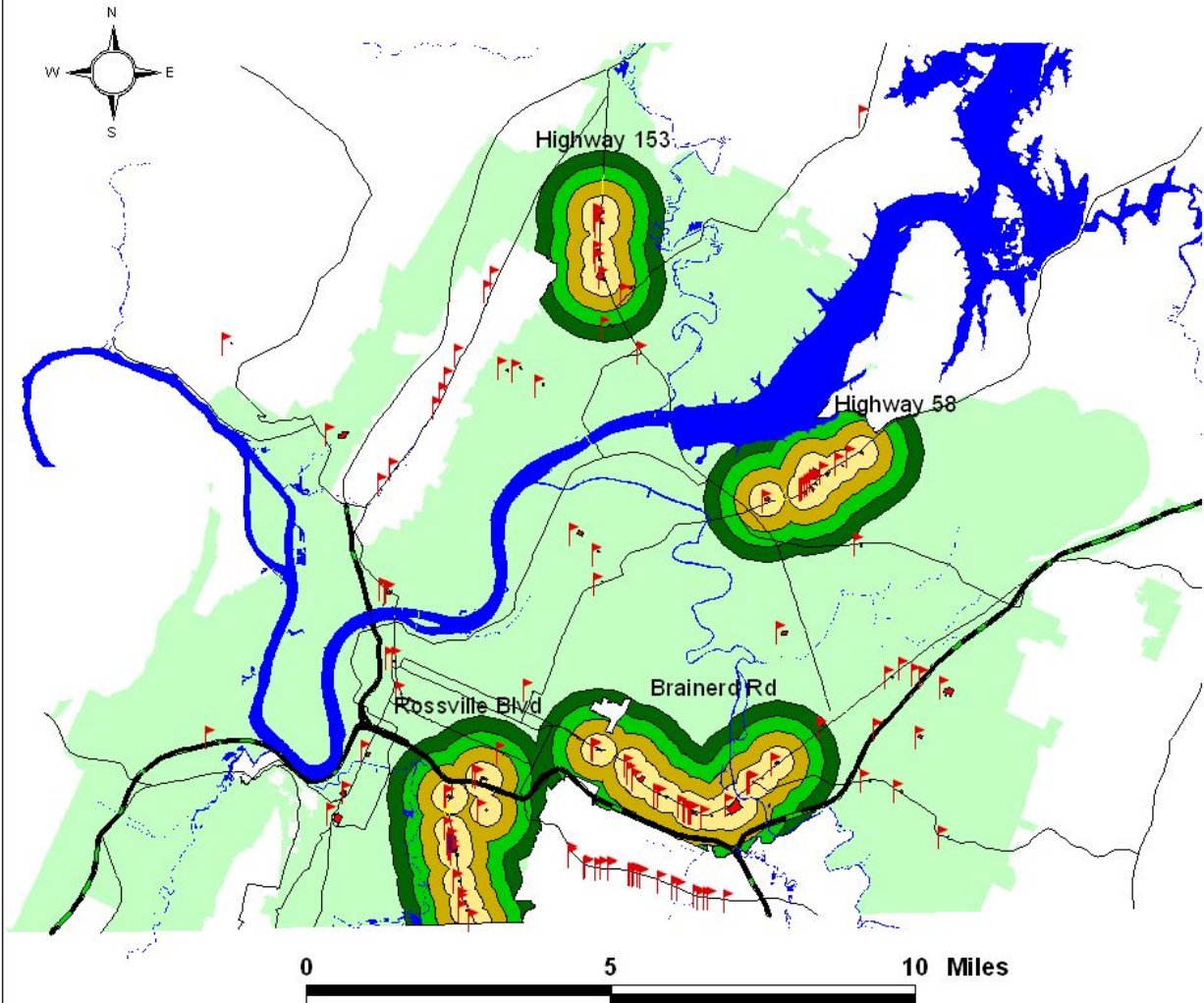
Percentage change in the average sales price per square
foot of single family residential property

	1990-1994	1995-1999	2000-2004
Citywide	**14%**	**20%**	**24%**
0 to ¼ mile			
Brainerd	16%	14%	7%
Highway 153	27%	16%	18%
Highway 58	8%	28%	15%
Rossville Blvd	13%	9%	21%
¼ to ½ mile			
Brainerd	13%	36%	18%
Highway 153	15%	24%	21%
Highway 58	12%	15%	21%
Rossville Blvd	10%	13%	-4%
½ to ¾ mile			
Brainerd	22%	11%	23%
Highway 153	15%	21%	21%
Highway 58	12%	10%	8%
Rossville Blvd	4%	7%	26%
¾ to 1 mile			
Brainerd	-16%	17%	20%
Highway 153	22%	8%	20%
Highway 58	12%	14%	6%
Rossville Blvd	18%	32%	36%

■	Up to 5% lower, equal to, or greater than the city average
■	5 percent or more below the citywide average

The results of the analysis of four areas with major concentrations of alternative financial services suggest that the concentration of such businesses may have a negative impact the appreciation of residential property values. However, the valuation of property is complex and there may be other factors that have contributed to the slower rate of appreciation. Further study should include the development of a hedonic pricing model to clarify the relation of AFS clusters to residential property value.

Secondary Effects: Crime

Crime data is presented for four areas with a high concentration of alternative financial services locations (Brainerd, Highway 58, Hixson, and Rossville Blvd). Chattanooga is included to illustrate citywide crime trends.

Crime Analysis Location

Business Count by Area	
	Alternative financial
Brainerd	22
Highway 58	10
Hixson	16
Rossville Blvd	16

★ Body art service
▪ Non-banking financial
／ Major road

▢ Chattanooga city boundary
▨ Brainerd
▨ Highway 58
▨ Hixson
▨ Rossville Blvd

January 2005

According to the Tennessee Bureau of Investigation (TBI) some factors known to affect the volume and type of crime occurring from place to place are:

- ➢ Variations in composition of the population, particularly youth concentration.
- ➢ Stability of population with respect to residents' mobility, commuting patterns, and transient factors.
- ➢ Economic conditions, including income, poverty level, and job availability.
- ➢ Family conditions with respect to divorce and family cohesiveness.
- ➢ Effective strength of law enforcement agencies.
- ➢ Policies of other components of the criminal justice system (e.g. prosecutorial, judicial, correctional, and probational).
- ➢ Citizens' attitudes toward crime. Crime reporting practices of the citizenry.

Four demographic characteristics (Family Structure, Employment, Household Income, and Poverty) were examined to establish the character of each area. It should be noted that the information is from the 2000 U.S. Census and represents a "snapshot" of area characteristics at a specific point of time.

- ➢ The Rossville Boulevard area had the largest percentage of single parent families, the highest unemployment rate, the largest percent of the population in poverty, and the lowest household income.
- ➢ The Hixson and Highway 58 areas had the lowest percentage of single parent families, the lowest unemployment rate, the smallest percentage of the population in poverty, and the highest household income.
- ➢ Chattanooga and the Brainerd area are in the middle between the Rossville Boulevard area and the Hixson and Highway 58 areas concerning the demographic variables considered.

Married and Single Parent Families					
	Brainerd	Highway 58	Hixson	Rossville Blvd	Chattanooga
Total	4,153	1,956	4,971	2,141	39,650
Married	62%	68%	78%	54%	65%
Single Parent	38%	32%	22%	46%	35%
Source: U.S Census Summary File 3, Table P34					

Employment					
	Brainerd	Highway 58	Hixson	Rossville Blvd	Chattanooga
Labor Force	8,623	3,574	8,903	3,114	76,444
Employed	8,069	3,450	8,618	2,747	70,505
Unemployed	515	114	285	367	5,847
Unemployment rate	5.97%	3.19%	3.20%	11.79%	7.65%
Source: U.S Census 2000 SF-3, Table P43					

Household Income					
	Brainerd	Highway 58	Hixson	Rossville Blvd	Chattanooga
Less than $10,000	12.0%	6.7%	6.5%	23.9%	15.3%
Less than $20,000	26.8%	20.3%	19.4%	48.6%	31.4%
Less than $30,000	44.7%	37.3%	34.2%	65.8%	46.9%
Less than $40,000	59.2%	46.9%	49.2%	77.6%	59.4%
Less than $50,000	71.5%	62.4%	62.2%	85.1%	69.6%
Source: U.S Census 2000 Summary File 3, Table P52					

Poverty					
	Brainerd	Highway 58	Hixson	Rossville Blvd	Chattanooga
Number of persons for whom poverty is determined	15,671	7,036	17,283	8,007	158,612
Number in poverty	2,206	677	1,222	2,264	27,709
Percent of total in poverty	14.1%	9.6%	7.1%	28.3%	17.5%
Source U.S Census 2000 Summary File 3, Table P87					

Citywide crime data was provided by the Chattanooga Police Department Crime Analysis Unit for the years 1996 through 2004. The crime statistics prepared from original police department data are meant to identify and represent trends in the crime rate.

To determine overall trends, crimes are grouped and summarized according to whether they are violent crimes (assault, murder, rape, and robbery) or property crimes (auto theft, burglary, and theft). Crime trends are also charted individually to identify each crime type's contribution to overall trends. *Charts of specific crime trends are included in the appendix.*

Crime Rates are calculated as the number of crimes committed per 1000 persons.

- ➢ Crime rates generally follow the preceding demographic indicators; The Rossville Boulevard area has the highest crime rates, the Hixson and Highway 58 areas have the lowest, and Chattanooga and the Brainerd area fall in the middle.
- ➢ The overall property crime rate increased between 1996 and 2000 in all areas. Between 2000 and 2004, the overall property crime rate decreased in all areas except the Hixson area (+ 14%) and the Highway 58 area (+10%). However, the property crime rate in the Hixson and Highway 58 areas remains lower than the rate in other study areas.
- ➢ Between 1996 and 2000, the overall violent crime rate increased in all areas. Brainerd, followed by the Rossville Boulevard area experienced the greatest increase in the violent crime rate during this period. Assault crimes drove the increase in the overall violent crime rate from 1996 to 2000. Assault, murder, and rape are not the types of crime that would typically be associated with alternative financial services. However, robbery could conceivably be associated with the alternative financial sector. From 1996 to 2004, robbery crime rates declined in all areas. Between 2000 and 2004, the overall violent crime rate decreased in all areas. *A table detailing specific crime rates is included in the appendix.*

Property Crime Rate (per 1000 persons)*					
	1996	2000	2004	% Change 1996-2000	% Change 2000-2004
Brainerd	83.9	88.8	85.1	6%	-4%
Highway 58	61.0	71.4	78.4	17%	10%
Hixson	62.8	66.6	76.0	6%	14%
Rossville Blvd	132.0	134.2	125.7	2%	-6%
Chattanooga	87.3	91.8	86.5	5%	-6%
* Includes Burglary, Theft, Auto Theft					

Violent Crime Rate (per 1000 persons)*					
	1996	2000	2004	% Change 1996-2000	% Change 2000-2004
Brainerd	18.1	31.1	23.0	72%	-26%
Highway 58	15.3	17.9	16.1	17%	-10%
Hixson	11.4	13.7	12.5	20%	-8%
Rossville Blvd	48.0	70.2	45.3	46%	-36%
Chattanooga	27.0	36.0	24.6	33%	-32%
* Includes Assault, Murder, Rape, and Robbery					

Conclusion

Alternative financial services have grown at a rapid rate and seem to be ubiquitous along the major thoroughfares of Chattanooga. It can be argued that they provide necessary financial services to low and moderate-income persons that traditional financial institutions do not provide. Their rapid growth is a testament to consumer demand for such services. On the other hand, the fees that alternative financial services charge translate into what some consider outrageous annual percentage rates. Consumers that are unable to settle their loans in a timely manner may lose personal property or continue to take out loans (from different licensees) or face the possibility of legal action. Additionally, alternative financial services often have gaudy signage and colors that give the perception of a commercial district in decline.

This report examined trends for two specific issues (property value and crime rates) in relation to the location of alternative financial services. This report did not find a negative relationship between the location of study businesses crime rates. However, the rapid growth and concentration of alternative financial services in areas of Chattanooga may be impeding the appreciation of residential property values. The two analyses of property value, single-family sales values from 1990 to 2004 and appraised valued from 2000 to 2004 found evidence that the concentration of alternative financial services in certain areas may have a negative impact on the appreciation of residential property values.

In a report to the Milwaukee Board of Zoning appeals, Christopher Peterson provided expert testimony that "…an excessive concentration of multiple lenders in one community all using the same business technique is likely to harm the public welfare" (Peterson 2003). Peterson continued to describe the impact of alternative financial services on the general public welfare including:

1. Taxpayers costs associated with increased personal bankruptcy filings, delinquent loan collection, and police auctions of personal property
2. The burden and expense imposed on state and municipal law enforcement in policing alternative financial services
3. Economic costs not only on borrowers, but also on those who are forced to absorb their losses -- whether through lost rent payments, personal debts, or even bankruptcy.
4. The alternative financial service business model leads to the tendency for unaesthetic business appearances with aggressive advertisements, large signs, and bold and contrasting colors.

Finally, a report by the St. Louis County Planning Department concluded that "when an area is overdeveloped with several check cashing/loan facilities, there is a perception that there are underlying economic problems within the community. An over concentration of check cashing/loan facilities may serve as an impetus for the economic decline of an area" (St Louis County Planning Department 2002). If local leaders look to the example of other cities to control the proliferation of such businesses, land use control is a local power that may be reasonably exercised to control the location of these types of businesses.

- Christopher Peterson, a law professor at the University of Florida, commented in a recent San Diego Tribune article that more and more cities are turning to zoning laws because land-use policy is one of the few ways local governments can exercise control over high-interest lenders.
- A May 2003 draft report written for the Annie E. Casey Foundation supports the option for communities concerned about the proliferation of payday loan stores in their neighborhoods to work with city lawmakers to change zoning laws.
- The Columbia, South Carolina City Council approved an ordinance requiring cash advance and title loan businesses to get a special exceptions to open a new location (February 11, 2004).
- St. Louis, Missouri amended the zoning ordinance by adding a definition for "Check Cashing Establishment" and by defining zoning districts in which check-cashing establishments may be established.
- Spring Valley, Nevada allows check cashing in commercial zoning districts with a condition to meet a 200-foot separation from residential development and 1,000 feet from another check cashing business.
- On December 16, 2004, the Pittsburgh, Pennsylvania City Council tentatively approved new land use standards to crack down on check-cashing and payday advance outlets, barring them from opening in residential business districts. The new standards allow check cashing and payday advance outlets citywide, but relegate them to industrial zones only. The new standards also prohibit the outlets from being open more than nine hours per day; from being within 500 feet of a residence or 1,000 feet of another outlet or pawnshop; and from allowing bars, chains or other security devices to be viewed from public streets and sidewalks.

The following summarizes a review of the zoning policies of other cities for alternative financial services:
- Zoning – permitted in all commercial zones, no special standards or requirements (Memphis, El Paso, Denver, Nashville, Seattle, Washington)
- Zoning – permitted in medium/ high intensity commercial zones, not permitted in neighborhood commercial zones (Austin, Baltimore, Jacksonville)
- Require Special Permits - (St Louis, St Louis County, Minneapolis, Las Vegas, Chicago, Columbia, Pittsburgh)

The preceding policy recommendations and examples focus on zoning regulations. Design review, lobbying for stronger state regulation and strict enforcement of existing regulations are other options for area lawmakers. Regulations examined from other municipalities often require a special permit for alternative financial services. This requirement allows local government the opportunity to verify that the new business has obtained the proper state license. Local residents also have the opportunity to comment on the location of these types of businesses. A common concern is the concentration of alternative financial services in a geographic area that leads to the perception of a commercial area in decline. The concentration of these types of businesses in a particular area limits the variety of commercial services available to area residents. Finally, given the role that pawnshops play in the transfer of stolen goods it would be prudent to evaluate the police pawn detail in regard to staffing and resources, the transfer of transaction records from pawnshops to police computers, and analysis of the data.

Appendix

I. Business Location

Sources for identifying locations Pawn Shops, Cash Advance, Check Cashing and Title Loan establishments in Hamilton County:

1. Phone directory yellow pages
2. Hamilton County Clerk's Office
3. Tennessee Department of Financial Institutions
4. Chattanooga City Directories

Pawn Shops: 22 identified 15 in Chattanooga. Most started prior to 2000.

1 on Ashland Terrace	Chattanooga
1 on Brainerd Road	Chattanooga
1 on Dodson Avenue	Chattanooga
1 on East 23rd Street	Chattanooga
1 on East 3rd Street	Chattanooga
1 on East Main Street	Chattanooga
1 on Glass Street	Chattanooga
2 on Highway 153	Chattanooga
1 on Highway 58	Chattanooga
2 on Lee Highway	Chattanooga
3 on Rossville Blvd	Chattanooga
3 on Dayton Pike	Soddy Daisy
1 on Lee Highway	Unincorporated County
1 on Hixson Pike	Unincorporated County
2 on Ringgold Road	East Ridge

Cash Advance/Title Pawn/Check Cashing: 119 (86 in Chattanooga).
Start Dates:

Before 2000	32
2000-2002	36
2003-2004	24
Unknown	28

1 on Ashland Terrace	Chattanooga
1 on Bonny Oaks	Chattanooga
17 on Brainerd Road	Chattanooga
3 on Broad Street	Chattanooga
1 on Browns Ferry	Chattanooga
2 on Cherokee Blvd	Chattanooga
3 on Dayton Blvd	Chattanooga
1 on East 23rd Street	Chattanooga
1 on East 28th Street	Chattanooga
1 on East 48th Street	Chattanooga
3 on East Brainerd Road	Chattanooga
1 on Elmendorf Street	Chattanooga
2 on Gunbarrel Road	Chattanooga

9 on Highway 153	Chattanooga
10 on Highway 58	Chattanooga
3 on Hixson Pike	Chattanooga
5 on Lee Highway	Chattanooga
1 on Market Street	Chattanooga
1 on Minor Street	Chattanooga
1 on Mountain Creek Road	Chattanooga
1 on Quintus Loop Road	Chattanooga
11 on Rossville Blvd	Chattanooga
3 on Shallowford Road	Chattanooga
1 on Signal Mountain Road	Chattanooga
1 on Tennessee Avenue	Chattanooga
22 on Ringgold Road	East Ridge
5 on Dayton Blvd	Red Bank
2 on Dayton Pike	Soddy Daisy
1 on Depot Street	Soddy Daisy
1 on Dayton Pike	Unincorporated County
2 on Apison Pike	Unincorporated County

II. Examples from other cities with regard to this kind of control

<u>1) Las Vegas, Nevada Zoning Ordinance (Definition)</u>

Financial Institution, Specified. Any business whose primary function is to lend money; to cash checks or other negotiable instruments for a fee, service charge or other consideration; or to provide funds in exchange for the acceptance of a check on a post-dated or deferred-deposit basis. The term includes without limitation a check cashing service, paycheck advance service, and any business primarily providing cash loans, installment loans or cash advances, but does not include a pawn shop.

Ord 5561 1/22/03 Las Vegas

<u>2) St Louis County, Missouri Zoning Ordinance (Definition)</u>

(125) Small Loan Businesses: Establishments which (a) engage in the business of providing money to customers on a temporary basis, wherein such loans are secured by post-dated check, paycheck or car title, or (b) are registered as lenders under state of federal law. The classification does not include a state or federally chartered bank, savings association, credit union, or industrial land company. Further, this classification does not include establishments selling consumer goods, including consumables, where the cashing of checks or money orders is incidental to the main purpose of the business. This classifications does include, but is not limited to, check cashing stores, payday loan stores, and car title loan stores.

<u>3) Pittsburgh, Pennsylvania (Ordinance)</u>

No. 23. An Ordinance amending certain portions of the Pittsburgh Code of Ordinances, Title Nine, Zoning, Chapter 911.02 (Use Table) to create a definition for the use of Check Cashing, Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table) to create standards for the use of Check Cashing, and Chapter 914.02.A (Schedule A) to create parking standards for Check Cashing facilities.

Be it resolved by the Council of the City of Pittsburgh as follows:
Section 1. Amending certain portions of the Pittsburgh Code of Ordinances, Title Nine, Zoning, Chapter 911.02 (Use Table) to create a definition for the use of Check Cashing, Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table).

    A. Amend Chapter 911.02 (Use Table) to include:

Check Cashing means an establishment engaged in some or all of a variety of financial services including cashing of checks, warrants, drafts, money orders or other commercial paper securing the same purpose; deferred deposit of personal checks whereby the check casher refrains from depositing a personal check written by a customer until a specific date; money transfers, payday advances; issuance of money orders; distribution of governmental checks and food stamps; payment of utility bills; issuance of bus passes and tokens; sale of phone cards and similar uses. This use shall not include a state or federally chartered bank, savings association, credit union, industrial loan association, or rental-purchase company and shall not include a retail seller engaged primarily in the business of selling consumer goods, including consumables, to retail

buyers that cashes checks or issues money orders for a minimum flat fee not exceeding $2.00 as a service to its customers incidental to the main use of the establishment.

B. Amend Chapter 911.02 (Use Table) to include:
Check Cashing as a Use by Special Exception in the NDI (Neighborhood Industrial), HC (Highway Commercial), GI (General Industrial), and UI (Urban Industrial) Zoning Districts.

C. Amend Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table) to include Check Cashing

The following standards shall apply to all Check Cashing uses:

(a) Check Cashing facilities shall not be open for business to customers for more than nine (9) hours within any twenty-four (24) hour period and shall not be open for business on Sundays;

(b) The building housing a Check Cashing facility shall not be located within five hundred (500) feet from any residential use as measured from the center point of the subject building;

(c) The building housing a Check Cashing facility shall not be located within one thousand (1,000) feet from another Check Cashing facility, a Pawn Shop, or a facility containing mechanical or electronic devices, machines, tables or apparatus of any kind used for playing games of skill or amusement, as a primary or accessory use, as measured from the center point of the subject building;

(d) A Check Cashing use shall not be conducted as a unit of another business and shall be financed and conducted as a separate business unit, however, this shall not prevent a check cashing facility from leasing part of the premises of another business for the conduct of check cashing activities on the same premises;

(e) A Check Cashing facility may not accept money or currency for deposit or act as agent for persons, firms, partnerships, associations or corporations to hold money or currency in escrow for others for any purpose, however, a check cashing facility may act as agent for the issuer of money orders or travelers checks;

(f) The applicant is required to be licensed as a Check Casher with the Commonwealth of Pennsylvania Department of Banking;

(g) Not more than one place of business may be operated under the same Commonwealth of Pennsylvania Department of Banking license;

(h) A licensee may not contract with another individual or business entity to manage the Check Cashing facility, not including persons employed to operate the facility;

(i) Check cashing facilities shall not issue tokens to be used in lieu of money for the purchase of goods or services from any enterprise;

(j) The use of bars, chains, or similar security devices that are visible from a public street or sidewalk shall be prohibited.

Ordained and enacted into a law in Council December 20, 2004.
Gene Ricciardi
President
Attest: Linda M. Johnson-Wasler
City Clerk
Mayors Office December 29, 2004.
Approved: Tom Murphy
Mayor

4) Tempe, Arizona (Separation Requirements)

Section 3-423 Use Separation Requirements.
1. *Deferred Presentment Companies*, also known as Pay Day Loan, shall not be located on a *lot* within 1,320 feet, measured by a straight line in any direction, from the lot line of another *deferred presentment company*. The requirements in this section shall also apply to *deferred presentment companies, which* are ancillary to another existing or permitted use.
State law reference – A.R.S. Title 6, Chapter 12.1, Deferred Presentment Companies

2. *Auto Title Loan* businesses shall not be located on a *lot* within 1,320 feet, measured by a straight line in any direction, from the lot line of another *auto title loan*. The requirements in this section shall also apply to *auto title loan* businesses, which are ancillary to another existing or permitted use.

5) City of North Las Vegas (Ordinance)

ORDINANCE NO. 2262
AN ORDINANCE AMENDING TITLE 17 OF THE MUNICIPAL CODE OF THE CITY OF NORTH LAS VEGAS, RELATING TO ZONING (ZOA-07-06); AMENDING SECTIONS 17.12.020, 17.20.100, 17.20.110, 17.20.120, 17.20.130, 17.20.140, 17.20.210 and 17.28.050 TO ADD DEFERRED DEPOSIT LOAN AND SHORT-TERM LOAN DEFINITIONS AND ALLOW AUTO TITLE LOAN, DEFERRED DEPOSIT LOAN, AND SHORT-TERM LOAN AS SPECIAL USES AND TO REQUIRE SEPARATION DISTANCES BETWEEN THE USES AND OTHER LAND-USES, AND PROVIDING FOR OTHER MATTERS PROPERLY RELATED THERETO.

THE CITY COUNCIL OF THE CITY OF NORTH LAS VEGAS DOES ORDAIN THAT TITLE 17 BE AMENDED AS FOLLOWS:

17.12.020 Definitions.

"Auto Title Loan" See "Automobile Pawnbroker" Section 5.10.010

"Cash Advance Services" See "Deferred Deposit Loan"

"Check Cashing" See "Deferred Deposit Loan"

"Deferred Deposit Loan" means any establishment that provides to the customer an amount of money that is equal to the face value of the check or the amount specified in the written authorization for an electronic transfer of money, less any fee charged for the transaction, and where there is an agreement not to cash the check or execute an electronic transfer of money for a specified period of time. This term does not include a retail seller engaged primarily in the business of selling consumer goods, including consumables, to retail buyers that cash checks, issue money orders, or money transfers for a minimum flat fee as a service that is incidental to its main purpose or business.

"Short-term Loan" is an establishment providing loans to individuals that charges an annual percentage rate of more than 40 percent and requires the loan to be paid in full in less than one year. This term does not include a loan offered or made to a person based on the person's anticipated federal income tax refund.

"Payday Advance" See "Deferred Deposit Loan"

"Payday Loan" See "Deferred Deposit Loan"

17.20.100 Neighborhood Commercial District (C-1)

C. Special Uses Subject to Section 17.24.020.

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.110 General Commercial District (C-2)

C. Special Uses Subject to Section 17.24.020.

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.120 General Service Commercial District (C-3)

C. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.130 Business Park Industrial District (M-1)

C. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.140 General Industrial District (M-2)

C. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.210E Commercial/Retail Subdistrict (R-A/CR)

3. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.210F Office Subdistrict (R-A/OFF)
3. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.210H.1 Focus Area Subdistrict (R-A/FA)

3. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.28.050 Procedure for Special Use Permit.

B. Application for Special Use Permit.

6. Application for Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan.

a. Proof of Proximity Distance Compliance Required.

If an applicant desires to file a special use permit application for a Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment, the City shall not accept, nor set for hearing such request unless the applicant provides to the City the following with the application: a notarized statement by the applicant that the location of the proposed Deferred Deposit Loan, Short-Term

Loan or Auto Title Loan establishment complies with the proximity distance requirements as provided below; and a survey plat prepared by a Nevada Licensed Professional Land Surveyor showing that the proposed Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment is separated from the following types land uses as provided below; or a request for a waiver of the proximity distance requirement as provided herein.

b. Proximity Distance Requirements:

(1) The proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must be at a distance greater than one thousand feet (1,000 ft.) from all existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishments, unless a waiver is approved pursuant to NLVMC 17.28.050(B)(6)(d). Such distance shall be measured utilizing the shortest direct line distance between the primary public entrance of all other existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishments.

 (2) The proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must be at a distance greater than two hundred (200 ft.) from any developed residential district. For purposes of this section, "developed residential district" means a parcel of land zoned for residential use in which construction for at least one residential unit has begun on the date the applicant applied for the special use permit.

c. Floor Area Requirements for Deferred Deposit Loan, Short-Term Loan, or Auto Title   Loan Use.

The building or portion thereof that is dedicated to the Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must have a minimum size of 1,500 square feet of building floor area.

d. Waiver of Title 17 Proximity Distance Requirements for Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan Use.

Waiver permitted for NLVMC 17.28.050(B)(6)(b)(1) only. Findings Required. A waiver of the one thousand (1,000) foot proximity distance requirement between a proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment, and any other existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment may be granted by the planning commission upon finding that an "adequate barrier" exists between a Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment location. An "adequate barrier" is defined as: an improved drainage facility, Clark County Interstate 215, US Interstate 15, other constructed roadway with a minimum width of one hundred twenty (120) feet, or a topographical feature which prevents vehicular and pedestrian access between a Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment. A topographical feature does not include any building, wall, fence or other man-made structure. The boundary limits of these streets, freeways and freeway crossovers are as defined by the official city of North Las Vegas, Nevada Department of Transportation and Clark County right–of-way maps for such roadways, respectively.

SECTION 2: NON-INFRINGEMENT OF RIGHTS. The City Council of the City of

North Las Vegas has been informed by the City Attorney as to the constitutionality of this ordinance and based upon such information we are adopting this ordinance in good faith with a reasonable belief that the actions taken by the City of North Las Vegas are not in violation of any rights, privileges, or immunities secured by the laws providing for equal rights of citizens or persons.

SECTION 3: SEVERABILITY. If any section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall in no way affect the validity and enforceability of the remaining provisions of this Ordinance.

SECTION 4: EFFECTIVE DATE. This Ordinance shall become effective after its passage by the City Council of the City of North Las Vegas and, after such passage by the City Council, publication once by title in a newspaper qualified pursuant to the provisions of Chapter 238 of NRS, as amended from time to time.

SECTION 5: PUBLICATION. The City Clerk shall cause this Ordinance, immediately following its adoption, to be published once by title, together with the names of the Councilmen voting for or against passage, in a newspaper qualified pursuant to the provisions of Chapter 238 of NRS, as amended from time to time.

PASSED AND ADOPTED THIS   3rd   day of   May   , 2006.

AYES: Mayor Montandon, Mayor Pro Tempore Robinson, Council Members Smith and Eliason

NAYS: None

ABSTAIN: None

ABSENT: Councilman Buck

APPROVED:
/s/ Michael L. Montandon
MICHAEL L. MONTANDON, MAYOR

ATTEST:
/s/ Karen L. Storms
KAREN L. STORMS, CMC, CITY CLERK

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INVESTIGATING THE SOCIAL ECOLOGY
OF PAYDAY LENDING

Does fringe banking exacerbate neighborhood crime rates?

Investigating the social ecology of payday lending

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Gregory D. Squires
George Washington University

Steven M. Graves
California State University, Northridge

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College of William and Mary

P ayday lenders have become the banker of choice for many residents of distressed urban communities in the United States. By offering cash advances on postdated checks, these businesses provide a growing number of financially strapped families the money they need to get by at least in the short run. As just one piece of a growing fringe banking industry (consisting of check cashers, pawn shops, rent-to-own stores, and other high-cost financial services), payday lenders provide services but at a heavy cost to some of the most financially vulnerable families. Much attention has been given to the costs the customers of such services are incurring. Yet additional broader community costs might have been ignored in recent debates and in the scholarly literature. One of those costs, and the focus of this research, is a possible link between payday lending and neighborhood crime rates.

Although pawn shops, loan sharks, and other predatory financial service providers have long histories, the number and range of such fringe banking institutions have mushroomed in the latter part of the 20th and early years of the 21st centuries amid great controversy. In financial services, the rise of subprime and predatory lending has led to record foreclosure rates. A broader economic recession is now reaching overseas. These developments have been followed by unprecedented bailout and rescue plans. Although these events have received most of the attention in financial industry circles, the increase in payday lending and other high-priced services has hardly gone unnoticed. Critics accuse payday lenders with charging exorbitant, exploitative interest rates and fees, and several states have taken legal action to restrict their activities or virtually put them out of business altogether. Providers maintain that they are offering valuable services to markets that are ignored by conventional financial services (e.g., banks, thrifts, and credit unions) and that their costs simply reflect the risks they encounter as well as other legitimate business costs.

The debates over payday lending so far have focused almost exclusively on the implications for immediate customers. Yet given the location of these services and the socioeconomic status of their customer base—what we refer to as the ecology of payday lending—other costs might be incurred by the communities in which they are located, costs that are paid by community members who do not use their services along with those paid by the clients. One potential cost for all residents might be higher crime rates in communities where payday lenders are located. Several theoretically plausible reasons have been suggested for such a link, starting with the simple fact that where payday lenders are present, a concentration of cash exists among store customers often late into the evening and during weekends in neighborhoods where many residents are experiencing financial hardships.

In the following pages, we provide some empirical evidence that such a connection, in fact, exists. Subsequently, we report on a case study of a fairly typical U.S. city where payday lending has grown in recent years—Seattle, Washington. In our discussion leading up to the analysis, we document the growth of payday lending and other fringe banking services in the United States and describe the controversy that such growth has produced. Next, we elaborate several theoretical arguments that support the hypothesized relationship between payday lending and neighborhood crime rates. Finally, we provide empirical evidence for that relationship in Seattle neighborhoods. Crime is just one community cost that might be associated with payday lending. In the conclusion, we briefly note other potential costs. We conclude with a discussion of the policy implications of our findings and recommendations for future research.

The Growth of Fringe Banking and Payday Lending

A two-tiered system in financial services has emerged in the United States in recent years, with one featuring conventional products distributed by banks and savings institutions and the other featuring alternative, higher cost services offered by payday lenders, check

cashers, and pawnshops—often referred to as "fringe bankers." Fringe banking services are disproportionately though not located exclusively in low-income, minority neighborhoods (Fellowes, 2006; Graves, 2003; Li, Parrish, Ernst, and Davis, 2009; Logan and Weller, 2009; Temkin and Sawyer, 2004), and minority and low-income families are more likely than other families to use fringe banking services (Caskey, 1994; Hudson, 1996; Karger, 2005).

Fringe banking has been the subject of much policy debate among financial service providers, regulators, elected officials, and consumer groups. This reflects, in part, substantial growth of fringe banking, its greater concentration in distressed communities, and adverse economic consequences for those who rely on these institutions for financial services. To illustrate, payday lending outlets were virtually nonexistent in 1990, but by 2006, more than 15,000 outlets extended $25 billion in credit (Lawrence and Elliehausen, 2008: 299). By 2008, more than 22,000 locations originated more than $27 billion in loan volume annually (Parrish and King, 2009: 11).[1] The growth of payday lending has been impressive, growing faster than Starbucks during the mid-1990s (Graves and Peterson, 2008: 668). Today, more payday lenders exist than McDonald's restaurants (Karger, 2005: 73).

Several studies demonstrate that these services are concentrated in low-income and minority neighborhoods, although they are starting to grow in many working and middle-class neighborhoods. In North Carolina, three times as many payday lenders per capita are present in African American neighborhoods as in White neighborhoods (King, Li, Davis, and Ernst, 2005). In the state of Washington, the site of the current study, they are twice as likely to be located in predominantly African American as White areas, and they also are concentrated in poverty zip codes (Oron, 2006). In California, they are eight times as concentrated in African American and Latino neighborhoods as in White neighborhoods. Even controlling on income, poverty, population, education, and other socioeconomic factors, the racial disparity persists (Li et al., 2009: 2). In Denver neighborhoods where the median income is below $30,000, one check-casher exists for every 3,196 residents compared with one check casher for every 27,416 residents in neighborhoods where the median income is between $90,000 and $120,000 (Fellowes, 2006: 26–28).[2]

These services are expensive, and it is struggling working families who are paying the highest costs. The Center for Responsible Lending reported that payday lending costs U.S. families $4.2 billion annually in excessive fees, or fees that exceed the risk posed by

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1. Payday loans are cash advances on a postdated personal check generally for 2 weeks or less when the borrower will receive the next paycheck. Amounts are typically in the range of $300 to $500. To qualify, a borrower must have a checking account, source of income, and identification. Typically, the borrower writes the check for an amount exceeding the cash loan (to cover the finance charge, generally $15–$30 per $100 or approximately a 390–780% annual percentage rate for a 2-week loan). At the next payday, the borrower can repay the full loan amount, the check could be deposited for payment, or the borrower can pay the finance charge and renew the loan for another term (Consumer Federation of America, 2007: 3, 4).

2. Check cashers are businesses that charge a fee for cashing checks (Karger, 2005: 215).

borrowers and the costs of similar services provided by conventional financial institutions (King, Parrish, and Tanik, 2006: 2,7). Ironically, more than 75% of these fees cover the costs of loans taken out by borrowers to repay debts incurred from previous payday loans, which they could not pay when the debt originally came due (Parrish and King, 2009: 11). Payday lenders claim that their fees simply reflect the costs of doing business.

Payday lenders also assert their borrowers are primarily middle income, although recent research indicates it is low- and moderate-income borrowers who constitute a disproportionate share of customers. A study of Colorado borrowers found that those earning less than $30,000 a year make up two thirds of payday lender customers. A Texas study found that the median income of borrowers was $18,540 (Fox, 2007: 6, 7). A 2001 nationwide survey found that 23% earned less than $25,000 and that 51.5% earned between $25,000 and $50,000 (Lawrence and Elliehausen, 2008: 305). In its 2007 Survey of Consumer Finances, the Federal Reserve, for the first time, asked whether respondents had taken out a payday loan in the previous year. Those who did so had a median income of $30,892 compared with $48,397 for those who had not taken out such loans. Payday loan borrowers had a median net worth of zero compared with $80,510 for nonborrowers (Logan and Weller, 2009: 8).

The industry also claims that its customers are generally people who use their services only on rare occasions to meet sudden emergencies. According to the 2001 survey, however, more than 22% had 14 or more payday loans that year, another 26% had more than 6, and just 15% had only 1 or 2 (Lawrence and Elliehausen, 2008: 311). The Center for Responsible Lending found that less than 2% of all payday loans went to borrowers who just took out one loan. Repeat borrowing was more common with more than 60% of loans going to those who took out 12 or more loans per year and 24% going to those with 21 or more per year (King and Parrish, 2007: 2, 3). Half of these loans were taken out within 1 day of repaying a previous loan, indicating that borrowers often take out such loans to retire the debt of previous payday loans (Parrish and King, 2009: 8). Given the high fees and frequent use, payday loans have been referred to as "debt traps" by many consumer groups (Fox, 2007: 7, 8).

Policy makers have begun to listen to consumer complaints. In 2006, the U.S. Congress prohibited payday lending to military members and capped at 36% the interest rate that could be charged to them on any loan in connection with any other product (Powers, 2006). Fifteen states and the District of Columbia have small loan usury laws or rate caps that effectively prohibit payday lending at triple-interest rates (Center for Responsible Lending, 2010: 7). Several other states and Congress are considering legislation and regulations restricting such lending (*American Banker*, 2007). However, some national banks (e.g., Wells Fargo and U.S. Bank) are now offering "direct deposit advance" or "checking account advance" products that are similar to payday loans. Because the Office of the Comptroller of the Currency has preempted many state banking laws, the national banks it regulates

legally can make such loans, and they are doing so in at least six of the states with the 36% cap (Center for Responsible Lending, 2010).

All this attention is generated primarily by the growth of the industry, the fees that are being charged, and the customers and neighborhoods that are being targeted. Borrowers are clearly paying high costs, as already noted. Lost in this discussion, however, are the broader costs that many communities might be incurring, including perhaps heightened levels of crime. Payday lenders seem to be more concentrated in precisely those neighborhoods where crime rates are highest and where ex-offenders are most likely to return when they leave prison (Lynch and Sabol, 2001: 3; Rose and Clear, 1998; Visher, Kachnowski, LaVigne, and Travis, 2004). No research, however, has examined the direct impact of fringe banking services on neighborhood crime rates. There is reason to believe that such a connection exists and that it is costly.

Theoretical Context of the Payday Lending-Crime Nexus

Theoretical arguments for why payday lending and crime might be related draw on a mixture of criminological perspectives. At a minimum, the availability of cash in distressed neighborhoods at readily identifiable businesses frequently operating with evening and weekend hours suggests a probable link between crime and payday lending, according to routine activities theory. According to this theory, crime can be understood in terms of the "routine activities" of everyday life including what we do, where we go, and with whom we interact on a daily basis (Cohen and Felson, 1979). At its core is the idea that, in the absence of effective controls, offenders will prey on attractive targets. In the current context, residents who use payday lenders often leave these establishments with great sums of cash in their wallets and at late hours in the evenings as well as on the weekends, a fact likely not overlooked by potential criminals.

It is also reasonable to believe that some increase in crime could be attributable to the manner in which payday lenders might lubricate the cash-only drug trade. In places where cash is available on a moment's notice to anyone with a job or government check, those wanting to fuel an addiction, or deviant lifestyle, need not wait until payday with ample payday loan opportunities.

Persons who find themselves in an ever-descending debt spiral, perhaps pressured by the threats of debt collectors, also would seem more likely to suffer from emotional difficulties that manifest themselves in violence, particularly against family, coworkers, friends, and neighbors, as strain theory would predict. Agnew (1992) claimed that strain, which can result from the presentation of negative stimuli (e.g., going into debt), can produce "negative affective states," including anger, fear, frustration, or depression, that might lead to crime. This result is especially likely to occur among individuals who have few resources for coping with strain. Along these lines, it is also easy to imagine that hopelessly indebted persons might turn to other forms of crime to compensate for the debt incurred to payday lenders.

Perhaps the greatest insight on the payday lending-crime nexus comes from social disorganization theory, which has emerged as the critical framework for understanding the relationship between neighborhood characteristics and crime in urban areas. According to the theory, certain neighborhood characteristics can lead to social disorganization, defined as the inability of a community to realize the common values of its residents and to maintain effective social controls (Kornhauser, 1978: 120). Social disorganization, in turn, can lead to more crime.

The most commonly studied aspects of neighborhoods include economic deprivation, residential instability, and population heterogeneity. An impressive literature produced over decades has found that these and related characteristics are positively associated with community crime rates, both directly and indirectly through their effect on neighborhood processes such as informal social control and collective efficacy (for a review of this literature, see Kubrin and Weitzer, 2003).

Along with these community characteristics, local institutions are theorized to play a key role in shaping crime rates. This effect occurs in large part because such institutions structure the daily interaction patterns of residents, affect the ability of communities to exercise social control, and influence available routes to valued goals such as economic or community development. Disadvantaged neighborhoods, in particular, have difficulty attracting and maintaining the types of local institutions that impede crime by providing community stability, social control, and alternatives to occupy residents' time (Peterson, Krivo, and Harris, 2000: 32).

Neighborhood studies of crime have focused on a variety of local institutions such as bars, public housing, and recreational facilities. It is argued that recreation centers and libraries:

> provide places and activities where people can gather, thereby structuring time and observing each other in public. To the degree that these institutions offer organized activities, they place local residents in settings that promote and facilitate the sharing of common values and goals. As this occurs, community networks are more likely to form and fulfill control functions. (Peterson et al., 2000: 34)

Other types of local institutions, however, such as bars, might serve to encourage criminal behavior in neighborhoods. Researchers have argued that their presence can cause crime directly by inducing violence within these establishments themselves (because of intoxication and impaired judgment) and indirectly by undermining informal social control in communities where bars are densely located (Parker, 1995; Roncek and Maier, 1991).

In a study on the role of local institutions and their effect on violent crime rates in Columbus, Ohio, neighborhoods, Peterson et al. (2000) found support for these arguments. They documented that a greater prevalence of recreation centers reduces violent crime, at least in the most economically disadvantaged areas of Columbus. They also documented

that a greater prevalence of bars in Columbus tracts is related to higher levels of violent crime. Beyond their study and previous research, however, they claimed that "scholars have not explored the empirical linkages between the presence of various types of institutions and neighborhood crime" (2000: 36) and cautioned that "additional research is needed to specify more fully what types of institutions . . . will have the most payoff" (2000: 57) for reducing community crime rates.

We would like to add payday lenders to the list of local institutions that might affect community crime rates. In line with social disorganization theory, we argue that a concentration of payday lenders might constitute a visible sign of neighborhood disorder and decline. According to research, disorder has been shown to increase fear of crime (Taylor, 2001) and to reduce informal social control, thereby increasing crime (Wilson and Kelling, 1982). Skogan (1992), in particular, characterizes disorder as an instrument of destabilization and neighborhood decline, with implications for community crime rates.

In summary, several reasons suggest why the presence of payday lenders in neighborhoods might be associated with violent and property crime rates in those neighborhoods. Previous research has investigated the relationship between crime and residential instability, poverty, unemployment, and other factors. Previous research also has documented the effect of local institutions on community crime rates including bars and recreational facilities. To date, however, no research has systematically examined the relationship between payday lending and crime. In fact, little overlap has occurred in the payday lending and crime literatures, despite the plausibility of such a relationship. As such, this study is the first empirical examination of the fringe banking–neighborhood crime nexus.

The Research Context

The city of Seattle, Washington, was selected because it is a representative major U.S. city (with a population of more than 550,000, of which non-Whites account for 30%) and is located in a state where payday lending has grown substantially over the last several years. Payday lending was legalized in Washington State in 1995. It grew slowly at first but then gained momentum in 2003 when the state legislature increased the maximum loan amount from $200 to $700. In Seattle, the number of payday lenders has grown from 37 in 2003 to 52 in 2007, an increase of nearly 41%. Equally important, as in most metropolitan areas, the location of payday lenders in Seattle is concentrated in low- and moderate-income and minority communities, where crime rates are the highest. We also selected Seattle as our study site because it is typical in terms of the number and density of payday lenders. Payday lenders in Seattle do not exhibit any unusual spatial pattern as one might find in heavily ghettoized cities or in cities with a significant military presence. Finally, we chose Seattle because it has been the focus of numerous studies of community crime rates over the last 20 years (Crutchfield, 1989; Kubrin, 2000; Matsueda, Drakulich, and Kubrin, 2006; Miethe and McDowall, 1993; Warner and Rountree, 1997). The current study builds on this literature.

The primary question we explore is whether those neighborhoods that have a relatively greater share of payday lenders exhibit higher crime rates after taking into consideration a range of factors known to be associated with crime (e.g., poverty, unemployment, population turnover, and related socioeconomic factors). We continue to consider that question in analyses that attempt to account for analytic complexities such as spatial autocorrelation and endogeneity. The findings will inform current policy debates and suggest directions for future research on the impact of payday lending.

Data and Methodology

To examine the relationship between payday lending and neighborhood crime rates, we perform a series of regression analyses using data on the location of payday lenders in conjunction with census and crime data for census tracts in Seattle. Census tracts approximate neighborhoods and are the smallest geographic level for which all three data sets are available.[3]

Independent Variables

Our key independent variable is the prevalence of licensed payday lenders in Seattle census tracts in 2005. To calculate this variable, we divide the number of payday lenders in a tract by the tract population size (expressed in units of 1,000 persons) and take the natural logarithm of this rate.[4] The raw data on payday lenders were collected by Steven Graves as part of a larger study focused on payday lenders and the military (Graves and Peterson, 2005). The street address for each lender was assigned a census tract number using ArcView GIS. In the 116 Seattle tracts for which crime data were available, 44 lenders were in operation in 2005. This number is comparable with other major U.S. cities including Milwaukee (41), Fort Worth (62), San Francisco (45), and Salt Lake City (53). The minimum number of payday lenders in a Seattle tract was 0, whereas the maximum was 4. The mean number of lenders across all tracts was .38.

The following variables were constructed from the 2000 U.S. Census to reflect critical neighborhood differences: *percent secondary sector low-wage jobs* (percent of total employed civilian population age 16 years and older employed in the six occupations with the lowest mean incomes),[5] *jobless rate* (percent of civilian labor force age 16–64 years who

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are unemployed or not in the labor force), *percent professionals and managers* (percent of employed civilian population age 16 years and older in management, professional, and related occupations), *percent high-school graduates* (percent of adults age 25 years and older who are at least high-school graduates), *poverty rate* (percent of the population for whom poverty status is determined whose income in 1999 was below the poverty level), *percent Black* (percent of the total population that is non-Hispanic Black), *percent young males* (percent of the total population who are males between the ages of 15 and 24 years), *residential instability index* (index comprising percent renters, or percent of occupied housing units that are renter occupied, and percent movers, or percent of population ages 5 years and older who lived in a different house in 1995),[6] *percent female-headed households* (percent of households that are female-headed with no husband), and *population* (tract population).[7] The literature has demonstrated that these characteristics are related to community crime rates in a variety of cities throughout the United States (Krivo and Peterson, 1996; Kubrin, 2000; Morenoff et al., 2001; Warner and Rountree, 1997).

An important variable that classifies tracts as within or not within the Seattle Central Business District (CBD) is included in the analyses because few and atypical residents live in CBD tracts. In Seattle, CBD residents tend to be urban professionals with high incomes or people who are poor and homeless. Controlling for whether tracts are inside or outside the CBD minimizes the likelihood that the unique characteristics of this area will distort the results (Crutchfield, 1989).

Previous community-level studies have found it necessary to address the problem of multicollinearity among the independent variables. To evaluate this issue, we examined variance inflation factor (VIF) scores, which confirmed the high level of collinearity among many disadvantage-related variables. Using these diagnostics and previous research as a guide (e.g., Sampson and Raudenbush 1999: 621), we performed principal components factor analysis with varimax rotation. Not surprisingly, the results suggest that the disadvantage-related variables all load on a single component with an eigenvalue of 4.39. This component, which we label *Neighborhood Disadvantage*, explains 73% of the variance and consists of the following variables (factor loadings in parenthesis): percent secondary sector low-wage jobs (.94), jobless rate (.87), percent professionals and managers (–.86), percent high-school graduates (–.93), poverty rate (.80), and percent Black (.71).[8]

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forestry; and material moving. The mean wages were derived from 2000 census data available in the Integrated Public Use Microdata Series (ipums.org).

6   The index represents the average of the standardized scores of these two variables.

7   All census data used in the study were compiled by Ruth D. Peterson and Lauren J. Krivo (2006) as part of the National Neighborhood Crime Study (NNCS). The NNCS contains information on the Federal Bureau of Investigation's Index crimes and sociodemographic characteristics for census tracts in a representative sample of large U.S. cities for 2000.

8.   Similar to prior research, we include percent Black in the disadvantage index because of its high correlation with the other items that comprise the index. Treating percent Black as a separate covariate

In the analyses, the disadvantage index is used along with the residential instability index, young male rate, rate of female-headed households, total population, central business district, and our payday lending measure to predict Seattle neighborhood crime rates.[9]

Dependent Variables

Data used to compute violent and property crime rates at the census tract level come from Seattle Police Department annual reports. Following common practice, multiple year (2006–2007) average crime rates (per 1,000 population) were calculated to minimize the impact of annual fluctuations.[10] The violent crime rate sums murder, rape, robbery, and assault rates, whereas the property crime rate is calculated as a sum of the burglary, larceny, and autotheft rates.[11]

Analytic Issues and Strategy

One critical issue in neighborhood research is that of spatial dependence. Crime is not randomly distributed but is spatially concentrated in certain areas in the metropolis. Formally, the presence or absence of this pattern is indicated by the concept of spatial autocorrelation, or the coincidence of similarity in value with similarity in location (Anselin, Cohen, Cook, Gorr, and Tita, 2000: 14). When high values in a location are associated with high values at nearby locations, or low values with low values for neighbors, positive spatial autocorrelation or spatial clustering occurs. In analyses using spatial data, such as in the current study, one must attend to potential autocorrelation because ignoring spatial dependence in the model might lead to false indications of significance, biased parameter estimates, and misleading suggestions of fit (Messner, Anselin, Baller, Hawkins, Deane, and Tolnay, 2001: 427).

In the current study, we address potential spatial dependence by mapping the residuals from our regression analyses and running a series of diagnostic tests to check for problematic levels of spatial autocorrelation. We used multiple variants of the Moran's I test and several software packages, including GeoDA, SPSS, ArcMap 9.3, and s3 (Mathematica).

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results in levels of collinearity that create partialling and interpretation difficulties in regard to the disadvantage and percentage Black variables. In analyses not shown here, we computed supplemental models with percent Black as a separate covariate. The substantive results regarding payday lending and crime did not change in those models.

9. Examination of collinearity diagnostics revealed no multicollinearity problems in the parameter estimates presented subsequently (maximum VIF was 2.5).

10. Crime data by census tract for 2008 through the present have not yet been released publically.

11. Histograms and descriptive statistics indicate that several variables are highly skewed, and we include log-transformed versions of these variables in the analyses that follow. Transformed variables include the young male rate, payday lender rate, and violent and property crime rates.

A second critical issue has to do with the possibility that endogeneity might be found in the payday lending–crime relationship. Although it is our contention that the most well-grounded theoretical relationship is one in which the presence of payday lenders in an area affects the crime rate, we acknowledge the possibility that the relationship might be reciprocal (i.e., crime could affect where payday lenders set up shop). One reason for this trend is that moderate levels of crime might serve as an environmental signal that informs payday lenders of locations where a reasonably high demand should exist for the sorts of financial services they provide. To the extent this argument has some merit, it seems prudent to account for the possibility that payday lenders might be an endogenous, rather than an exogenous, regressor in our analyses. As discussed subsequently, we do this by implementing an instrumental variables model, a commonly used approach to model endogeneity in social relationships.

Given the issues just raised and our focus on investigating the relationship between payday lending and neighborhood crime rates, after providing some descriptive statistics, our multivariate analysis begins with the estimation of a series of ordinary least-squares (OLS) regression analyses in which the effects of payday lending on crime are examined. In the first model, we assess whether payday lending and crime rates are associated using a baseline model in which only payday lending is included. In the second model, we introduce into the analysis the standard neighborhood crime correlates (e.g., neighborhood disadvantage, residential instability, etc.) to determine whether any payday lending effect withstands these controls. In the third model, we make an effort to allow for the possibility that our payday lending measure is endogenous by estimating an instrumental variables regression via the two-stage least-squares (2SLS) estimator. To implement the instrumental variable model, we require an instrument that is justified on theoretical grounds and meeting the following conditions: (a) It is highly correlated with the measure of payday lenders, and (b) it is uncorrelated with the disturbance terms from the payday lending–crime equations. To that end, we instrument payday lender rates with a measure of the prevalence of Federal Deposit Insurance Corporation (FDIC) banking institutions (i.e., the natural log of banks per 1,000 population). Our theoretical justification for this instrument follows below.

Within the limits of zoning regulations, FDIC banks are likely to locate themselves strategically to provide convenient access to consumers with financial and banking needs. Payday lenders, in turn, are likely to opt for locations in relative proximity to traditional banks for several reasons. First, because FDIC banks are likely to be located in an advantageous position relative to consumer demand, setting up shop nearby provides payday lenders with access to a steady flow of potential customers. Second, because payday lenders tend to provide services that traditional banks do not (e.g., short-term loans to customers with weak credit histories, nighttime, and weekend hours), a location near an FDIC bank provides potential visibility to banking customers whose needs occasionally might be unmet by the traditional bank. Third and most important theoretically, almost every payday loan transaction requires the customer to present a postdated personal check

from a valid checking account to obtain their cash loan. Therefore, logic suggests that the vast majority of Seattle's payday loan customers keep a checking account with a bank that is also nearby. As such, traditional banks and payday lenders do not attract completely different clientele; the customers of the latter are simply a subset of the banks' clients. Although the availability of banks is a necessary condition for payday lenders, banks have little, if any, need for payday lenders (although some lenders have partnered with and, in some cases, even purchased, payday lenders). In essence, the relationship between payday lenders and FDIC banks is commensalistic. Payday lenders benefit from their geographic connection to FDIC institutions without seriously affecting the financial service market of the bank itself. Based on these reasons, we argue that a concentration of payday lending institutions is driven, in part, by the location of traditional banking institutions. Consequently, we expect that payday lenders and FDIC banks will colocate and that the concentration of FDIC banks should be correlated positively with the concentrations of payday lenders.

Consistent with this expectation, a recent analysis by Fellowes and Mabanta (2008: 10) reports that "of the 22,984 payday lenders now in business, about 95 percent are located within one mile of a bank or credit union branch, and 84 percent are located in the same neighborhood or census tract as a bank or credit union branch."[12] This pattern of colocation between payday lenders and FDIC banks also appears in Seattle. As evidenced by the map presented in Appendix A, tracts with a greater prevalence of FDIC banks tend to be tracts that also exhibit more payday lending institutions. Moreover, as expected, we find that the bivariate correlation between the payday lender rate and the FDIC banking rate across Seattle census tracts is fairly strong at $r = .64$. Thus, consistent with its role as an instrument, we believe both theoretical and empirical evidence is present indicating that the prevalence of FDIC banks is related to the prevalence of payday lenders. In contrast, we perceived no compelling reason to expect that the FDIC banking institution rate will be correlated with the disturbance terms from the crime equations. However, because this latter "exogeneity" assumption cannot be tested directly (Wooldridge, 2002: 86), findings should be interpreted with appropriate caution.[13]

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12. Given that FDIC banks and payday lenders tend to be located close to one another, one might wonder why individuals choose to use the high-cost services of the latter. For starters, geographic proximity is not equivalent to access. As noted earlier, banks frequently do not offer products sought out by payday lending customers or provide services in a manner or at a time that is convenient for them. Furthermore, available evidence suggests payday loan usage is tied to limited or negative credit experiences, imbalances between living expenses and income, and ignorance about lower cost options (Fellowes and Mabanta, 2008). Lower income residents also indicate that they avoid banks because they fear that they do not have enough money, think the fees are too high, are not comfortable dealing with banks, find banks have inconvenient hours, and believe banks refuse to provide the desired services (e.g., see Fellowes and Mabanta, 2008; Washington, 2006; see also Caskey, 1994: 78–83).

13. Because this assumption involves an unobservable (the disturbance term) concept, it cannot be tested directly with empirical data. However, when two or more instruments are available for a single endogenous regressor (i.e., the equation is "overidentified"), one can assess the adequacy of instruments

Finally, for each model, we test for evidence of spatial autocorrelation, and if needed, we account for spatial effects that might bias our estimates of the direct relationship between payday lending and crime. For all sets of analyses, we examine both violent and property crime rates in Seattle neighborhoods.

Findings

Descriptive Statistics

A preliminary view of descriptive statistics suggests a positive association between payday lending and crime. Means, standard deviations, and correlations for all variables are presented in Table 1. The average count of payday lenders across Seattle neighborhoods is .38; the corresponding rate is 10 per 1,000 persons. Consistent with crime patterns throughout the United States, property offenses comprised the majority of reported crimes in Seattle in 2006–2007. The average rates for property and violent crime, respectively, were roughly 74 and 8 per 1,000 population. As expected, the explanatory variables, and particularly neighborhood disadvantage, have positive relationships with crime rates. More importantly, payday lending is significantly positively associated with both violent ($r =$ .48) and property crime ($r = .56$). These correlations suggest initial support for a payday lending–crime relationship.

The bivariate relationship between payday lending and crime can be illustrated visually. Figure 1 plots the distribution of payday lenders and violent crime rates in Seattle neighborhoods. The map in Figure 1 clearly displays the strong bivariate relationship between payday lending and violent crime. In the downtown and inner-city areas where payday lenders are more numerous (as indicated by "x" on the map), the violent crime rate is also highest (as indicated by the darkest shading on the map). The safest neighborhoods in Seattle have no payday lenders in them. The map also shows moderate violent crime rates in areas with lower densities of payday lending. Results for the distribution of payday lenders and property crime rates, although not presented, mirror closely those for violent crime rates. At issue, however, is whether the relationship between payday lending and crime will remain after controlling for other community characteristics known to be associated with crime. To determine this relationship, we turn to the regression results.

Regression Results

Tables 2 and 3 present regression results for violent and property crime rates, respectively. These tables contain results from the series of three regression models, which were outlined earlier. For both tables, the first column reports a baseline OLS regression model in which violent or property crime rates are predicted only by the payday

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via a test of overidentifying restrictions (e.g., see Baum, 2006: 191; Wooldridge, 2002: 121). Such testing is not possible in cases like ours in which only one excluded instrument is used for the endogenous regressor variable.

TABLE 1

Descriptive Statistics and Correlations (N = 116 Census Tracts)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Violent crime rate (ln)	1.00														
2. Property crime rate (ln)	.80*	1.00													
3. Total population	−.03	−.23*	1.00												
4. Disadvantage index	.74*	.44*	.08	1.00											
5. Young male rate (ln)	.45*	.38*	.12	.39*	1.00										
6. Residential instability	.63*	.75*	−.04	.32*	.51*	1.00									
7. Female-headed households	.25*	−.15	.22*	.56*	.13	−.28*	1.00								
8. Central business district	.45*	.58*	−.15	.19*	.05	.46*	−.29*	1.00							
9. Payday lender rate	.48*	.56*	−.15	.18	.20*	.34*	−.10	−.24*	1.00						
10. Poverty rate	.75*	.64*	−.11	.80*	.46*	.65*	.17	.42*	.30*	1.00					
11. Jobless rate	.62*	.41*	−.04	.87*	.23*	.23*	.33*	.31*	.19*	.80*	1.00				
12. Percent Black	.56*	.25*	.08	.71*	.18	.09	.70*	.02	.05	.44*	.54*	1.00			
13. Percent professional	−.61*	−.28*	−.22*	−.86*	−.44*	−.23*	−.56*	−.05	−.17	−.55*	−.60*	−.50*	1.00		
14. Percent low wage	.65*	.39*	.12	.94*	.40*	.31*	.48*	.12	.13	.70*	.74*	.57*	−.87*	1.00	
15. Percent high-school graduate	−.63*	−.29*	−.12	−.93*	−.30*	−.14	−.64*	−.07	−.09	−.61*	−.77*	−.65*	.85*	−.87*	1.00
Mean	7.69	73.74	4709	.00	6.30	.14	8.29	.08	.10	11.93	23.59	7.74	48.70	14.85	89.77
SD	11.60	78.00	1875	1.00	3.52	.86	5.27	.27	.24	9.16	8.25	10.11	13.30	7.46	9.45

Note. ln = measured in natural logarithm; means and standard deviations for all variables are expressed in nonlogged values for ease of interpretation.
*p < .05.

Payday Lenders and Violent Crime Rates in Seattle, Washington

lending variable. In the second column of each table, we expand on that initial model by adding measures typically associated with neighborhood crime rates. In the third column, we present results from a model that accounts for the potential endogeneity of payday lenders through an instrumental variables estimator. Finally, we calculate the level of spatial autocorrelation in each of the prior models. Consistent with our

T A B L E   2

OLS Regression Results for Violent Crime

	1 Baseline Model	2 Ecological Correlates Model	3 2SLS-IV Endogeneity Model
Payday lenders (ln)	.482***	.248***	.196**
	3.424	1.756	2.346
	(.582)	(.325)	(.658)
Neighborhood disadvantage		.442***	.431***
		.506	.494
		(.076)	(.075)
Young male rate (ln)		.023	.017
		.062	.046
		(.143)	(.141)
Residential instability index		.351***	.334***
		.469	.447
		(.087)	(.088)
Female-headed households		.182**	.188**
		.040	.041
		(.015)	(.014)
Central business district		.189***	.182***
		.806	.776
		(.221)	(.218)
Population size		—.028	—.018
		—.000	—.000
		(.000)	(.000)
Constant	1.098	1.478	.687
	(.104)	(.318)	(.283)
Model summary information			
R^2	.233	.808	.802
Adjusted R^2	.226	.742	—
D-W-H endogeneity test	—	—	1.08
Total number tracts (N)	116	116	116

Notes. Cell entries are standardized coefficients and unstandardized coefficients followed by standard errors in parenthesis. In the first stage of the 2SLS model, the excluded instrument predicting payday lenders is the number of FDIC lending institutions per 1,000 population (see Appendix A for full first-stage results).

$p < .05$; **$p < .01$; ***$p < .001$.

objectives, this model-building strategy allows us to gauge the extent to which the observed relationship between payday lending and crime remains after controlling for other ecological correlates.

Baseline model. In the first model of Table 2, we find evidence, not surprisingly, of a statistically significant positive relationship between payday lending and violent crime. Also not surprisingly, we find evidence of a statistically significant positive relationship between payday lending and property crime, as indicated in the first model of Table 3. In essence,

T A B L E 3

OLS Regression Results for Property Crime

	1 Baseline Model	2 Ecological Correlates Model	3 2SLS-IV Endogeneity Model
Payday lenders (ln)	.565***	.289***	.340***
	2.323	1.189	2.365
	(.318)	(.205)	(.466)
Neighborhood disadvantage		.207**	.171*
		.137	.114
		(.048)	(.054)
Young male rate (ln)		.010	—.010
		.016	—.015
		(.090)	(.100)
Residential instability index		.534***	.401***
		.355	.310
		(.055)	(.062)
Female-headed households		—.006	.016
		—.001	.001
		(.009)	(.010)
Central business district		.237***	.214**
		.587	.528
		(.139)	(.155)
Population size		—.149**	—.113*
		—.00005	—.00004
		(.00002)	(.00002)
Constant	3.842	4.061	3.952
	(.057)	(.179)	(.201)
Model summary information			
R^2	.319	.773	.704
Adjusted R^2	.313	.759	—
D-W-H endogeneity test			11.04**
Total number tracts (N)	116	116	116

Notes. Cell entries are standardized coefficients and unstandardized coefficients followed by standard errors in parenthesis. In the first stage of the 2SLS model, the excluded instrument predicting payday lenders is the number of FDIC lending institutions per 1,000 population (see Appendix A for full first-stage results).
*$p < .05$; **$p < .01$; ***$p < .001$.

these results suggest that across Seattle neighborhoods, as the presence of payday lenders increases, so do violent and property crime rates.

Ecological correlates model. In the second model, we introduce several measures typically associated with neighborhood crime rates. In line with prior research, regression results show that neighborhood disadvantage, residential instability, and female-headed households are all significantly positively associated with violent crime rates. Likewise, disadvantage and residential instability are significantly positively associated with property crime rates.

TABLE 4						

Moran's I Test for Spatial Autocorrelation

Model	Dependent Variable	Technique	Moran's I	Z Score	P Value	Pattern
Social disorganization model	Violent crime rate	Contiguity	.03	.70	.48	Random
		Inverse distance	−.02	−.25	.80	Random
Social disorganization model	Property crime rate	Contiguity	.07	1.40	.16	Random
		Inverse distance	.05	1.41	.16	Random
Endogeneity model	Violent crime rate	Contiguity	.03	.72	.46	Random
		Inverse distance	−.02	−.15	.87	Random
Endogeneity model	Property crime rate	Contiguity	.08	1.50	.13	Random
		Inverse distance	.05	1.37	.17	Random

Moreover, whether the census tract is located in the CBD also matters for violent and property crime rates. Our CBD variable is significant and positive in both models. Most important, however, is that the inclusion of these variables does not eliminate the association between payday lending and crime. Although the coefficients for the payday lending variable are roughly cut in half in the violent and property crime equations, payday lending remains a significant predictor in both models. In fact, the standardized coefficients suggest that the effect of payday lending is fairly robust, with a magnitude that compares favorably with several neighborhood measures that have been considered important predictors of crime for a long time.

Using variants of the Moran's I test and several software packages, we next measured the potential effects of spatial autocorrelation within the OLS ecological model. We found that the effect of spatial autocorrelation was minimal in both analyses of violent and property crime, falling well below the threshold that might raise concern (see, e.g., Parker and Asencio, 2009: 208).

Table 4 reports the results of these tests, using a minimum threshold distance of 2,500 m and first-order contiguity models. As shown, the Moran's I scores, which are similar to a Pearson's *r* score, are low and in some instances slightly negative. Although typical in many cities, the lack of spatially autocorrelated data in Seattle appears because of its unusual physical geography. Unlike many cities, Seattle has numerous natural (e.g., bodies of water, hills, etc.) and manmade (e.g., bridges, freeways, etc.) barriers that seem to inhibit interaction. The map in Figure 1 helps make this point clear. This finding is consistent with other studies that have examined spatial autocorrelation and neighborhood crime rates in Seattle (e.g., Kubrin, 2000) and accounts for why previous researchers have not addressed autocorrelation directly in their analyses of Seattle neighborhoods (e.g., Crutchfield, Matsueda, and Drakulich, 2006; Rountree, Land, and Miethe, 1994; Warner and Rountree, 1997).

Endogeneity model. The third model in our investigation is an effort to explore the possibility that the payday lender rate is an endogenous regressor in our models. To account for endogeneity, we use an instrumental variables approach via 2SLS regression. Per our earlier discussion, in the first stage of the 2SLS analysis, the prevalence of payday lenders is instrumented by a single "excluded" instrument—the natural logarithm of FDIC banks per 1,000 persons—with the ecological variables specified as "included" instruments.

The results of this first-stage analysis, reported in Appendix B, are consistent with the bivariate evidence cited earlier and suggest that "FDIC banks" is a "relevant instrument" for the payday lender rate. Several statistics provide evidence of such relevance. First, the coefficient for the FDIC bank rate, which reflects its partial association with the payday lending rate (net of the other covariates), is positive and has a large and statistically significant t ratio. Second, we report an F test that also evaluates the relevance of the included instrument. This statistic is derived based on the R-squared of the first-stage equation after the included instruments have been partialled out (Baum, 2006: 207; see also Bound, Jaeger, and Baker, 1995). Previous research on instrumental variables (IV) methods has shown that, even when the instrument is a statistically significant predictor, bias might be found in the IV estimator because of limitations in the explanatory power of the instrument (see Baum, 2006; Staiger and Stock, 1997). Consequently, it has been suggested that, for a model with one endogenous regressor, an F statistic lower than 10 is problematic (Baum, 2006: 211). As shown at the bottom of the table in Appendix B, the F statistic in our analysis is 33—more than three times the minimum threshold suggested. Finally, we also present results of the Anderson canonical correlation underidentification test, which evaluates the null hypothesis that the equation is underidentified. In this case, the test statistic is large and statistically significant, thereby indicating a rejection of the null. In summary, these statistics imply that one of the two critical assumptions of IV analysis is supported in our data (i.e., that the instrument has a high partial correlation with the endogenous regressor). We note again, however, that the second assumption cannot be evaluated empirically, so findings and conclusions should be regarded as suggestive, not definitive.

Turning our attention to the second-stage regression results, reported as model 3 in Tables 2 and 3, our interest centers on whether the criminogenic effect of payday lenders remains evident in the instrumental variable analysis. Examining the results for violent crime first, the findings continue to indicate that the prevalence of payday lending institutions has a significant positive relationship with violent crime rates. Indeed, the results of the IV analysis mimic fairly closely the substantive results of the OLS analysis, both for the measure of payday lending as well as for the ecological variables. Moreover, a closer inspection of the coefficients in models 2 and 3 indicates that differences are not especially great. Intuitively, this similarity suggests that payday lenders might not be endogenous to violent crime. The "Durbin–Wu–Hausman (D-W-H) endogeneity test" reported at the bottom

of Table 2 evaluates that idea.[14] In this case, the test is not significant, which suggests that little is changed by specifying payday lenders as endogenous to violent crime. Across model specifications, the evidence is consistent in indicating that payday lending is predictive of violent crime rates, controlling on a range of factors associated with neighborhood crime rates.

Looking next at the results for property crime, reported in the third model of Table 3, several findings are noteworthy. Most importantly, in big picture substantive terms, the results of the instrumental variables analysis differ little from OLS results. Payday lenders, neighborhood disadvantage, residential instability, population size, and location within the CBD all are significantly related to property crime rates in expected ways. Thus, the substantive issues most central to the current study seem unaffected by our efforts to model endogeneity in the relationship between payday lending and crime. However, differences in the magnitude of the coefficients in the OLS and IV analyses are more prominent in the property crime analyses than they were in the analyses of violent crime. For instance, the estimated effect of payday lending is roughly twice as large in the IV analysis compared with the OLS analysis. Given this difference, it is not surprising that the D-W-H test is statistically significant in Table 3. In essence, this test suggests systematic differences occur in the coefficients for the OLS and 2SLS-IV models. On the assumption that the instrumental variable is exogenous to the disturbance term of the property crime equation, this result is consistent with the idea that endogeneity exists in the relationship between payday lender prevalence and property crime rates. Nonetheless, our analyses suggest little reason to doubt that payday lending has an effect on property crime rates, net of our controls.[15]

Finally, to evaluate the potential for biases related to spatial processes in the endogeneity models, we once again measured the level of spatial autocorrelation using a variety tests. As before, these results suggest no appreciable evidence of unmeasured spatial effects in our analysis of violent or property crime rates. The results of tests for spatial autocorrelation in these models using Moran's I are listed in Table 4.

In sum, the results of our analyses indicate that payday lending is significantly associated with both violent and property crime rates. This relationship holds even after controlling for a host of factors typically associated with neighborhood crime rates. Moreover, the significant, positive relationship between payday lending and crime remains evident in models that attempt to deal with endogeneity as well as after concerns with spatial autocorrelation have been addressed.

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14.   It should be noted this test statistic also relies on the critical assumption that the instrumental variable is uncorrelated with the crime equation disturbance term.

15.   We replicated the models substituting in the individual components of the disadvantage index to see whether the effects of payday lending remained. In all supplemental analyses, payday lending remained a significant predictor of violent and property crime rates. Results of these analyses are available on request.

Conclusion

Payday lenders in Seattle tend to be concentrated in communities where crime rates are higher. More importantly, the correlation between payday lending and violent and property crime remains statistically significant after a range of factors traditionally associated with crime have been controlled for and when other model specifications have been taken into account. The substantial costs that customers pay for using payday lenders have long been documented for a long time. Our findings indicate that important broader community costs also might persist—such as exposure to crime—that *all* residents pay when they reside in neighborhoods with a concentration of payday lenders. These costs suggest numerous policy implications.

Policy Implications

One critical public policy challenge is to preserve access to small consumer loans on an equitable basis and to do so in a way that does not enhance the danger to those in the community where these services are provided. This is a challenge not just for financial service providers and regulators, law enforcement authorities, or community development officials. Coordinated efforts should be launched to meet these objectives successfully. One approach would be to cap the interest rate that payday lenders are allowed to charge at 36% as several states have done and as Congress did with respect to loans given to members of the military and their families. (Credit cards, although not ideal for all consumers, currently offer cash advances for far less than the 36% annual percentage rate.) Although this approach would reduce many abusive practices often associated with payday lending, it would likely put many payday lenders out of business. This outcome raises the question of whether alternative financial institutions could step in and provide small consumer loans.

One credit union has found a profitable way to serve this function with a high-risk pool of borrowers. In 2001, the North Carolina State Employee's Credit Union (SECU) created the Salary Advance Loan (SALO) product that helps employees make it from paycheck to paycheck while building savings. Members who have their paycheck automatically deposited can request salary advances up to $500. The advance is repaid automatically the next payday. The annual percentage rate is 12%. Typical SALO borrowers have an annual income of less than $25,000 with account balances of less than $150. Two thirds take out advances every month. SECU has earned a net income of $1.5 million on a loan volume of $400 million with loan charge-offs of 0.27%. As Michael A. Stegman (2007: 183) concluded, this experience "shows that large institutions can market more affordable payday loan products to high-risk customers at interest rates that are a small fraction of prevailing payday loan rates." Credit unions around the country offer similar loans, generally with the proviso that borrowers also build a "rainy-day" fund with the credit provider.

Federal banking regulators could encourage larger financial institutions to offer similar services by giving credit to those lenders in their Community Reinvestment Act (CRA) examinations and evaluations. Under the CRA, federally regulated depository institutions

are required to ascertain and respond to the credit needs of their entire service areas, including low- and moderate-income communities. Regulators take lenders' CRA records into account when considering applications for mergers, acquisitions, and other changes in bank lending practices (Immergluck, 2004). Providing CRA credit for offering small consumer loans on equitable terms would encourage more large institutions to do so.

State and local governments could enact zoning laws that limit the number of new payday lenders. Today 81 cities, 5 counties, and 19 states have enacted local ordinances limiting the location and density of alternative financial institutions like payday lenders, check cashers, and pawn shops. For example, in 2008, St. Louis passed an ordinance prohibiting check cashers and short-term loan operators from opening within 1 mile of an existing store and within 500 feet of a residence, elementary school, or secondary school (Standaert, 2009: 432). Similar rules could be targeted explicitly to payday lenders. Such zoning laws could reduce the extent to which neighborhoods become stigmatized as a result of the concentration of fringe banking institutions.

A more direct approach would be to establish a suitability standard prohibiting payday lenders from providing multiple loans to borrowers or from offering loan terms that are designed to entrap borrowers in a cycle of debt. Current FDIC guidelines that prohibit regulated banks working with third parties (like payday lenders) from issuing loans to borrowers with recent outstanding payday loan debts could be extended to cover all payday lenders.

Another immediate concern is the safety of those in neighborhoods where payday lenders are concentrated. Local law enforcement authorities should assess levels of criminal activity carefully in those areas and consider providing additional service at appropriate times. Not only would employees and customers of payday lenders benefit, but residents of the surrounding neighborhoods likely would enjoy safer streets as well. In turn, this change might attract other businesses and more residents to the area, stimulating broader economic and community development in many currently distressed areas. In essence, by reducing the social disorganization of such neighborhoods, a virtuous cycle could be launched that might bring lower crime rates and several associated benefits.

Research Implications

A growing body of research has been developing on the business operations of payday lenders, their customer base, and the linkages to other financial services. Not so widely researched are the potential neighborhood costs associated with such institutions. As detailed in this study, a spike in neighborhood crime rates is one probable cost, but other related costs also might be associated. Most problematic, perhaps, might be a depressing impact on local property values because crime has been shown to be associated with declining property values (Bowes and Ihlanfeldt, 2001; Gibbons, 2004; Thaler, 1978). If a concentration of payday lenders reduced property values (and it is difficult to imagine it would increase values), then this effect would reduce the equity and wealth of property owners. In turn, property tax revenues would

decline and thereby require either a reduction in critical public services (e.g. schools, police, and fire protection) or an increase in taxes for local residents and businesses. It would be informative to know whether payday lenders have such an impact and, if so, to quantify that impact.

It also stands to reason that, in communities with significant concentrations of payday lenders, capital loss in the form of the so-called multiplier leakage might occur. In this scenario, capital crucial to local economic development efforts, or for simple circulation within the local economy, is siphoned off by payday lenders, most of which are owned by interests far removed from local branch operations. Compounding this, of course, is the fact that payday lenders are most prevalent in neighborhoods that already suffer from various types of disinvestment. Estimating the flight of capital from such communities because of the activity of payday lenders would provide valuable information for planners and regulators as well as for the research community.

Limitations of our study suggest several additional directions for future research. An obvious extension would be case studies of additional cities. We suspect that our findings are not unique to Seattle but that variations might be associated with the size, demography, regional location, industrial structure, and other city characteristics that affect the linkage between payday lending and crime. Unfortunately, uneven crime data and even poorer data on payday lenders constitute a key challenge.

How the payday lending–neighborhood crime link varies over time is also unknown. Payday lenders suddenly appeared on the map of virtually all major cities within the past 20 years. Depending on the trajectory of various political initiatives, their numbers could continue to grow or decline with equal speed. In the current study, we offer a snapshot. Longitudinal or pooled time-series work would offer the opportunity to flesh out this connection better. Moreover, relative to the limitations of the current analysis, such data likely would provide a better means of investigating the potential for reciprocal relationships between payday lenders and crime.

A final suggestion for future research involves expanding our model of neighborhood crime rates to include other potentially salient local institutions. Indeed, because of data limitations, we did not include measures of bars or recreational facilities, which previously have been linked to community crime rates. Although we believe incorporating such measures would not change the pattern of results, it is important for future research to account for the scope and diversity of local institutions when assessing the predictors of neighborhood crime rates.

A Final Word

Access to a wide range of financial services on fair and equitable terms has become a major public policy issue as well as the topic of much social science research in recent years. Payday lenders constitute part of the growing web of fringe bankers that have been concentrated in low-income and disproportionately minority communities, although they have begun to

expand into working- and middle-class communities as well. The cost of these services to individual borrowers and families has been evident for a long time, often quantified with some precision. Although not understood with the same level of specificity, the broader neighborhood costs are becoming recognized as facts of life in the nation's metropolitan regions. The link between payday lending and neighborhood crime, in fact, should come as no surprise. How we choose to respond to that connection, if we choose to respond at all, remains to be determined.

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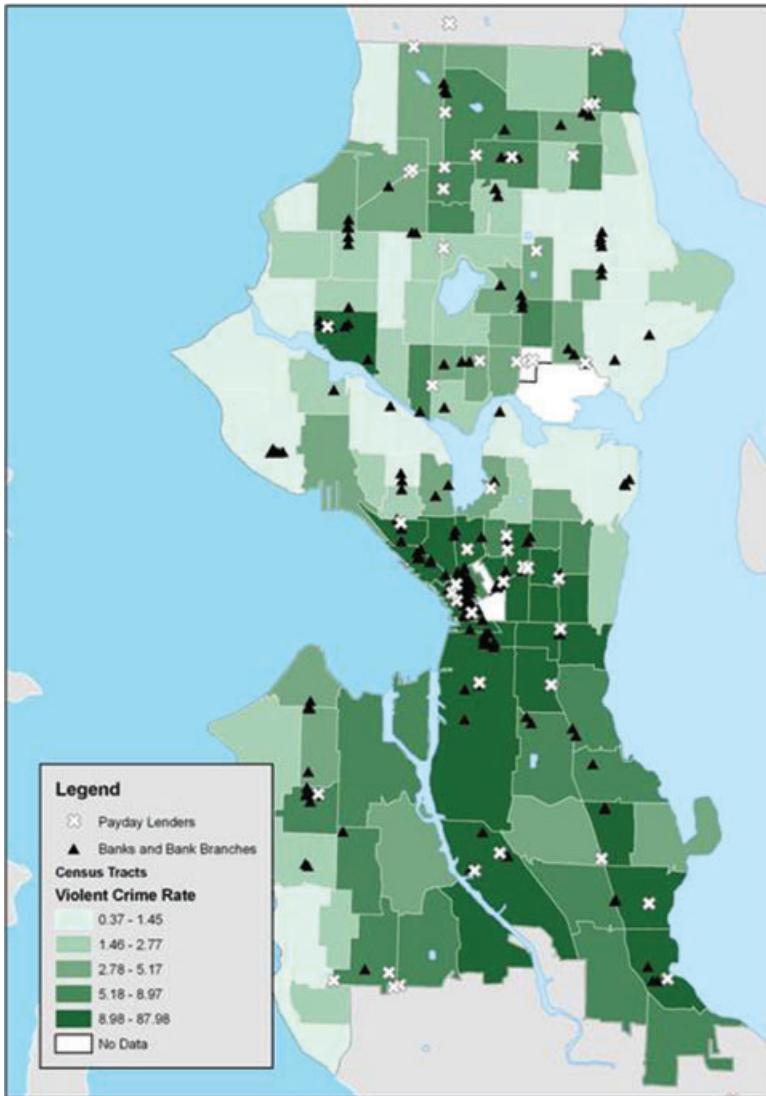
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Payday Lenders, FDIC Banks, and Violent Crime Rates in Seattle, Washington

Legend

⊠ Payday Lenders

▲ Banks and Bank Branches

Census Tracts

Violent Crime Rate

	0.37 - 1.45
	1.46 - 2.77
	2.78 - 5.17
	5.18 - 8.97
	8.98 - 87.98
	No Data

APPENDIX B

First-Stage Model of Payday Lenders (ln)

Excluded Instrument	Coefficient	Standard Error
FDIC banks per 1,000 (ln)	.262***	.046
Controls		
Neighborhood disadvantage	−.015	.021
Young male rate (ln)	.069	.038
Residential instability index	.014	.023
Female-headed households	.002	.004
Central business district	−.043	.059
Population size	−.000008	−.000007
Summary results for first-stage regression		
Partial R^2 of excluded instrument	.234	
F test of excluded instrument (1,108 degrees of freedom)	33.00*	
Anderson canon. corr. underid. test	27.15*	

***$p < .001$.