Credit Access and Payday Loan Behavior of Low Income Borrowers

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Financial Security and Wealth Building as Key Building Blocks of a Middle Class Lifestyle
Credit Access is vital for economic mobility

- Financial crisis highlighted large disparities in financial outcomes between high and low income neighborhoods.

- Low income more likely to be classified as high-risk subprime and have limited access to formal credit.

- Basic credit is required for housing, cable, internet, and auto loans.

- These differences in credit behaviors and access can make it very difficult to invest in the future and in their children, making it impossible to break the cycle of poverty.
But payday borrowers are credit constrained

Figure 1: Are Payday Borrowers Credit Constrained?

Miller and Soo, 2018
Subprime borrowing driven by location

![Bar chart showing share due to place and share due to people for three types of loans: Payday Loans ($), Online Payday Loans ($), and Subprime Installment Loans ($). The chart indicates a significant contribution by place for all three loan types. Source: Miller and Soo, 2018]
The Moving to Opportunity Experiment: Better neighborhoods improves credit outcomes

Miller and Soo, 2018
Better neighborhoods have positive impacts on children’s future credit outcomes

Impacts of Moving to a Better Neighborhood on Young Children into Adulthood

Credit Scores

Credit Limits

Miller and Soo, 2018
Delinquency behaviors of adults improve

- Despite this improvement in debts, we do not find significant impacts on credit scores or credit limits
What happens if we increase traditional credit access?
Increasing formal credit access reduces payday loan borrowing

- Payday loan applications drop by 67%
- Payday loan amounts borrowed drop by $17 per loan by the end of 5 years.
Traditional credit borrowing improves

- Credit limits increase by $1252 to $1366 by end of first year (60 to 65% increase)
- Borrowers experience improved liquidity across credit cards (utilization rates are lower).
Takeaways

• Building credit and achieving economic self-sufficiency is vital for economic mobility

• However there exist high barriers as credit behaviors of low-income borrowers do not help build credit

• Moving to better neighborhood environment has improved credit market outcomes for children, but additional assistance needed to move to those neighborhoods

• Improving traditional credit access has positive impacts on borrowing

• Otherwise, credit constrained low-income borrowers have only high-interest, high-risk products available