

## Are Recipients of Payday and Car Title Loans More Risk Tolerant than Others?

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The payday and car title loan industry has been identified as a profiteering venture that takes advantage of the working poor (e.g., Lydersen, 2001). Lawrence and Elliehausen (2008) noted that even if true—there is active debate on both sides of the issue—these lenders satisfy a loan demand by individuals traditionally underserved by the banking industry. A growing segment of the payday/car title loan literature has been devoted to describing the characteristics of those who receive these short-term uncollateralized loans. Factors such as geographic location, socioeconomic status, occupation, race, age, and military status are commonly used in these studies (Gallmeyer & Roberts, 2009).

The purpose of the research reported on in this poster is to add to the literature by describing the financial risk tolerance of payday/car title loan (PCTL) recipients compared to those who have never received such a loan. Given the inherent riskiness of payday loans, in terms of potential interest costs, it was hypothesized that PCTL recipients would exhibit greater risk tolerance than others.

Table 1 shows that the hypothesis was not supported. Those who had received a PCTL reported having a lower willingness to engage in a financially risky behavior than others. The risk measure was based on a 7-item scale. Scores ranged from a 2 to 12. The scale’s Cronbach’s was  $\alpha = .65$ .

Table 1.

Mean Difference in Financial Risk Tolerance based on Payday/Car Title Loan Status

Group		<i>N</i>	<i>Mean</i>	<i>SD</i>	<i>T</i>
Recipient of Payday or Car Title Loan	Yes	25	20.28	4.93	2.25 ( $p < .05$ )
	No	233	22.83	5.42	

Table 2 provides a possible explanation for this finding. While many policy makers and researchers may associate high interest charges as a potential risky outcome, those who use PCTLs do not appear to view this as a risk, or they evaluate the benefit of receiving cash quickly as outweighing the high interest risk. Findings from a chi-square test show that PCTL users value the speed of the transaction as an important factor when choosing any lender. Sixty-four percent of PCTL borrowers, compared to 43% of non-PCTL borrowers, reported that accessing cash fast was their primary decision factor when choosing a lender. In other words, the traditional marketplace for loans may be perceived as more risky, in terms of accessibility and speed among PCTL borrowers. This is supported by other research findings. In addition to speed, PCTL borrowers indicated convenience (60%), need for money quickly (48%), easy of transactions (46%), need for emergency money (44%), no where else to get a small loan (28%), no other option being available (28%), needing a small amount of money (24%), and having the lender provide excellent customer service (21%) as being reasons they chose a PCTL.

It may also be that PCTL borrowers simply do not have the financial wherewithal to qualify for a traditional loan, and unrelated to their tolerance for risk, they turn to alternative lenders. Support for this hypothesis can be found in this study. It was noted that PCTL recipients paid nearly 56% of their monthly income towards housing, whereas others paid 29% of income for housing ( $t_{1,240} = -2.64, p = .01$ ).

Table 2.

Fast Cash as Reason Why Loan was Taken (*N*)

Reason For Payday Loan	Cash Fast	Recipient of Payday or Car Title Loan	
		Loan Yes	Loan No
	YES	16	70
	NO	9	163

$\chi^2(1, N = 258) = 11.72, p < .001$

Whether or not PCTL borrowers are correct in assuming that traditional lenders cannot meet their needs, the results from this study indicate that opportunities exist for research and policy applications.

**References**

- Gallmeyer, A., & Roberts, W. T. (2009). Payday lenders and economically distressed communities: A spatial analysis of financial predation. *The Social Science Journal*, 46, 521-538.
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