

Access to Payday Loans and Household Food Insecurity

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Despite continued expansion of federal food assistance programs, food insecurity and hunger have increased in the U.S., affecting nearly 15% of the U.S. households (Coleman-Jensen, Gregory, & Singh, 2014). Using the 2005-2011 Current Population Surveys (CPS) and several geographic measures from various sources, this study examines whether payday loans contribute to household food insecurity. Evidence of correlation exists between food insecurity and various indicators of financial inadequacy, poor financial skills and knowledge, and utilization of alternative financial services (Fitzpatrick, 2013; Gundersen & Garasky, 2012; Guo, 2011). However, testing the hypothesized effect of financial practice on food insecurity is difficult because of the possibility of reverse causation and omitted variable bias. In an effort to identify exogenous effects of payday loans, we take three analytic approaches. First, we assess the effect of the availability of payday lenders instead of individuals' loan use. Second, a difference-in-differences estimator is obtained using state bans as a natural experiment. Third, we estimate the effect of access to payday lending defined based on geographic proximity and state-to-state variations in payday ban status. This study finds that, controlling for household characteristics, county food environment, state-specific intercepts, and yearly variations, the number of payday lenders in the area is positively associated with the risk of food insecurity. It also finds that the state payday ban lessens the growth of very low food security. Furthermore, in the states where payday lending is illegal, living near the border to a payday permissive state increases food insecurity by 2-4 percentage points. These findings add useful insights for market regulations on alternative financial service providers as a potentially viable and less costly policy alternative to food assistance and other welfare programs. Further policy implications and limitations of our study are discussed.

References

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