

Payday Loan Use Through the Lens of the Consumer Vulnerability Framework

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Payday loan use can be considered a maladaptive coping behavior used by vulnerable consumers to respond to a household financial crisis. This study approaches payday loan use from the lens of the consumer vulnerability framework. Consumer vulnerability is determined by the circumstances that consumers face through lack of resources and lack of control over those resources, not their inherited characteristics. This study identified three categories of resource factors – financial resource, cognitive recourse, and social support. Financial self-efficacy and perceived credit record were included as control factors. Income shocks and calls from debt collection agencies were viewed as the context in which consumers perceive their vulnerability.

Using a sample of 17,081 respondents from the 2018 National Financial Capability Study, this study investigated the effect of variables within each component of the framework on consumer payday loan use. The logistic regression analysis showed that those who had a checking account, owned a home, and exhibited higher levels of financial knowledge were less likely to use payday loans. Those who felt less confident in the day-to-day management of personal finances and those who assessed their credit record as low were more likely to use payday loans. Unexpectedly, those with higher confidence levels in achieving financial goals were more likely to use payday loans.

This study is significant because it confirms that the framework of consumer vulnerability is helpful in explaining payday loan use. This study suggests that scarcity of resources and lack of control over resources are two pillars that trigger payday loan use in response to unexpected financial shocks and stressful events. The findings of this study may benefit consumer advocates as they help financially vulnerable consumers become resilient and resistant to using forms of predatory lending, such as payday loans. Specifically, they can increase access to financial, social, and cognitive resources and help vulnerable consumers develop control over those resources.

References

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