# When Poverty Makes You Sick

## The Intersection of Health and Predatory Lending in Missouri

February 2019

## Executive Summary


It takes a complex ecosystem of policies to nurture a thriving society in which everyone has the opportunity to make ends meet stress-free, to save for a rainy day, and to find additional financial support at a reasonable cost. Access to these circumstances is a big driver of our personal and family health and well-being.

Yet the reality is that nearly half of American adults experience financial fragility. In other words, faced with an unexpected $400 expense, two out of five people in the United States would need to borrow money or sell something in order to cover it.

One result is that every year about 12 million people in the United States turn to short-term, high-cost loans — such as payday loans. The high fees that come with these predatory loans trap many in a debt cycle. The consequences go beyond the stress of personal finances: research shows that living with financial fragility — having low income, unstable work, and no cushion for unexpected expenses — is a precursor to poor health.

> **The average loan amount in Missouri is $315**, and a lender can charge up to 1950% APR on that amount.

This is especially true in Missouri, where use of payday loans is twice the national average and where lending laws are among the most permissive in the country. In this report, we focus on understanding the landscape of payday lending in Missouri and how payday lending impacts the health of individuals, families, and communities.

> *"Being at the end of my rope, and being young and Black, I feel the stress of trying to juggle three jobs just to be able to pay these payday loans down. . . . But I start to feel like, 'What will my future be?' "*
>
> - *St. Louis resident and focus group participant*

### The Presence of Payday Lenders in Missouri Is Deep and Broad

As of May 2018, there were 600+ payday lending storefront and online licenses issued across 91 of Missouri's 114 counties and the independent city of St. Louis. The seven most populous jurisdictions have the greatest number of payday stores, representing one-third of all stores in the state. While communities of color and urban areas have a disproportionate share of lenders, White and rural neighborhoods have them as well.



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## People Turn to Payday Loans Due to Low Wages and Financial Exclusion

Low wages and exclusion from financial institutions are root causes that lead people in Missouri to use payday loans. While less than 1% of borrowers are unemployed, the average income of borrowers is only $24,607, and nearly one in four Missourians is "unbanked" or "underbanked." Missouri's minimum wage (which will gradually increase) is $8.60 an hour, among the lowest in the country.

> **Payday loans exacerbate financial stress** by increasing the likelihood someone will miss bill payments, delay health care spending, or use food stamps, or even file for bankruptcy.

## People Turn to Payday Loans Due to High Costs of Housing, Medical Debt

Focus group participants described high housing costs (rent, mortgage payments, and fees related to eviction proceedings) as well as medical debt as major drivers of payday loan use. The state-level data tell a similar story about the Missouri experience:

- The eviction rate is 2.85%, above the national rate of 2.34%
- Nearly a quarter of families carry medical debt, equaling almost a million people

## Payday Loans Contribute to Illness and Poor Well-Being

Research shows a two-way relationship between debt and health: heavily indebted, low-income people are more likely to have poor health, making it harder to hold on to a job. On the flip side, being able to finance immediate debts greatly raises the odds of good health.

We found that the 10 Missouri counties with the worst health rankings have a much higher density of payday lenders than do the 10 counties with the highest health rankings. Unsurprisingly, focus group participants overwhelmingly reported physical and mental health effects from the experience of using payday loans. They also reported their children and family members being adversely affected by the payday experience.

> *"My daughter started getting very stressed by it all. She's only 10 years old, but our deepening debt, even with the loans, made life very hard. . . . She started to get a skin rash all over that the pediatrician said was stress related. It's been hard, physically, on all of us."*
>
> - *Springfield resident and focus group participant*

## Missouri Must Protect People Who Need Short-Term Loans

Missouri elected officials are likely to make key decisions in the next year that will either facilitate economic justice for the most vulnerable or prioritize payday lending companies' profits. Based on our findings, we encourage state leaders to cap interest rates, establish strict lending and payment limits, and regulate collection and enforcement practices.

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