

Payday Lenders, a Location Analysis

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The principal objective of this research is to test the hypothesis that providers of alternative consumer credit or payday lenders have located in areas that are not well served by traditional deposit-taking financial institutions (FIs). In this analysis, these traditional FIs are defined as banks, trust companies and credit unions. The analysis involved the identification and location of the payday lenders operating in January 2005 in four major Canadian cities: Toronto, Vancouver, Winnipeg and Halifax. The locations of the FIs were provided by the Canadian Bankers Association (CBA) using CBA and Canadian Payments Association data. These data were supplemented by data collected by the Centre for the Study of Commercial Activity (CSCA) at Ryerson University. The location of payday lenders was derived through two main sources, the CSCA databases and payday lender online information.

Analysis:

To test the hypothesis that payday lenders have located in areas not served by traditional FIs, distance bands of 250, 500, 1,000, 1,500, 2,000, 3000 metres were developed around the locations of payday lenders in the four cities that were studied. These bands were used to determine how far from the payday lenders the branches of existing FIs were found. If the results showed that there were a large number of locations in the 2000 and 3000 meter bands compared to relatively few in the smaller bands, we could presume that the payday lenders located in areas not currently served by traditional FIs, thus adopting an infilling location strategy that was predicated on the absence of FI locations.

Methodology:

To determine if payday lenders were located in areas not serviced by the existing FI network, distance bands were drawn at intervals of 0-250, 250-500, 500-1000, 1500-2000, and 2000-3000 metres, respectively around payday lender locations. The locations of the existing FI branches were then overlaid to determine how far the payday lenders were from the existing network of FIs. The following table (Table 1) summarizes these results. The results were calculated for both the census metropolitan area (CMA) and the Municipality or City (Census Sub Division, CSD) of Toronto, Halifax, Winnipeg and Vancouver. It is important

to note that no payday lenders were found outside the CSDs of Halifax and Winnipeg and therefore the results for the CSD and the CMA are the same.

In each of the four CSDs, there are no payday lenders further than 1500 metres from a traditional FI. More importantly, in each of the four cities more than 50% of the payday lenders are located within 250 meters of a traditional FI. The latter situation is also true for the CMAs of Toronto, Halifax, Winnipeg and Vancouver. Moreover, in all cases more than 90% of the payday lenders are located within 1000 meters of a traditional financial institution.

Table 1: Distance bands from existing FI network and the number of payday lenders captured by each.

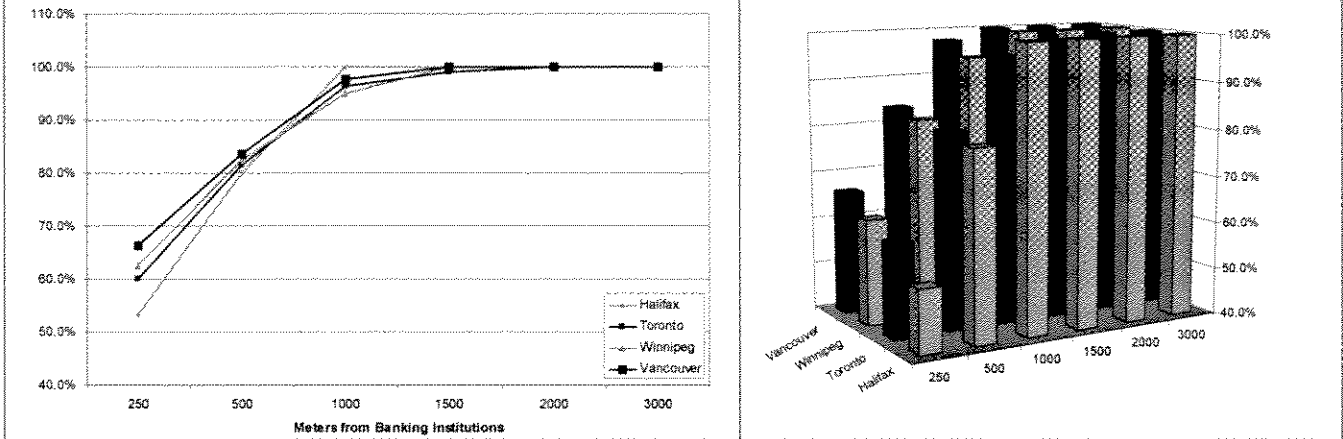
Toronto					Halifax				
Distance From Bank (Meters)	CMA		CSD		Distance From Bank (Meters)	CMA		CSD	
0-250	130	59.9%	89	53.6%	0-250	8	53.3%	8	53.3%
250-500	47	21.7%	18	34.9%	250-500	4	26.7%	4	26.7%
500-1000	32	14.7%	18	10.8%	500-1000	3	20.0%	3	20.0%
1000-1500	6	2.8%	1	0.6%	1000-1500	0	0.0%	0	0.0%
1500-2000	2	0.9%	0	0.0%	1500-2000	0	0.0%	0	0.0%
2000-3000	0	0.0%	0	0.0%	2000-3000	0	0.0%	0	0.0%
Total =	217	100.0%	166	100.0%	Total =	15	100.0%	15	100.0%
Winnipeg					Vancouver				
Distance From Bank (Meters)	CMA		CSD		Distance From Bank (Meters)	CMA		CSD	
0-250	25	62.5%	25	62.5%	0-250	57	66.3%	23	62.2%
250-500	8	20.0%	8	20.0%	250-500	16	17.4%	7	18.9%
500-1000	5	12.5%	5	12.5%	500-1000	12	14.0%	6	16.2%
1000-1500	2	5.0%	2	5.0%	1000-1500	2	2.3%	1	2.7%
1500-2000	0	0.0%	0	0.0%	1500-2000	0	0.0%	0	0.0%
2000-3000	0	0.0%	0	0.0%	2000-3000	0	0.0%	0	0.0%
Total =	40	100.0%	40	100.0%	Total =	86	100.0%	37	100.0%

*No Payday lenders exist outside the CSD of Halifax and Winnipeg therefore the results remain unchanged when looking at their respective CMAs.

Looking at the data cumulatively, (Fig 1), it is evident that in every case, close to 100% of the payday lenders are located within 1500 metres.

Based on this analysis, it is clear that the location strategy for payday lenders is not one of infilling in areas where the population is not serviced by traditional FIs. Rather, based on these findings, we can state that payday lenders are locating in relatively close proximity to the existing traditional FI network.

Fig 1: Cumulative percentage of captured payday lenders by distance from traditional financial institutions (CMA)



Conclusions:

Given the aggregate location strategy exhibited by the payday lender industry, it would seem that the payday lenders are not a replacement in the local market for traditional lending institutions. In each of the four cities studied, more than 50% of the payday lenders are found within 250 meters from a traditional financial institution, and more than 90% of locations found within 1000 meters. Consumers have good access to other financial institutions in the areas where payday lenders are located.

It is apparent from this study that the payday lending industry is not locating in areas that are under-served by traditional financial institutions. Quite the opposite, they are locating in close proximity to the existing network of financial institutions.