

THE ECONOMIC IMPACT OF PAYDAY LENDING IN SOUTH CAROLINA

EXECUTIVE SUMMARY

INTRODUCTION

This report evaluates the economic impacts of the payday lending industry in South Carolina and provides an economic perspective of the small loan lending industry. There is considerable debate in the press over the industry and its potential positive or negative impacts on the state's economy. The economic realities of recession and the resulting higher unemployment in South Carolina (3rd highest in the nation at the time of this report) create new challenges in the state's economy. One critical issue is the difficulty families and individuals will encounter as credit availability is increasingly limited and/or more expensive. Payday Lending offers a reliable and stable source of credit that can complement borrowers' limited options. At the same time, several bills have been introduced in the South Carolina Legislature that address various aspects of the industry. While some of the criticisms of the industry have merit and will most likely be addressed by the Legislature, others are of questionable merit. In general, the most vocal criticisms tend to be based more on emotional issues rather than sound economics and market-based business practices.

This report includes an overview of the industry in South Carolina and an estimate of the economic impacts of the industry. In addition, this report addresses some of the more common criticisms of the industry and provides some insight to assist those debating the issues in better understanding the industry and its benefits to the state's economy. During the economic downturns, especially ones as severe as the current one that has impacted the credit markets so severely, it is important that policy makers understand the demand and need for credit alternatives. Payday Lending is one of many options and remains an available and reliable source of credit for many South Carolinians.

The payday lending industry is a substantial employer in South Carolina. As indicated earlier, the industry employs over 3,000 workers in the state with average annual wages of about \$21,000 per employee. The 1,100 or so establishments pay an estimated \$63 million in annual payroll. The industry's total employment compares to the 3,000 jobs in the apparel manufacturing sector, the 3,700 in the forestry and logging sector and 2,900 in the broadcasting industry in South Carolina.

More importantly, as with any industry in the state the direct employment and payroll of the industry have a multiplied impact throughout the state's economy. This section estimates the total impact on the South Carolina economy of the direct employment of the payday lenders.

Table 1 summarizes the annual economic impacts from the payday lending industry in South Carolina. The direct impact on the state's economy is much larger than the direct output and employment of the operations of the lending establishments. For example, the direct jobs supported by the industry (3,080) have multiplied impacts on the state's economy much larger than those directly employed by the establishments. While there

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are an estimated 3,080 direct jobs directly employed by the industry, there would be an additional 939 jobs supported indirectly by the industry and another 1,274 jobs supported by induced effects of the industry for a total of almost 5,300 jobs supported in South Carolina from the payday lending industry every year.

TABLE 1

The Annual Economic Impact of the Payday Lending Industry in South Carolina				
	<u>Direct</u>	<u>Indirect</u>	<u>Induced</u>	<u>Total</u>
Total Output	\$ 365,500,224	\$ 85,105,259	\$ 131,903,231	\$ 582,508,729
Employment	3,080	939	1,274	5,293
Labor Income	\$ 63,000,000	\$ 14,104,683	\$ 17,438,169	\$ 94,542,851

Source: Miley, Gallo & Associates, LLC

As outlined in the accompanying report, it is clear that the payday lending industry provides a substantial economic impact to the South Carolina economy. The industry directly and indirectly supports over 5000 workers in South Carolina. The total industrial output from the industry including direct and indirect production is over \$580 million a year. In addition, the industry generates over \$94 million in labor income in the state.

The industry provides a needed service in the consumer lending market – this is evident by the demand for its products and services. The industry has grown in the last ten years or so, but has been around in some form or fashion for the last 100 years or more. The fees and costs of the loans are higher than traditional lending sources, but many of the borrowers do not have access to those lenders and most lenders do not offer such small, short-term loans. Prices are typically higher when convenience and time are in short supply – this also explains for example, why consumers are willing to pay more for groceries at convenience stores than at their regular grocery store.

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The 3,000-plus jobs generated by the industry today may be more important than ever. The national and state economies are in their worst declines since the 1930's. State revenues continue to lag behind estimates and the state budget has been reduced several times as a result. Job growth in the state has lagged that of the rest of the country. The state's unemployment rate continues to hover above that of the nation. Job creation in South Carolina is facing stiff competition from around the world. To make matters worse, some of the state's most important industrial sectors continue to decline. The state's substantial manufacturing sector continues to struggle. In particular, the textile industry (at one time the state's largest employer) has lost over 40,000 jobs in the last ten years. The industry continues to lose employment and lost another 5,000 over the last twelve months. The payday lending industry provides needed jobs across the state in almost every county.

The industry is frequently criticized for making excessive profits and charging high interest rates, but this analysis provides adequate evidence that both of these claims are questionable. Further the industry does provide some benefit in the form of consumer surplus to the consumers in South Carolina. As the number of lenders increases, economic theory suggests that the price of the service should decline and the consumer will be even better off.

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