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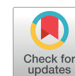
Article

# Short-term lending: Payday loans as risk factors for anxiety, inflammation and poor health



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ABSTRACT

While research now consistently links consumer financial debt with adverse emotional health outcomes, specific forms of debt and their impact on measures of physical health are underexplored. This gap in knowledge is significant because different forms of loans and debt may have different experiential qualities. In this paper, we focus on a type of unsecured debt - short-term/payday loan borrowing – that has risen dramatically in recent decades in the United States and is characterized by predatory, discriminatory, and poorly regulated lending practices. Using data from a study of debt and health among adults in Boston, MA (n = 286), we test whether short-term borrowing is associated with a range of emotional and physical health indicators. We find that short-term loans are associated with higher body mass index, waist circumference, C-reactive protein levels, and self-reported symptoms of physical health, sexual health, and anxiety, after controlling for several socio-demographic covariates. We discuss these findings within the contexts of regulatory shortcomings, psychosocial stress, and racial and economic credit disparities. We suggest that within the broader context of financial debt and health, short-term loans should be considered a specific risk to population health.

## 1. Introduction

This paper examines payday and other short-term loans as distinct types of consumer debt that may be linked with disease risk. Consumer debt generally has gained recent attention as a socioeconomic variable of interest in population health research. Motivated in part by growing burdens of household debt in much of the world (Anonymous, 2014; Corkery & Cowley, 2017), studies are increasingly finding links between debt and poor health across a range of outcomes, including depression and depressive symptoms (Alley et al., 2011; Bridges & Disney, 2010; Drentea & Reynolds, 2012; Hojman, Miranda, & Ruiz-Tagle, 2016; McLaughlin et al., 2012; Reading & Reynolds, 2001; Sweet, Nandi, Adam, & McDade, 2013; Zurlo, Yoon, & Kim, 2014), anxiety, poor psychological well-being, and other mental disorders (Brown, Taylor, & Price, 2005; Drentea & Reynolds, 2012; Jenkins et al., 2008; Meltzer et al., 2011; Sweet et al., 2013; Walsemann, Gee, & Gentile, 2015; Zurlo et al., 2014), poor self-rated health (Drentea & Lavrakas, 2000; Lau & Leung, 2014; Sweet et al., 2013), high blood pressure (Pollack and Lynch, 2009; Sweet et al., 2013), obesity (Münster, Rüger, Ochsmann, Letzel, & Toschke, 2009), child behavior problems (Berger & Houle, 2016), lower life expectancy (Clayton, Liñares-Zegarra, & Wilson, 2015), and foregone medical care or care non-adherence (Kalousova & Burgard, 2013; Pollack & Lynch, 2009). While the bulk of available evidence highlights the impact of consumer debt on psychological health (see Richardson et al. for review) (Richardson, Elliott, & Roberts, 2013), recent findings involving measures of physical health are helping to solidify the significance of debt as an important socioeconomic determinant of health (Clayton et al., 2015; Pollack & Lynch, 2009; Sweet et al., 2013).

Questions remain, however, regarding the mechanisms through which debt may impact health and which aspects of debt are most significant. These questions are complicated by the variety of ways in which debt is conceptualized, measured and operationalized in the epidemiological literature. Across studies, consumer debt is assessed as an absolute amount or ratio in relation to income or assets (Berger and Houle, 2016; Clayton et al., 2015; Drentea & Lavrakas, 2000; Hojman et al., 2016; Walsemann, Ailshire, & Gee, 2016), as well as an indebted state (presence or absence of debt, mortgage delinquent, or self-reported debt difficulties) (Alley et al., 2011; Bridges & Disney, 2010; Brown et al., 2005; Drentea & Reynolds, 2012; Jenkins et al., 2008; Lau and Leung, 2014; McLaughlin et al., 2012; Pollack & Lynch, 2009; Reading & Reynolds, 2001; Zurlo et al., 2014). Other measures reflect

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the fact that not all debt is equivalent in terms of its socioeconomic implications. For example, while most debt is viewed as a marker of financial strain, a home mortgage is collateralized (secured) and reflects a pre-requisite level of investment capital and financial stability needed to secure the loan. Home mortgages and other secured loans therefore, unless delinquent, may be better viewed as forms of capital that correlate positively with other socioeconomic indicators than as potentially health damaging debt. Indeed studies have shown that while foreclosure risk is associated with poor health (Alley et al., 2011; Brown et al., 2005; Lau & Leung, 2014; McLaughlin et al., 2012; Pollack & Lynch, 2009), unsecured debt, rather than mortgage debt, tends to be a more reliable predictor of health outcomes (Berger & Houle, 2016; Brown et al., 2005; Clayton et al., 2015; Kalousova & Burgard, 2013; Zurlo et al., 2014).

Beyond the distinction between secured and unsecured debt, it can also be argued that the various forms that debt can take have potentially distinct experiential and health implications. Student loans, for instance, represent a heavy financial burden for new college graduates, but are also (in theory) investments in future earning potential and cultural capital in the form of a college degree. Credit cards are not collateralized and can carry high interest rates and fees, but can also be used to smooth over periods of household financial difficulty or instability. All debts are not equivalent, therefore, nor even necessarily internally coherent, in terms of their socioeconomic meaning and impact. There is thus a strong need to explore in greater depth the different forms that debt can take and the ways in which their meanings and relationships with health may vary.

In this paper, we focus on a form of debt that has been largely excluded from epidemiological investigations thus far – debt from short-term, predatory lending. Also called by the name of their most ubiquitous type, payday loans, short-term loans refer to a range of high-interest, revolving loan mechanisms that disproportionately target poor, minority, elderly, geographically isolated, or other vulnerable borrowers (Austin, 2004). Including loans such as title loans, pawn loans, cash advances, and rapid tax refunds, among others, the general structure of short-term loans are similar in that their compounding fee structures and lump sum repayment models are designed to cost borrowers as much as possible while keeping them in perpetual low-level debt (Austin, 2004; Williams, 2005). Short-term loan profits thrive on the use of extremely high interest rates and fees that are masked by short windows and small initial loan amounts but that accumulate over time through the use of automatic revolving mechanisms. A typical payday loan, for example, will be revolved (or renewed) several times if the original loan cannot be repaid in full at the end of the short (often two-week) initial period, resulting in a borrower ultimately owing on average $800 for a $300 loan and paying the equivalent of 400% APR in fees (Logan & Weller, 2009).

Despite their high cost, short-term loans have gained in both popularity and availability in recent years, due in large part to relaxed federal oversight of credit lending practices. While versions of short-term loans and paycheck advances have a long history in the US, state usury laws and interest rate restrictions kept their broad impact largely in check until neoliberal banking and finance legislation began to take root in the 1970s. Aimed at loosening depression-era consumer protection regulations, neoliberal financial policy helped to erode the restrictions that kept credit lenders under tight state-level control and created a fertile environment for the short-term loan industry to flourish (Williams, 2005). Since the 1990s payday loans and their equivalent grew exponentially in the US, serving an estimated 19 million borrowers by the mid-2000s (Logan & Weller, 2009).

Given the predatory and largely unregulated nature of the short-term loan industry, these credit mechanisms have garnered considerable attention from legal and social science scholars, as well as policy-makers, as being among the most problematic unsecured debt for the financial health of consumers (Austin, 2004; Johnson, 2002; Logan & Weller, 2009; Williams, 2005, 2008). It is possible that they could be among the most problematic for psychological and physical health as well. Given the ways in which payday loans trap borrowers into perpetual cycles of high-interest debt, it is likely that these loans are significant sources of stress for those who utilize them. Psychosocial stress is thought to be one of the pathways through which debt more broadly is associated with poor health, particularly considering the strong links between debt and depression reported by many studies (Alley et al., 2011; Bridges & Disney, 2010; Drentea & Reynolds, 2012; Hojman et al., 2016; McLaughlin et al., 2012; Reading & Reynolds, 2001; Sweet et al., 2013; Zurlo et al., 2014).

Furthermore, prior research has posited that unsecured debt may be especially stressful because of its more burdensome interest and repayment structures (Drentea & Reynolds, 2012; Zurlo et al., 2014), and that 'debt stress', or worry about being able to pay off what is owed, may be a key mediator linking debt with poor health (Drentea & Reynolds, 2012). The tendency of short-term loan mechanisms to trap borrowers in endless, and often compounding, debt cycles could indeed generate repayment worry and stress that is particularly severe and enduring. Prior qualitative findings from our own study, published elsewhere (Sweet et al., 2018; and Anonymous, In Review), also support this notion. Indebted Boston residents we interviewed described intense feelings of stress, depression, and emotional and physical suffering stemming from their debt and the constant management of household resources that accompanied their efforts to pay it off. For many of these people, payday loans (or their equivalent) were an important part of their debt story; 32% of those we interviewed had taken out payday loans and experienced the "loan shark" repayment practices of short-term lenders as distinctly problematic and "drastic" (Anonymous, In Review). Despite the highly troublesome and potentially stressful nature of payday loans, to our knowledge, only one epidemiological study thus far has explored the health correlates of short-term loan debt (Eisenberg-Guyot, Firth, Klawitter, & Hajat, 2018). In that study, short-term ("fringe") loan borrowing was associated with higher prevalence of poor self-rated health.

In this paper, we report findings from a study in Boston, MA that explores how varied experiences with debt map onto health, with a focus here on short-term loan debt. In an effort to expand available data on a range of health outcomes, we investigate associations between short-term loans and multiple psychological and biomarker measures of health, including cardiovascular and metabolic risk indicators. We hypothesized that, given their potential to elicit substantial repayment stress, individuals with short-term loan debt would have more adverse indicators of cardiovascular, metabolic, and emotional health in our sample.

## 2. Materials and methods

### 2.1. Study design and recruitment

Data come from the quantitative and biomarker arm of a two-phase, mixed-methods study of debt and health in Boston, MA. While an earlier phase of qualitative interviews, reported on elsewhere (Sweet et al., 2018) informed the development of the comprehensive debt questionnaire used in this study, here we focus on data from the quantitative phase (Phase 2, n = 286), which explored the relationship of debt experiences with self-reported and biomarker measures of health. The overall study objectives for both phases of research aimed to capture the breadth and diversity of debt experiences for Boston area adults, including different types of debts (from payday loans to credit cards, student loans, and home mortgages) and varying burdens of amounts owed. While recognizing that debt from short-term loans is likely to be overrepresented in lower income populations that are disproportionately targeted by these lenders (Logan & Weller, 2009; Williams, 2008), we also wanted to account for the growing reach of financial debt generally into a broader array of American households in recent decades (Anonymous, 2014). As a result, our sampling frame did

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