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A cross-sectional study of the relationship between political ideology and state legislative responses to payday lending

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A CROSS-SECTIONAL STUDY OF THE RELATIONSHIP BETWEEN POLITICAL
IDEOLOGY AND STATE LEGISLATIVE RESPONSES TO PAYDAY LENDING

A Thesis
Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Master of Social Work

in

The School of Social Work

by
Louie Fletcher Bickham III
B.S., Louisiana State University, 2010
May 2012

DEDICATION

This thesis is dedicated to all payday loan borrowers and the policy makers who care about them.

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ABSTRACT

The present study examines the relationship between state electorate and state government political ideologies and state legislative responses to payday lending. Payday lending is a form of short-term, high-interest credit (e.g., Graves, 2003; Karger, 2005), and components of states' legislative responses toward payday lending regulation serve as dependent variables in this study. The internal determinants model serves as the policy innovation model, predicting the attributes of states that influence legislative responses to social constructs (Berry & Berry, 1999; Mohr, 1969). People espousing liberal political ideology believe in using governmental intervention to ensure corporate social responsibility, while those adhering to a conservative political ideology do not (Walters, 1977). The author predicted negative associations between political ideologies and components of state legislative responses to payday lending indicating more regulation. This study found four modest, significant correlations: (1) Between the percentage of each state's electorate identifying as *liberal* and that state's legislated maximum payday loan principle amount, (2) between the percentage of each state's electorate identifying as conservative and that state's legislated maximum payday loan principle amount, (3) between liberal state government political ideology and that state's legislated maximum payday loan principle amount, and (4) between the percentage of each state's electorate identifying as liberal and that state's legislated payday loan implied maximum annual percentage rate. No relationship was found between liberal electorate political ideology and state legislated maximum payday loan maturity terms or fee disclosure requirements; between conservative electorate political ideology and state legislated payday loan implied maximum annual percentage rates, state legislated maximum payday loan maturity terms, or fee disclosure requirements; or between liberal state government political ideology and state legislated payday loan implied maximum

annual percentage rates, state legislated maximum payday loan maturity terms, or fee disclosure requirements. This suggests that the internal determinant, liberal political ideology, is associated with using government intervention to regulate the state legislated maximum payday loan principle amounts and state legislated payday loan implied maximum annual percentage rates that payday loan consumers can be charged.

CHAPTER 1: INTRODUCTION

Social workers, such as such as the profession's pioneer Jane Addams, have historically been concerned with economic inequality and its exacerbation of poverty (Lundblad, 1995; Martin, 2012). Jane Addams both denounced the citizenry's apathy toward changing social conditions that exacerbated poverty and led large-scale settlement house advocacy efforts for social welfare policies to reverse the adverse impact of poverty (Lundblad, 1995; Martin, 2012). Because social workers have historically been (Lundberg, 1995; Martin, 2012) and should presently be engaged in policy change efforts to reduce the adverse impact of poverty (Karger, 1990), payday lending serves as a contemporary example of a social construct of economic inequality that exacerbates poverty (Karger, 2004, 2005; Melzer, 2011).

People in poverty often have few resources and a lack of access to inexpensive credit, and this could pose a problem in the event that they cannot make monthly ends meet (Sapir & Uhlich, 2003). A possible solution to this problem for those of the working class (Karger, 2005; Stegman, 2001) or the middle class (Elliehausen & Lawrence, 2001) is the payday loan (e.g., Elliehausen & Lawrence, 2001; Karger, 2005; Sapir & Uhlich, 2003).

Payday loans are short-term, high-interest, small-dollar credit extensions for funds (Karger, 2005). Generally, these loans mature at 2 weeks following the loan's origination (Karger, 2005), and the maximum loan principles amount to totals ranging from a low of \$300 in California and Montana to a high of \$700 in the state of Washington (Pendus, Kuehn, & Brash, 2010). Borrowers do not receive payday loans free-of-charge (e.g., Graves, 2003); the interest charges incurred for this form of credit usually amount to approximately \$15 per \$100 of the principle (Stegman & Faris, 2003). At the origination of the payday loan, the borrower writes a

post-dated check payable to the payday loan lender in the sum of the principle and interest charges (Karger, 2005).

The borrower encounters several repayment alternatives at the maturity of the payday loan. Such alternatives include using the post-dated check for repayment of the loan in full, or alternatively defaulting and subjecting the loan to a collection agency or extending the original 2-week payday loan maturation period by subsequent 2-week periods and remitting a service charge—typically \$45—to the payday lender for each extension (Ernst, Farris, & King, 2004; Karger, 2005). The latter alternative is known as a payday loan *rollover* (Graves, 2003) or *renewal* (Stegman, 2007). Nonsufficient funds (NSF) fees on delinquent checks, compounded interest charges on subsequent payday loans, collection agency charges, and *new customer fees* ranging between \$10 and \$15 serve as just a few examples of fees encountered with a rollover (Karger, 2005). Such fees and interest charges fuel the profitability and proliferation of the payday loan industry (Karger, 2005).

The need for funds becomes apparent to consumers concurrently upon the onset of the sudden, unexpected event and the consumers' realization that they have insufficient funds available to finance the event (Melzer, 2011). In order to finance these events, unbanked (i.e., those without bank accounts) and/or unemployed consumers with lower annual incomes can present tangible goods in exchange for short-term credit at pawn shops, and banked and employed consumers with higher incomes can rely on credit cards or liquidated funds in savings accounts (Karger, 2005). Between those consumer groups lies banked and employed consumers with moderate annual incomes, a consumer population that can turn to payday lenders during times of credit need (Karger, 2005). In general, about 50% of the payday loan consumer population earns annual incomes between \$25,000 and \$49,999 (Elliehausen & Lawrence, 2001).

[The findings reported by Elliehausen and Lawrence (2001) should be considered with caution since the work “was supported, in part, by a grant from the Community Financial Services Association of America” (Elliehausen & Lawrence, 2001, p. iii), *the national trade association for payday lenders* (Community Financial Services Association of America [CFSA], 2012).

Payday lenders flourish in resource-impooverished communities, and banks flourish in resource-rich communities (Graves, 2003). Others (Gallmeyer & Roberts, 2009) have reported that payday loan outlets agglomerate in communities dense with immigrants, individuals self-identifying with an ethnic minority group, individuals between 18 and 29 years of age or over the age of 65, individuals employed in the construction industry, and individuals with an active military personnel status. African American communities were home to three times as many payday loan outlets as were white communities, regardless of education levels, income levels, unemployment rates, age differences, gender identifications, homeownership status, number of homes with children, and urban dwelling neighborhood status (King, Li, Davis, & Ernst, 2005).

Legislative responses to the payday lending problem differ by state (e.g., Pendus et al., 2010). Prior research suggests that states adopt legislation to reconcile their policy needs with their socioeconomic and political attributes (Alm & Rogers, 2011; Berry & Berry, 1999; Miller & Wang, 2009; Weiner & Koontz, 2010), a model of policy adoption known as the *internal determinants model* (Berry & Berry, 1999). This thesis hypothesizes that internal determinants of state electorate political ideology and state government political ideology correlate with different state legislative responses to the payday lending problem.

CHAPTER 2: LITERATURE REVIEW

The literature review begins with a brief discussion of the impact of payday loan use on a consumer's financial well-being and followed by an in-depth discussion of the payday loan lending system and an outline of state-level payday loan legislative responses. Policy adoption models used to predict the spread of policy innovation among the states are then discussed (Berry & Berry, 1999). Next, determinants potentially linked to the spread of payday loan policy responses are outlined. The literature review ends with this study's hypotheses.

Impact of Payday Loans on Consumers' Financial Well-Being

Members of the payday loan consumer group may obtain a payday loan to ease the financial shock of unexpected expenses (Karger, 2005; Melzer, 2011; Stegman, 2001). However, payday loan use increases a family's future expense-paying ability (Melzer, 2011). Specifically, a family's geographical proximity to payday lenders (i.e., families living in counties whose geographical center is less than 25 miles to a state in which payday loans can be obtained) increased their probability of expense paying difficulty by 25% compared to a 20.3% sample average (i.e., families living in counties whose geographical center is greater than 25 miles to a state in which payday loans can be obtained) and increased their probability of postponing healthcare needs (Melzer, 2011).

Understanding Payday Loans

Consumers obtain payday loans for a variety of reasons, and such reasons have been organized into three different profiles of payday loan borrowers: the *emergency borrower*, the *strategic borrower*, and the *line-of-credit borrower* (Anderson & Jackson, 2010). The emergency borrower obtains a payday loan for an acute, unexpected need of funds (i.e., times of emergency). Strategic borrowers pay bills that would otherwise be paid late thinking that the

interest and fee charges associated with payday loans are lower than those charges associated with late bill payments (Anderson & Jackson, 2010). The line-of-credit borrower obtains numerous payday loans over the course of a year to emulate a revolving credit card line-of-credit (Anderson & Jackson, 2010).

Two economic theories predict consumers' decisions to obtain payday loans (Melzer, 2011). Both theories reflect the decisions in accord with the rational choice theory (Melzer, 2011), the notion that people decide to behave in a manner that will provide the best possible outcome for their livelihood (McClennen, 2010). The *borrowing to smooth current income or consumption shocks* theory posits that consumers might seek such expensive short-term credit to help reconcile current decreases in income and increases in expenses (Melzer, 2011). A consumer obtains a payday loan in such a case, because the consumer believes it would provide more benefit to his or her livelihood than would a failure to make ends meet (Melzer, 2011). The *forecasting and commitment problems: borrowing costs and future distress* theory predicts that consumers obtain payday loans if they underestimate or fail to recognize the future interest charges associated with such short-term credit (Melzer, 2011). The consumer believes a decision to obtain a payday loan in this instance would maximize their livelihood more positively in the present than adversely in the future (Melzer, 2011).

Examples of economic hardships toward which payday loan funds can be applied include health, mortgage, rent, utilities, and food bills (Melzer, 2011). Sixty-seven percent of payday loans in a sample of Arizona borrowers were used to finance living expenses, 23% for an acute need of a greater amount of funds (e.g., times of emergency), and the remaining percentage for unspecified reasons (Sapir & Uhlich, 2003).

In the event that a consumer seeks a payday loan, he or she must present to the payday lender credentials such as documentation for proof of residence (e.g., a state-issued identification card, a home address); proof of employment and income (e.g., paycheck stubs, W-2 Forms, checking account statement); and a minimum, continuous source of monthly income (Stegman, 2007). Continuous sources of monthly income could include government benefits such as unemployment insurance or Social Security (Anderson & Jackson, 2010). Sometimes payday loan lenders request personal references with contact information before granting a payday loan (Karger, 2005).

After having submitted their credentials to the lender, the borrower relinquishes a postdated check amounting to the sum of the loan principle and associated interest charges (Karger, 2005). In turn, the lender provides the borrower with cash in the amount of the principle and retains as collateral the postdated check (Karger, 2005). Once the payday loan contractual period matures, the lender might cash the check and thus profit by retaining the difference between the face value of the cashed postdated check and the principle (Karger, 2005).

Most payday loan contracts terminate in 2 weeks (Karger, 2005). Sapir and Uhlich's (2003) study of Arizona payday loan consumers found that 40% of borrowers had repaid their payday loans within a 2-week period following origination, 16% within a 3- to 4-week period, 2% within 5- to 6- weeks, 16% by 7 to 8 weeks, while 14% repaid their payday loans within 9 weeks. (The remaining 12% of Sapir and Uhlich's respondents specified no reimbursement period.) Further, 33% of payday loans obtained by Sapir and Uhlich's respondents amounted to between \$300 and \$399, while 7% amounted to a total between \$100 and \$199, 20% between \$200 and \$299, 9% between \$400 and \$499, and 24% equaling \$500 (Sapir & Uhlich, 2003; note

that 2% specified no amounts and that the percentage of the authors' reported survey responses equaled 95%).

Interest charges typically amount to approximately \$15 for every \$100 borrowed (Stegman & Farris, 2003). Fox and Mierzwinski (2001) found that interest charges ranged between \$10 and \$35 for every \$100 borrowed. These fees are often converted to implied annual percentage rates (Graves, 2003) for easy comparison to credit card interest charges (Stegman, 2007). In a sample of payday loans, the average state-sanctioned implied maximum annual percentage rate (APR) was 470% and varied between 182% and 910% (Fox & Mierzwinski, 2001). Others (Pendus et al., 2010) found that implied maximum annual percentage rates in states that sanctioned payday lending varied between 28% allowable in Ohio to 1,980% allowable in Missouri. Only 63.5% of the nation's state-level payday loan laws required the lender to disclose all fees associated with the loan to the borrower (Pendus et al., 2010).

Borrowers encounter several reimbursement alternatives at the maturity of the payday loan contract (Karger, 2005). Ideally, borrowers could allow the previously post-dated check to clear their checking account, fulfilling the terms of the payday loan as agreed upon at origination (Karger, 2005). Alternatively, borrowers could allow the loan to enter one of two default alternatives: Renewals into subsequent 2-week payday loan maturation periods or submission to a collection agency for reimbursement (Ernst et al., 2004; Karger, 2005). Lenders might use their state's nonsufficient funds collection laws in order to coerce and sue the borrower to reimburse triple the amount of the payday loan, should the check written at the loan origination prove delinquent (Fox & Mierzwinski, 2001).

In 2000, the payday lending industry earned \$1.4 billion of fees through 41 million payday loan transactions (Stephens Inc., as cited in Carr & Schuetz, 2001). Others (Robinson, as

cited in Carr & Schuetz, 2001) reported that the payday lending industry earned \$2.4 billion of fees through 65 million transactions. These fees resulted in the stakeholders of publicly traded payday loan companies reaping the rewards from such an industry (Stegman, 2001). The practice of renewing payday loans into subsequent payday loan periods fuels the proliferation of and profitability within the payday loan industry (Karger, 2005). To illustrate the point, borrowers sometimes cannot fulfill their loan obligations as agreed upon at origination (Fox & Mierzwinski, 2001). In such an instance, borrowers might renew their payday loan contract(s) if they do not possess enough available funds to both fulfill the payday loan obligations and maintain a proper level of sustenance until the borrower's next paycheck (Fox & Mierzwinski, 2001). Renewals result in exponentially increasing interest and fee charges tacked onto the borrower's composite payday loan debt with each rollover (Graves, 2003), and herein lies the profitability and proliferation of the industry (Fox & Mierzwinski, 2001).

Payday lenders attribute their profitability to the risk inherent in extending funds to low income, credit compromised consumers for whom there are few other means of accessible credit (Karger, 2005). Consumers of higher socioeconomic classes are generally considered to be creditworthy and could rely upon and reimburse banking institutions for loan products should an acute need arise for credit (Karger, 2005). The riskiest consumers to whom credit could be granted, or the *working poor*, have been deemed unworthy of credit (Stegman, 2005) and the interest and fee charges mitigate the great risk of credit default among this socioeconomic group (Karger, 2005). In times of acute financial strain, such consumers utilize payday loans, pawn shops, and/or other services within the fringe economy, or *alternative financial services* (AFS) industry (Karger, 2005).

Many have suggested that payday loan companies agglomerate in communities dense with populations of particular socioeconomic demographics (e.g., Gallmeyer & Roberts, 2009; Graves, 2003; King et al., 2005). For instance, Graves (2003) found that payday loan companies agglomerated and banks were sparse in resource-impooverished communities, while, conversely, banks agglomerated in and payday loan companies were sparse in resource-rich communities (Graves, 2003). Gallmeyer and Roberts (2009) found statistically significant mean group differences between communities with and without payday lenders with regard to the following concepts: people living in poverty, immigrants, consumers from particular ethnic minority groups, consumers between 18 and 29 years of age and over age 65, consumers serving as active military personnel, and consumers employed in the construction industry. A three-to-one proportion was suggested in terms of the total quantity of payday loan outlets in majority African American communities as contrasted to majority white communities (King et al., 2005).

State Legislative Responses to Payday Lending

All states and the District of Columbia have either prohibited or regulated payday lending, and this industry was found to be prohibited in 12 of the United States and in the District of Columbia and legal in 38 states (Pendus et al., 2010). State payday loan statutes of those 38 states were written such that 33 imposed maximum dollar amounts for payday loans, 33 set interest charges on 2-week payday loans amounting to an implied maximum annual percentage rate, 20 imposed a minimum payday loan term (i.e., number of days from origination to maturity), 29 imposed a maximum payday loan term (i.e., number of days from origination to maturity), and 33 required payday lenders to fully disclose all fees to the borrowers (Pendus et al., 2010). Anderson and Jackson (2010) reported that Florida's payday loan statute allowed for a maximum number of payday loans a borrower could concurrently have outstanding.

Prohibition of Payday Lending. The practice of granting payday loans was banned in 12 states and in the District of Colombia (Pendus et al., 2010). Those states were Connecticut, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, West Virginia, and Wisconsin as well as the District of Colombia (Pendus et al., 2010). North Carolina was the first state in the nation to prohibit payday lending (Center for Responsible Lending [CRL], 2010a, 2010b) citing its preexisting delinquent check legislation as precluding payday lending on the basis that it was illegal to willfully post-date checks for funds presently not had (Moss, 2000; Stegman, 2007).

Regulation of Payday Lending. The purpose of this section is to delineate and define components of state payday loan regulation legislation of the remaining 38 states in which such credit practices were sanctioned and regulated (Pendus et al., 2010). Components discussed hereafter include the maximum payday loan principle amounts, the implied maximum annual percentage rate, the minimum and maximum payday loan terms, and the disclosure of payday loan fees.

Maximum Payday Loan Principle Amounts. Maximum payday loan principle amounts were the largest amount of funds that a lender could extend to a borrower for a payday loan (Stegman & Fairs, 2003). When written into state payday loan legislation, such maximums were specified as explicit dollar amounts that payday loan principles cannot exceed (Pendus et al., 2010). For instance, Louisiana stipulated that payday loan principle amounts in that state not exceed \$350 (Pendus et al., 2010).

Each state that regulates payday lending determines its maximum payday loan principle amounts (Graves & Peterson, 2005). The lowest reported maximum payday loan principle amount was \$300 imposed by California's and Montana's state laws, while the highest maximum

loan principle amount written into legislation was \$700 in the state of Washington (Pendus et al., 2010). Some states base the maximum payday loan principle amounts on borrower income. For instance, Nevada and New Mexico state payday loan legislation allowed borrowers to obtain payday loans of no greater than 25% of their gross monthly income (Pendus et al., 2010). Finally, the state of Oregon was reported to allow borrowers earning a net annual income of no more than \$60,000 to seek payday loans for a maximum no greater than 25% of their net monthly income (Pendus et al., 2010). The average maximum payday loan principle amount allowed by state law was \$484.17 (computed by author using data from Pendus et al., 2010).

Graves and Peterson (2005) opined that consumer protection is fostered by larger maximum payday loan principle amounts than by smaller maximum payday loan principle amounts. Specifically, to obtain larger fund amounts, consumers can pay lower amounts of *origination fees* if state payday loan legislation allows them to obtain one larger payday loan than multiple smaller payday loans, although the interest charges may differ (Graves & Peterson, 2005). Larger maximum payday loan principle amounts allow consumers to borrow greater amounts of funds with a single payday loan, while smaller maximum payday loan principle amounts could necessitate multiple payday loans for larger fund amounts (Graves & Peterson, 2005). Payday lenders charge various fees with each payday loan origination (Graves & Peterson, 2005; Karger, 2005). Thus, larger maximum payday loan principle amounts can allow consumers to borrow larger fund amounts with a single origination fee occurrence (Graves & Peterson, 2005). Conversely, consumers may have to obtain multiple payday loans for larger fund amounts, exposing them duplicative origination fee occurrences (Graves & Peterson, 2005).

Implied Maximum Annual Percentage Rate. The implied maximum annual percentage rate of a payday loan is calculated by “annualizing the short-term cost” of the payday loan

(Anderson & Jackson, 2010, p. 154). Three pieces of information must be known before the implied maximum annual percentage rate of a payday loan can be calculated: (1) the amount of funds the consumer wishes to borrow, usually the maximum payday loan principle amount (e.g., \$350); (2) the dollar amount of the total finance charge to obtain the payday loan, usually the sum of the fees charged per \$100 borrowed (e.g., \$50); and (3) maturity term of the payday loan, usually the maximum payday loan term (e.g., 14 days; Arkansans Against Abusive Payday Lending [AAAPL], 2006).

Upon gathering the aforementioned three pieces of information, the implied maximum annual percentage rate can be calculated in four steps (AAAPL, 2006). The first step is to divide the total finance charge (numerator) by the maximum payday loan principle (denominator; i.e., $\$50/\$350 = 0.14$; AAAPL, 2006). The next step is to multiply that answer by 365, or the number of days in a year (i.e., $0.14*365 = 52.14$; AAAPL, 2006). The third step is to divide such that that product is the numerator and the maximum payday loan term is the denominator (i.e., $52.14/14 \text{ days} = 3.72$; AAAPL, 2006). The final step is to convert that answer into a percentage by moving the decimal place in that answer two places to the right (i.e., 3.72 becomes 372.45%); thus, the implied maximum annual percentage rate on a \$350, 14-day payday loan with a \$50 total finance charge is 372.445% (AAAPL, 2006).

The simple method for consumers to calculate the dollar amount of the *interest charges* of a single two-week payday loan rolled-over once (i.e., extended for an additional two weeks) is to double the interest charged for the first two weeks of the payday loan contract (Martin, 2009). Presumably, this is the amount of interest charged in a month (i.e., a month is typically four weeks, or two two-week periods). It follows, then, that the interest charges over the course of a

year can be calculated by multiplying the monthly interest charges by 12 (i.e., there are 12 months in a year).

In states that regulated annual percentage rates, the implied maximum annual percentage rate allowed by state law was 28% in Ohio and the highest was 1,980% in Missouri (Pendus et al., 2010). The Center for Responsible Lending (CRL; 2009) opined that states should implement an implied maximum annual percentage rate of 36% or less and argued that “a two-digit interest rate cap is already saving [borrowers in] the 15 states and the District of Columbia which enforce such a cap nearly \$2 billion” (p. 2).

Maximum Payday Loan Maturity Term. Some states also mandated that payday loan terms not exceed a particular quantity of days (Pendus et al., 2010). The shortest maximum payday loan maturity term written in state payday loan legislation was 30 days in Minnesota and the longest was 183 days in North Dakota (Pendus et al., 2010).

The CRL (2010a, 2010b) recommended that legislators consider longer maximum payday loan maturity terms for payday loan legislation, because this allows borrowers more time to repay without incurring penalties. Since borrowers might have difficulty in concurrently maintaining a livelihood and reimbursing their payday loan with their first post-payday loan maturity paycheck (CRL, 2010a, 2010b; Fox & Mierzwinski, 2001), three to twelve months provides enough time for borrowers to repay their payday loan and make ends meet (CRL, 2010a, 2010b).

Fee Disclosure Requirements. Fee disclosure requirements refer to the act of the payday lender informing the payday loan borrower of the costs, benefits, and risks of obtaining a payday loan (Bertrand & Morse, 2011). Empirical research has suggested that payday loan borrowing

decreases by 11% after disclosing payday loan fees to the payday loan borrower (Bertrand & Morse, 2011).

Policy Adoption Models

The diffusion of innovation and the internal determinants models serve as two insightful theories that predict state legislative policy adoption attributes for the purpose of the present thesis (Berry & Berry, 1999; Mohr, 1969). The former model examines the numerical order or clustering of states in regards to the spread of policy trends among the states (Berry & Berry, 1999). The latter model examines the multiple links between a state's propensity, or statistical likelihood, to adopt a particular policy and that state's socioeconomic and political attributes (Berry & Berry, 1999; Mohr, 1969).

The concepts of *innovation* and *invention* must be differentiated before the two policy adoption models can be discussed (Mohr, 1969). An innovation is the novel application of preexisting means—a policy, for the purpose of the present work—to the solution of a problem, whereas an invention is the creation of means as a solution (Mohr, 1969). Innovations refer to new applications to problems, while inventions refer to new products (Mohr, 1969).

Diffusion of Innovation Model. The diffusion of innovation model predicts the manner in which states emulate policy ideas of other states (Berry & Berry, 1999). Clusters of states generally rank among the first and among the last in the emulation and adoption of policy ideas (Berry & Berry, 1999). Such clusters result in a logical order of states in regards to the spread of policy innovations (Berry & Berry, 1999). States adopt policy ideas that other states have adopted for one or more of three reasons: (1) the policy idea has demonstrated effectiveness in adoptive states, (2) states rival and compete against the other states and sense a need to adopt a particular policy in order to compete or maintain superiority over the other states, and (3) public

officials of one state may succumb to public pressure in regards to implementing another state's socially desirable, effective policy (Berry & Berry, 1999).

In summary, the diffusion of innovation model accounts for the general order in which states adopt particular policy ideas rather than the characteristics of these states (Berry & Berry, 1999). In contrast, the internal determinants model accounts for the prediction of attributes of states that adopt particular policy components (Berry & Berry, 1999) and thus serves as the policy adoption model for the present cross-sectional analysis.

Internal Determinants Model. The internal determinants model predicts innovation as a reconciliation between an organization's environmental (i.e., external) attributes and its inherent (i.e., internal) attributes (Mohr, 1969). An organization may encounter an environmental problem and move to remedy it by applying preexisting means (Mohr, 1969). An organization's internal attributes preclude its ability to innovate: Innovation can occur if the organization has the internal attributes, or capacity, to implement and maintain the innovation and vice versa (Mohr, 1969). Predictors of an organization's ability to innovate include its resources, size, wealth, and ideology and opinions (Mohr, 1969).

As for states responding to social problems, an innovation reconciles the states' policy response to the problem and their political and socioeconomic attributes (Berry & Berry, 1999). States have the capacity to implement and maintain a policy innovation as a result of their socioeconomic and political characteristics (Berry & Berry, 1999; Mohr, 1969). For instance, political ideology in the form of citizen liberalism was found to be a strong, significant internal determinant of states' decisions to implement environmental initiatives (Matisoff, 2008).

Policy innovation serves as the conceptual dependent variable of most studies using the internal determinants model (Berry & Berry, 1999). As such, policy innovation can be

conceptualized as either the degree of earliness or the propensity that a state adopts a policy (Berry & Berry, 1999).

Earliness of Policy Adoption. The degree of earliness of policy adoption by the states has been studied in the literature of three ways (Berry & Berry, 1999). The latency, or quantity, of years between a state's adoption of a policy and the year of the *first* state's policy adoption represents earliness of policy adoption as an interval-level measure (Berry & Berry, 1999). The numerical rank order in which states adopted a particular policy represents earliness of policy adoption as an ordinal-level measure (Berry & Berry, 1999). Finally, Berry and Berry (1999) cited some works that have represented state policy adoption as the categorical presence or absence of a state's adoption of a policy at a particular point in time.

Propensity of Policy Adoption. The propensity of a state to adopt a particular policy can also indicate policy innovation and refers to the probability that a state will adopt a particular policy within a given timeframe of years (Berry & Berry, 1999).

State Determinants

The internal determinants model of state policy adoption posits that each state adopts policies based on its political and socioeconomic attributes (Berry & Berry, 1999).

Political Determinants. Political ideology, or the political values and beliefs of the voting-eligible citizens of a state's population (e.g., Miller & Wang, 2009; Weiner & Koontz, 2010), serves as a valuable political determinant, because liberal or conservative ideologies influence policy change based on the worldviews of groups of people identifying as liberal or conservative (Grafton & Permaloff, 2008). Policy responses to payday lending are political issues (Stegman, 2007), with some groups of people condemning exploitation of the poor and other groups valuing unrestricted, free trade (Faller, 2008). Those of the liberal political

ideology generally view government regulation of corporations as appropriate and necessary to assure corporate social responsibility, and conservatives generally view such responsibility as a hindrance to profitability and rarely as a government responsibility (Walters, 1977). Both the political ideology of state electorates and of state government officials have been used as the unit of analysis in previous internal determinants or diffusion of innovation studies (e.g., Miller & Wang, 2009; Weiner & Koontz, 2010). A discussion of both concepts follows.

State Electorate Political Ideology. Political ideology refers to the general social policy views of groups of people within a defined community (Layman, Carsey, & Horowitz, 2006), and the political ideology of each state's electorate serves as a political determinant in several studies (e.g., Miller & Wang, 2009; Weiner & Koontz, 2010).

State Government Political Ideology. The political ideology of state governments refers to the majority political persuasion of state politicians and is known as government political ideology (Erikson et al., 2008). State government political ideology is a concept worth measuring independently from state electorate political ideology (Berry, Fording, Ringquist, Hanson, & Klarner, 2010). It cannot be assumed that an elected official's political ideology is perfectly congruent with his or her electorate's political ideology (Berry et al., 2010). In other words, an elected official or the media could portray the elected official's political ideology one way pre-election, and the elected official's post-election governing behavior could suggest the same or a drastically different political ideology (Berry et al., 2010).

Summary

Payday lenders entice financially strained consumers with a quick and seemingly easy credit extension to help consumers make ends meet (e.g., Karger, 2005; Melzer, 2011).

Consumers reimburse payday lenders with large amounts of interest, typically \$15 per \$100 of

the payday loan principle (Stegman & Faris, 2003). Each state responds to the payday lending business through either restrictions or prohibitions of the practice (Pendus et al., 2010). The internal determinants model of policy adoption serves as a convenient lens through which to examine state legislative responses to various social problems (Berry & Berry, 1999; Mohr, 1969). Political ideology, or identification as either liberal or conservative (e.g., Berry et al., 2007; Brace et al., 2007), has been studied as a determinant of state legislative responses to social problems (e.g., Miller & Wang, 2009; Weiner & Koontz, 2010).

CHAPTER 3: RESEARCH HYPOTHESES

The consequences of payday loans on consumers' financial health have been argued extensively throughout the literature (e.g., Graves, 2003; Graves & Peterson, 2005; Karger, 2005; Melzer, 2011). On the other hand, the states' legislative responses to the payday lending problem have not been studied with a nationwide scope. The purpose of this thesis is to determine if relationships exist between state electorate and government political ideology and states' legislative responses to payday lending. Thirty-eight states have legislated restrictions or regulations on payday lending, while 12 states and the District of Columbia have legislatively prohibited the lending practice (Melzer, 2011; Pendus et al., 2010). Considering that individuals with a liberal political ideology rather than a conservative ideology prefer legislating corporate social responsibility (Walters, 1977), the general hypothesis is that liberal political ideology is positively correlated with stricter payday loan laws. In the hypotheses below, the direction of the relationship differs depending on the measure of payday loan legislation used (see Chapter 3 for operational definitions).

Larger state legislated maximum payday loan principle amounts provide payday loan consumers the opportunity to borrow greater amounts of funds with fewer payday loan contracts (Graves & Peterson, 2005). Consequently, such a payday loan regulation component allows payday loan consumers fewer opportunities to incur duplicative payday loan origination and application fees, and for this reason, larger state legislated maximum payday loan principle amounts indicate stricter payday lender regulation law components (Graves & Peterson, 2005). Smaller state legislated payday loan implied maximum annual percentage rates provide for less payday loan interest charges that payday loans can accrue, and for this reason, they indicate stricter payday lender regulation law components (CRL, 2009). Larger state legislated maximum

payday loan maturity terms provide longer periods of time for payday loan consumers to simultaneously reimburse their loans and use their subsequent post-payday loan origination paychecks to maintain a minimum standard of living, and for this reason, they indicate stricter payday lender law components (CRL, 2010a, 2010b; Fox & Mierzwinski, 2001). Fee disclosure requirements mandated by each state's payday loan law helps consumers determine the costs of the payday loan they are about to obtain, and for this reason, they indicate stricter payday lender law components (Bertrand & Morse, 2011).

H1 State Legislated Maximum Payday Loan Principle Amounts Hypotheses

H1.1 The percentage of each state's electorate identifying as liberal is positively correlated with state legislated maximum payday loan principle amounts.

H1.2 The percentage of each state's electorate identifying as conservative is negatively correlated with state legislated maximum payday loan principle amounts.

H1.3 State government political ideology scores (hereafter, GI; higher scores indicate greater liberal political ideology) are positively correlated with state legislated maximum payday loan principle amounts.

H2 State Legislated Payday Loan Implied Maximum Annual Percentage Rates Hypotheses

H2.1 The percentage of each state's electorate identifying as liberal is negatively correlated with state legislated payday loan implied maximum annual percentage rates.

H2.2 The percentage of each state's electorate identifying as conservative is positively correlated with state legislated payday loan implied maximum annual percentage rates.

H2.3 State government political ideology scores are negatively correlated with state legislated payday loan implied maximum annual percentage rates.

H3 State Legislated Maximum Payday Loan Maturity Terms Hypotheses

H3.1 The percentage of each state's electorate identifying as liberal is positively correlated with state legislated maximum payday loan maturity terms.

H3.2 The percentage of each state's electorate identifying as conservative is negatively correlated with state legislated maximum payday loan maturity terms.

H3.3 State government political ideology scores are positively correlated with state legislated maximum payday loan maturity terms.

H4 Fee Disclosure Requirements Hypotheses

H4.1 The percentage of each state's electorate identifying as liberal is positively correlated with the presence of fee disclosure requirements.

H4.2 The percentage of each state's electorate identifying as conservative is negatively correlated with the presence of fee disclosure requirements.

H4.3 State government political ideology scores are positively correlated with the presence of fee disclosure requirements.

CHAPTER 4: METHODS

The present study utilized a cross-sectional design using secondary data obtained from numerous websites (all data sources are cited within the References list); thus, exemption by the Louisiana State University Institutional Review Board was granted.

Dependent Variables

Three ratio-level and one nominal-level dependent variables (i.e., *state legislated maximum payday loan principle amounts*, *state legislated payday loan implied maximum annual percentage rates*, *state legislated maximum payday loan maturity terms*, and a *fee disclosure requirement*) comprised the dependent variable category of *type of state payday loan legislation* and were derived primarily from the Pendus et al. (2010) dataset. (All data decisions regarding each of the four dependent variables will be discussed in detail in subsections hereafter.) As a prerequisite to the following variable discussions, note that the study consisted of the population of states in the United States (50) and the District of Columbia for which data were available.

State Legislated Maximum Payday Loan Principle Amounts. The first ratio-level dependent variable was *state legislated maximum payday loan principle amounts*, or the highest dollar amount for which a payday loan can be granted (Graves & Peterson, 2005; Pendus et al., 2010). All 50 states and the District of Columbia were considered for analysis, but the final sample consisted of 45 jurisdictions (i.e., 44 states and the District of Columbia). Pendus et al. (2010) provided 30 specific state legislated maximum payday loan principle amounts, two (i.e., Nevada and New Mexico) described as *25% of gross monthly income*, and one (i.e., Oregon) described as *25% net monthly income for ≤\$60K net yearly income, no limit for higher earner*. The Pendus et al. (2010) dataset provided no state legislated maximum payday loan principle amounts for the five states in which payday lending is regulated but had missing data (i.e., Idaho,

Illinois, Texas, Utah, and Wyoming; Pendus et al., 2010) and the District of Columbia and the 12 states in which payday lending has been prohibited (i.e., Connecticut, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, West Virginia, and Wisconsin; Pendus et al., 2010).

The final sample consisted of 45 jurisdictions (i.e., 44 states and the District of Columbia). Pendus et al. (2010) provided 30 specific state legislated maximum payday loan principle amounts, but only 28 of them were included in the final analysis. Data were present for Alaska and Hawaii in the dependent variable data set and missing from one of the two independent variable data sets. Consequently, both states were excluded in the final analysis. (Thus far, $n = 28$.)

The criteria for this variable for the states of Nevada and New Mexico were described in the data set as *25% of gross monthly income* (Pendus et al., 2010). The procedure described herein was used to calculate the *state legislated maximum payday loan principle amounts* for both states using data from the American Community Survey. First, the per-capita income for Nevada (Bureau of the Census, 2005b; 2006b; 2007b; 2008b; 2009b) and New Mexico (Bureau of the Census, 2005c; 2006c; 2007c; 2008c; 2009c) were obtained for the years 2005-2009. These five years were selected, because the Pendus et al. (2010) data set spanned those years. A 5-year per-capita income for each state was computed. That figure was divided by 12 months to compute a monthly per-capita income, and finally that figure was multiplied by 0.25 to estimate the state legislated maximum payday loan principle amounts for those states. (Thus far, $n = 30$).

The data for Oregon were excluded from the final analysis, because the dataset had listed a state legislated maximum payday loan principle amount that depended on one of two options:

25% net monthly income for $\leq \$60K$ net yearly income, no limit for higher earners (Pendus et al., 2010). (Thus far, $n = 30$).

Data for this dependent variable were missing from the Pendus et al. (2010) dataset and were retrieved from Payday Loan Laws (2011c; 2011d; 2011j; 2011k; 2011m) for the states of Idaho, Illinois, Texas, Utah, and Wyoming. However, the states of Texas, Utah, and Wyoming have no state legislated maximum payday loan principle amounts (Payday Loan Laws, 2011j; 2011k; 2011m) and were considered missing from the final analysis. Additionally, Illinois's state legislated maximum payday loan principle amount was dependent upon one of two options: *\$1000 or 25% of the consumer's monthly income* (Payday Loan Laws, 2011d). Thus, the 5-year average per-capita monthly income for Illinois (Bureau of the Census, 2005a; 2006a; 2007a; 2008a; 2009a) was calculated in the manner it was for Nevada and New Mexico. That amount was used as Illinois's *state legislated maximum payday loan principle amount*, as it was less than \$1,000 (i.e., \$573.72; Payday Loan Laws, 2011d; Thus far, $n = 32$).

Finally, a value of 0 was assigned for this variable to each of the 12 states and the District of Columbia in which payday lending was prohibited, since in this context, prohibition means that the highest amount of funds for which a payday loan can be granted is \$0. (Thus far, $n = 45$).

Six states (Alaska, Hawaii, Oregon, Texas, Utah, and Wyoming) were treated as missing for this dependent variable. All state legislated maximum payday loan principle amounts can be found in the column *maximum loan amount* within *Table A.3: Payday Loan Restrictions for 2005-2009 Period by State* of Pendus et al. (2010).

State Legislated Payday Loan Implied Maximum Annual Percentage Rates. The ratio-level dependent variable *state legislated payday loan implied maximum annual percentage rates* were defined as the highest percent of interest a payday lender can charge a payday loan

consumer annually and calculated by extending the short-term cost of a 2-week payday loan to a year's time (as mentioned in the earlier literature review; Anderson & Jackson, 2010; Pendus et al., 2010). All 50 states and the District of Columbia were considered for analysis, but the final sample consisted of 44 jurisdictions (i.e., 43 states and the District of Columbia).

Pendus et al. (2010) provided 33 specific state legislated payday loan implied maximum annual percentage rates. The Pendus et al. (2010) dataset provided no state legislated payday loan implied maximum annual percentage rates for five states (i.e., Delaware, Idaho, Nevada, South Dakota, and Utah) in which payday lending was regulated and the District of Columbia and the 12 states in which payday lending has been prohibited (i.e., Connecticut, Georgia, Maine, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, West Virginia, and Wisconsin; Pendus et al., 2010).

The final sample consisted of 44 jurisdictions (i.e., 43 states and the District of Columbia). Thirty-one of the 33 specific state legislated payday loan implied maximum annual percentage rates provided by Pendus et al. (2010) were included in the final analysis. Data were present for Alaska and Hawaii in the dependent variable data set and missing from one of the two independent variable data sets. Consequently, both states were excluded in the final analysis. (Thus far, $n = 31$.)

Data for this dependent variable were missing from the Pendus et al. (2010) dataset and were retrieved from Payday Loan Laws (2011b; 2011c; 2011f; 2011i; 2011k) for the states of Delaware, Idaho, Nevada, South Dakota, and Utah. However, none of those states has state legislated payday loan implied maximum annual percentage rates (Payday Loan Laws, 2011b; 2011c; 2011f; 2011i; 2011k) and was considered missing from the final analysis. (Thus far, $n = 31$.)

Finally, a value of 0 was assigned for this variable to the District of Columbia and the 12 states in which payday lending was prohibited, since the *defacto* maximum annual percentage rate for a payday loan in states that prohibit payday lending is 0. (Thus far, n = 44). Seven states (Alaska, Hawaii, Delaware, Idaho, Nevada, South Dakota, and Utah) were treated as missing for this dependent variable. All state legislated payday loan implied maximum annual percentage rates can be found in the column *APR Cap Amount, 2007-2009* within *Table A.3: Payday Loan Restrictions for 2005-2009 Period by State* of Pendus et al. (2010).

State Legislated Maximum Payday Loan Maturity Terms. The ratio-level dependent variable *state legislated maximum payday loan maturity terms* were defined as the maximum number of days within a payday loan repayment period (Pendus et al., 2010). All 50 states and the District of Columbia were considered for analysis, but the final sample consisted *solely* of 35 states (i.e., the District of Columbia was excluded from this particular analysis). Pendus et al. (2010) provided 26 specific state legislated maximum payday loan maturity terms for states that had regulated payday lending and 3 that had prohibited it. The remaining 22 states consisted of missing state legislated maximum payday loan maturity terms data: 12 of states that had regulated payday lending and 10 (i.e., 9 states and the District of Columbia) that had prohibited it (Pendus et al., 2010).

The final sample consisted *solely* of 35 states (i.e., the District of Columbia was excluded from this particular analysis). Twenty-five of the 26 specific state legislated maximum payday loan maturity terms for states that had regulated payday lending were included in the final analysis. Data were present for Hawaii in the dependent variable data set and missing from one of the two independent variable data sets. Consequently, Hawaii was excluded in the final analysis. The three specific state legislated maximum payday loan maturity terms for states that

had prohibited payday lending (i.e., Massachusetts, North Carolina, and Wisconsin; Pendus et al., 2010) were also excluded from the final analysis. (Thus far, n = 25).

Missing data for the 12 states (i.e., Alaska, Arizona, Idaho, Illinois, Louisiana, New Hampshire, New Mexico, Ohio, South Carolina, Texas, Washington, and Wyoming) that had regulated payday lending were retrieved from National Conference of State Legislators (2011) for New Hampshire and Ohio, and from Payday Loan Laws (2011a; 2011c; 2011d; 2011e; 2011g; 2011h; 2011j; 2011l; 2011m) for the remaining states. Wyoming's legislated maximum payday loan maturity term was conceptually defined as *one month* (Payday Loan Laws, 2011m). Thus, it was operationalized as 31 days for the present analysis. Furthermore, Alaska was coded as missing to maintain consistency with the variable decisions of the previous two dependent variables. The state of Arizona has no state legislated maximum payday loan maturity term (Payday Loan Laws, 2011a), so it was excluded as well. (Thus far, n = 35).

Finally, the states that had prohibited payday lending and had missing data for state legislated maximum payday loan maturity terms were excluded from the final analysis. (Thus far, n = 35). All 16 excluded data points were treated as missing for this dependent variable. All state legislated maximum payday loan maturity terms can be found in the column *Max Loan Period (Days)* within *Table A.3: Payday Loan Restrictions for 2005-2009 Period by State of* Pendus et al. (2010).

Fee Disclosure Requirement. The nominal-level dependent variable was a *fee disclosure requirement*, or the presence or absence of a mandate in each state's payday loan legislation for payday lenders to fully disclose the payday loan contract terms, fees, and conditions to payday loan consumers (ALA. CODE § 5-18A-13(m) and ALA. CODE § 5-18A-13(f), as cited in Graves & Peterson, 2005; Pendus et al., 2010). All 50 states and the District of

Columbia were considered for analysis, but the final sample consisted *solely* of 36 states.

Twelve states and the District of Columbia were excluded from the final analysis, because they had prohibited payday lending. Two states (Alaska and Hawaii) had missing data for one of the two independent variables. All fee disclosure requirements can be found in the column *Fee Disclosure Requirement* within *Table A.3: Payday Loan Restrictions for 2005-2009 Period by State* of Pendus et al. (2010).

Independent Variables

This study included two independent variables: One measure of state electorate political ideology and one measure of state government political ideology. The CBS/NYT poll's state electorate political ideology data (Wright et al., 2003) were retrieved from Wright's personal website hosted on his institution's (i.e., Indiana University's) server. Berry et al.'s (1998a) annual governmental political ideology index data were retrieved from Richard Fording's personal website on his institution's (i.e., University of Alabama's) server.

State Electorate Political Ideology. The CBS/NYT poll (Wright et al., 1985; 2003) was a nationwide telephone survey in which voters identified their political ideology (i.e., conservative, moderate, or liberal) by answering the questions, "How would you describe your views on most political matters? Generally, do you think of yourself as liberal, moderate, or conservative?" (Wright, Erikson, & McIver, 1985, p. 471). Both weighted and unweighted percentages for each of the three political ideologies (i.e., conservative, moderate, and liberal) for about two-and-a-half decades (Wright et al., 1985; Wright et al., 2003) were provided in Wright et al.'s (2003) dataset. The present study used the unweighted percentages, because the seminal article of the CBS/NYT poll of state electorate political ideology percentages (Wright et al., 1985) advised to use the unweighted percentages to obtain a true, sterile portrayal of the political

ideology of a representative sample of each state's *active electorate*. The weighted percentages represent the political ideology of each state reconciled by education, race, sex, age, and the proportion of registered and unregistered voters. Each state's active electorate, as measured by the unweighted state electorate political ideology percentages, determines each state's policymakers and therefore is more congruent with state legislative responses to social issues (Wright et al., 1985). Further, the conservative and liberal unweighted and weighted percentages are strongly and positively correlated with one another (respectively for each political ideology, $r = .85$ and $.94$; Wright et al., 1985).

State Government Political Ideology Measure. The Berry et al. state government political ideology measure (hereafter referred to as *the GI measure*; Berry et al., 1998b) consists of annual political ideology scores for each state that range from 0 to 100, with lower scores indicating more conservative ideology and higher scores indicating more liberal ideology (Berry et al., 1998b; Berry et al., 2010). For the present analysis, each state's GI measure score for the year 2003 was used with the exception of those from Alaska and Hawaii (Berry et al., 1998a). Those states were omitted from the final analysis, because the data were missing (Berry et al., 2008) as discussed earlier.

To calculate the GI measure, the authors began by averaging the *Americans for Democratic Action* (ADA, an organization espousing liberal political ideology) and *AFL-CIO Committee on Political Education* (COPE) ratings of their political ideology perceptions of each state's congressional delegation (Berry et al., 2010). In regard to calculating the former measure, the ADA's Legislative Committee identifies 20 articles of legislation of importance to the ADA that both chambers of the United States Congress had voted upon in a roll-call vote during the prior Congressional legislative session

(ADA, 2008). Each member of Congress is scored on each of the 20 articles of legislation, receiving a score of 5 if the legislators' vote (i.e., yea or nea) is congruent with the ADA's preference or a score of 0 for both absent votes and votes contradictory to the ADA's preference (ADA, 2008). The individual scores on each legislator's 20 votes are summed to constitute the ADA's annual measure of members of Congress (ADA, 2008).

In regard to calculating the latter measure, the AFL-CIO COPE identifies articles of legislation of importance to the AFL-CIO that both chambers of the United States Congress had voted upon in a roll-call vote during the prior Congressional legislative session (Carson & Oppenheimer, 1984; Pohlmann & Crisci, 1982). These articles of legislation represent various topic areas, such as labor relations, civil rights and civil liberties, and energy deregulation (Pohlmann & Crisci, 1982). The COPE measure represents the percentage of each Congress member's votes that are congruent with the AFL-CIO's vote preference (i.e., yea or nea) for these identified articles of legislation of importance (Carson & Oppenheimer, 1984).

To begin the calculation of the GI measure, the average of the ADA and COPE scores are calculated for the mean member of each state's Congressional delegation (Berry et al., 1998b). Those averages are then weighted twice considering each state's governmental situation, once considering *the distribution of power* of the legislators of each chamber of each state's legislature and once considering the influence exerted by each state's legislature and governor (Berry et al., 1998b). The former weight is a proportion that varies among the states based on the quantity of legislators identifying with a given political party (hereafter, *seats*) in order for that party to attain the slightest

majority necessary to secure the final voting outcome of legislation in that particular chamber (hereafter, *power*; Berry et al., 1998b). Berry et al (1998b) calculated the GI measure multiple times for various combinations of the seats-to-power proportions and found high correlations among all trials of each weighted version of the GI measure. Because of the high correlations, the authors selected intermediate seats-to-power proportion weights of .60 for the majority party to control the final voting outcome of legislation in a particular chamber and .40 for the power remaining for the minority party (Berry et al., 1998b).

The latter weight involves the political influence exerted by each state's governor and legislature (Berry et al., 1998b). The political influence of each state's governor is considered a proxy in the GI measure by weighting each state's mean ADA/COPE score by .50 (Berry et al., 1998b). Additionally, the political influence of each state's legislature is considered a proxy in the GI measure by weighting the product of each state's mean ADA/COPE score and seats-to-power proportions by .25 for both chambers of each state's legislature (Berry et al., 1998b). Thus, each state's final GI measure score represents the sum of three products: (1) the political influence (i.e., .50) multiplied by the ideology rating of its governor, (2) the political influence (i.e., .25) multiplied by the seats-to-power ratio multiplied by the ideology rating of the upper chamber of its legislature, and (3) the political influence (i.e., .25) multiplied by the seats-to-power ratio multiplied by the ideology rating of the lower chamber of its legislature (Berry et al., 1998b).

The acceptance of the GI measure as a reliable and valid instrument to measure state government political ideology is based on four assumptions (Berry et al., 1998b).

First, parallel forms reliability exists between the articles of legislation selected by both ADA and COPE and was demonstrated by a statistically-significant correlation was found between the political ideology scores of both groups ($r = .88$; Berry et al., 1998b).

Second, Berry et al. (1998) argued that the mean ADA and COPE score of a state's Congressional delegation is an appropriate proxy for political ideology of a state's legislature. Only a few states have in-state lobbyists engaged in the practice of rating their state legislatures, and the mean ADA and COPE score strongly correlated with those ratings ($r = .95$). According to Berry et al. (1998b), that correlation between the two measures provides evidence that the political ideology of each state's Congressional delegation serves as an appropriate proxy for the political ideology of each state's legislature.

Third, within each state's legislature, both chambers each presumably hold half of the political power of the legislative branch's distribution of political power of state government outcomes (Berry et al., 1998b). The weights of .50 (i.e., the political influence of each state's governor) and .25 (i.e., the political influence of each chamber of each state's legislature) appropriately represent the balance of political influence that those components exert in shaping state policy (Berry et al., 1998b). In other words, the governor and the legislature each hold half of the political power of state government outcomes (Berry et al., 1998b).

Finally, political power of a political party in a state legislative chamber is equal for both parties if the number of seats held by both parties is equal (Berry et al., 1998b). If the quantity of seats held by both parties is unequal, the party with the majority of seats controls approximately 60% of the political influence of that state legislative chamber

(Berry et al., 1998b). The party with the majority of seats has complete control of the political influence of that state legislative chamber once it holds 60% of the seats in that chamber (Berry et al., 1998b).

Statistical Procedures

Descriptive statistics and bivariate inferential statistics were completed in the present investigation. Descriptive statistics included frequencies and percentages for the categorical variables of states with payday loan lending regulation statutes and those with payday loan lending prohibitory statutes. Central tendency and dispersion statistics were calculated for the following ratio-level variables: state legislated maximum payday loan principle amounts, state legislated payday loan implied maximum annual percentage rates, state legislated maximum payday loan maturity terms, the CBS/NYT state electorate political ideology percentages (Wright et al., 1985, 2003) for the liberal and conservative state electorate political ideologies, and the ADA/COPE state government political ideology scores (Berry et al., 1998b).

Pearson's r correlations were performed with and without outliers to determine if a relationship exists between state legislated maximum payday loan principle amounts; state legislated payday loan implied maximum annual percentage rates; state legislated maximum payday loan maturity terms and the independent variables: the CBS/NYT state electorate liberal, moderate, and conservative political ideology percentages (Wright et al., 1985; Wright et al., 2003) and the state government political ideology scores (Berry et al., 2008). Outliers were defined as states with z -scores exceeding an absolute value of 3.0.

CHAPTER 5: RESULTS

This cross-sectional study of state electorate and state government political ideology and state payday loan legislation components yielded mixed results.

Frequencies and Percentages

Dependent Variables. The mean *state legislated maximum payday loan principle amount* was \$355.64 (*SD* = \$251.27), followed by means of 340.5% (*SD* = 348.6%) for *state legislated payday loan implied maximum annual percentage rates* and 43.34 days (*SD* = 27.83) for *state legislated maximum payday loan maturity terms*. (See Table 1, *Descriptive Statistics With Outliers*).

Table 1

Descriptive Statistics With Outliers

	<i>n</i> (%)	<i>M</i>	<i>(sd)</i>
1. Maximum Principle Amounts		355.64	(251.27)
2. Implied Maximum APRs		340.50	(348.58)
3. Maximum Maturity Terms		43.34	(27.83)
4. Fee Disclosure Requirements	31 (86.11%)		
5. Liberal Electorate Political Ideology		20.0	(6.46)
6. Conservative Electorate Political Ideology		34.59	(7.47)
7. State Government Political Ideology		49.82	(27.58)

Note: Numbers represent means and standard deviations unless otherwise indicated: % of states where condition is met and number.

Liberal Political Ideology of State Electorates

Liberal political ideology of state electorates was represented in the present analysis as percentages of respondents in a telephone survey of each state's electorate that identified *liberal* as their political ideology. Higher percentages indicate greater levels of each state's respondents identifying as liberal (Wright et al., 1985; Wright et al., 2003). Data were used for 48 states and the District of Columbia, excluding Alaska and Hawaii as mentioned in an earlier chapter. The mean percentage of *political ideology of state electorates* that identified as liberal was 20.0% ($SD = 6.45\%$) between a minimum of 11.0% and a maximum of 46.3%.

Conservative Political Ideology of State Electorates

Conservative political ideology of state electorates was represented in the present analysis as percentages of respondents in a telephone survey of each state's electorate that identified *conservative* as their political ideology. Higher percentages indicate greater levels of each state's respondents identifying as conservative (Wright et al., 1985; Wright et al., 2003). Data were used for 48 states and the District of Columbia, excluding Alaska and Hawaii as mentioned in an earlier chapter. The mean percentage of *state electorates* that identified as conservative was 34.6% ($SD = 7.47\%$) between a minimum of 7.7% and a maximum of 49.6%.

Political Ideology of State Governments

Political ideology of state governments was represented in the present analysis as a weighted proportion of the political ideology of each state's governor and legislator, with lower scores representing greater degrees of conservative political ideology and higher scores representing greater degrees of liberal political ideology (Berry et al., 1998b; Berry et al., 2010). The mean for this independent variable was 49.82 ($SD = 27.58$) between a maximum of 92.51

and a minimum of 5.25. Data were used for 48 states and excluded for Alaska and Hawaii and missing for the District of Columbia as mentioned in chapter 3.

Outliers were defined as states with z -scores exceeding an absolute value of 3.0. Thus, three outliers were found in the data set: Missouri's state legislated payday loan implied maximum annual percentage rate ($z = 4.70$), North Dakota's state legislated maximum payday loan maturity term ($z = 5.02$), and the District of Columbia's CBS/NYT liberal state electorate political ideology percentage ($z = 4.06$).

Bivariate Analyses of State Electorate Political Ideology and State Legislative Responses to Payday Lending

The present analysis studied the relationships of state electorate and government political ideology and state legislative responses to payday lending (See Table 2, *Correlation Matrix With Outliers*, and Table 3, *Correlation Directions With Outliers*) and analyzed the data with and without outliers. The findings without outliers did not vary drastically from the findings with outliers. Outliers were defined as states with z -scores exceeding an absolute value of 3.0. Thus, three outliers were found in the data set: Missouri's state legislated payday loan implied maximum annual percentage rate ($z = 4.70$), North Dakota's state legislated maximum payday loan maturity term ($z = 5.02$), and the District of Columbia's CBS/NYT liberal state electorate political ideology percentage ($z = 4.06$).

State Legislated Payday Loan Principle Amounts. State legislated payday loan principle amounts and liberal political ideology of state electorates were negatively and moderately correlated ($r = -.487, p < .01$; without outliers, $r = -.460, p < .01$), and this dependent variable and conservative political ideology of state electorates were positively and moderately correlated ($r = .380, p < .05$; without outliers, $r = .321, p < .05$). Both of these correlations were found in the direction opposite of their corresponding hypotheses. Additionally, this dependent

variable and liberal state government political ideology were negatively and moderately correlated ($r = -.329, p < .05$; without outliers, $r = -.329, p < .05$) in the direction opposite of its corresponding hypothesis

State Legislated Payday Loan Implied Maximum Annual Percentage Rates. State legislated payday loan implied maximum annual percentage rates and liberal political ideology of state electorates were negatively and moderately correlated ($r = -.322, p < .05$; without outliers, $r = -.350, p < .05$) in the expected direction. There was no statistically significant relationship between this dependent variable and conservative political ideology of state electorates ($r = .220, p = .152$; without outliers, $r = .222, p = .157$) or liberal state government political ideology ($r = -.118, p = .453$; without outliers, $r = -.161, p = .308$).

State Legislated Maximum Payday Loan Maturity Terms. There was no statistically significant relationship between state legislated maximum payday loan maturity terms and liberal state electorates ($r = -.312, p = .068$; without outliers, $r = -.151, p = .393$), conservative state electorates ($r = -.038, p = .830$; without outliers, $r = .192, p = .275$), or liberal state government political ideology ($r = -.153, p = .380$; without outliers, $r = -.001, p = .996$).

Fee Disclosure Requirements. There was also no statistically significant relationship between fee disclosure requirements and liberal political ideology of state electorates ($r = -.103, p = .551$; without outliers, $r = -.103, p = .551$), conservative political ideology of state electorates ($r = .018, r = .918$; without outliers, $r = .018, p = .918$), or liberal state government political ideology ($r = -.105, p = .541$; without outliers, $r = -.105, p = .541$).

Table 2

Correlation Matrix With Outliers

	1	2	3	4	5	6	7
1. Maximum Principle Amounts	--	--	--	--	--	--	--
2. Implied Maximum APRs	.596**	--	--	--	--	--	--
3. Maximum Maturity Terms	-.029	-.016	--	--	--	--	--
4. Fee Disclosure Requirements	.037	-.047	.001	--	--	--	--
5. Liberal Electorate Ideology	-.487**	-.322*	-.312	-.103	--	--	--
6. Conservative Electorate Ideology	.380*	.220	-.038	-.018	-.757**	--	--
7. State Gov Political Ideology	-.329*	-.118	-.153	-.105	.213	-.215	--

Some of the correlations between dependent variables and between independent variables were presented in the table above but not in the text since these relationships were not the focus of the study.

* $p < 0.01$

** $p < 0.05$

Table 3

Correlation Directions With Outliers

	Principle		Implied APR		Term (Days)		Fee Disclosure	
	H	Result	H	Result	H	Result	H	Result
Liberal Electorate Ideology	+	-**	-	-*	+	-	+	-
Conservative Electorate Ideology	-	+*	+	+	-	-	-	-
State Gov Political Ideology	+	-*	-	-	+	-	+	-

Addition symbols (+) represent a positive relationship, while subtraction symbols (-) represent a negative relationship.

* $p < 0.01$

** $p < 0.05$

CHAPTER 6: DISCUSSION

This study analyzed the relationship between state electorate and government political ideology and their respective states' legislative responses to payday lending. State electorate political ideology was represented in the present analysis as percentages of each state's respondents in a nationwide survey that responded with *liberal* or *conservative* upon being asked to identify their political ideology (Wright et al., 1985, 2007). State government political ideology was represented by a government ideology index (GI measure; Berry et al., 1998b). Respective states' legislative responses to payday lending were represented as four variables, namely *state legislated maximum payday loan principle amounts*, *state legislated payday loan implied maximum annual percentage rates*, *state legislated maximum payday loan maturity terms*, and *fee disclosure requirements*.

Contributions to the Literature

Walters (1977) has discussed the relationship between liberal and conservative political ideology and such people's positions on governmental promotion of corporate social responsibility. Generally speaking, people of the liberal political ideology prefer governmental promotion of social responsibility and people of the conservative political ideology do not favor government involvement (Walters, 1977). Such a line of thinking guided this analysis' hypotheses.

State Legislated Maximum Payday Loan Principle Amounts. This study hypothesized that the percentage of liberals and conservatives in each state's electorate would, respectively, be positively and negatively correlated with this dependent variable: Graves and Peterson (2005) opined that higher state legislated maximum payday loan principle amounts represent government regulation that benefits payday loan consumers more than smaller ones

and, furthermore, liberals favor governmental intervention for corporate social responsibility while conservatives prefer for corporations to regulate themselves (Walters, 1977). Conversely, this study found a statistically-significant negative relationship between liberal electorate political ideology and this dependent variable and a statistically-significant positive relationship between conservative political ideology and this dependent variable. Similarly, state legislated maximum payday loan principle amounts and liberal state government political ideology were hypothesized as positively related but found to be negatively correlated.

The statistically-significant findings opposite of their corresponding hypotheses could reflect the difference in opinions between the payday lending literature (Graves & Peterson, 2005) and legislators' intuitive decisions made in the statehouse about the consumer-friendliness of state legislated maximum payday loan principle amounts. State legislators may be either (1) unfamiliar with Graves and Peterson's (2005) opinion and may not intuitively think of the consumer friendliness of higher state legislated maximum payday loan principle amounts, or (2) familiar with Graves and Peterson's opinion and disagree with it. Indeed, it is reasonable that people unfamiliar with Graves and Peterson's (2005) opinion in the payday lending literature may think that restricting as much as possible the amount of funds for which a payday loan can be granted would benefit consumers more than increasing the amount of funds. [Upon completion of the defense of this thesis, some literature (e.g., Edmiston, 2011; McKernan, Ratcliffe, & Kuehn, 2010; Williams, 2011) was located that argued for the consumer benefits of decreasing the state legislated maximum payday loan principle amounts.]

State Legislated Payday Loan Implied Maximum Annual Percentage Rates. Because smaller state legislated payday loan implied maximum annual percentage rates provide more benefit to payday loan consumers than do larger ones (CRL, 2009), this study hypothesized and

found evidence that the percentage of liberals in each state's electorate would be negatively correlated with this variable. The results supported that hypothesis, that both variables are negatively and moderately correlated.

Limitations

The present analysis has several limitations. With respect to the design of the present analysis, bivariate correlations were used to determine non-causal relationships between the independent and dependent variables. In a cross-sectional study, one cannot definitively explain an increase or decrease in another; rather, one or more extraneous variable(s) can elicit increases or decreases in both variables. Further, spurious causes cannot be accounted or controlled for with Pearson's r correlations.

Additionally, some of the dependent variables had unlimited values that could have significantly influenced the findings if they were accounted for in some capacity. In the present analysis, such unlimited values were treated as missing data and, thus, excluded from the analysis. Finally, data were missing or excluded for Alaska, Hawaii, and Oregon at one or more points within the analysis, potentially biasing the sample and the results. (See the *Methods* chapter for a discussion of the measurements of the dependent variables.)

It is also possible that regional aspects of the differences in political ideology influenced the results (Williams, 2009). Regionalism refers to the notion that within-group variation exists across geographic regions or areas (Williams, 2009). Thus, a person identifying with a particular political ideology in one region of a country can interpret and execute political ideology substantially different from a second person identifying with the same political ideology in a region elsewhere in the same country (Williams, 2009). In light of regionalism, perhaps people of liberal and conservative political ideologies interpret and execute the reconciliation of their

political ideology and legislative responses to payday lending differently between regions of the United States of America.

Future Research

Future research should focus on determining the conditions under which states prohibit payday lending. An event history analysis would provide this useful information to help policymakers determine the point at which prohibiting the practice comes to fruition. A study of this sort could consist of data spanning over more than two decades, since payday lending was born in the 1990s (Robinson & Lewis, 1999, as cited in Graves, 2003). This would yield a large number of units consisting of each state in each year for two decades, helping control for extraneous causes not accounted for in the present analysis. Future research should also account for other internal determinants such as socioeconomic and lobbyist characteristics with each state, the diffusion of innovation between states, and external determinants such as the nation's political and policy contexts (Ringquist & Garand, 1999).

Contributions to the Social Work Literature and to Social Work Practice

The significant findings from this analysis provide several contributions to the literature and social work practice. This study provided insight into the relationship between liberal and conservative political ideology and state payday loan policy components previously missing from the literature. That insight could help social workers interested in state payday loan policy change use political ideology as an indicator of legislators who could be appealed to regarding particular state payday loan policy components.

Conclusion

States respond to payday lending in a number of ways, primarily through increasing or decreasing their state legislated maximum payday loan principle amounts, state legislated payday

loan implied maximum annual percentage rates, and state legislated maximum payday loan maturity terms (CRL, 2009, 2010a, 2010b; Fox & Mierzwinski, 2001; Graves & Peterson, 2005). This thesis found evidence of significance suggestive of the notion that states have varying degrees of strictness of payday loan legislation and that strictness has some links to liberal and conservative political ideology.

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