Do Payday Loans Cause Bankruptcy?

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Abstract

Payday loans are used by millions of Americans every year despite their annualized interest rates of several hundred percent. We provide new evidence on the consequences of payday borrowing and the determinants of personal bankruptcy. Using an administrative panel data set of loan records in a regression-discontinuity design, we estimate that payday loans increase personal bankruptcy rates by a factor of two. We assess possible mechanisms and find the most support for a novel one: payday loan access appears to induce bankruptcy filings by worsening the cash flow position of the household.