Landscapes of Predation, Landscapes of Neglect: A Location Analysis of Payday Lenders and Banks*

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Since the period of bank deregulation in the 1980s, deferred deposit loan operations, better known as payday lenders, have become commonplace in the landscapes of many American cities. At the same time, traditional banking facilities have become less common, especially in the inner city. Growing disparities in the type of and accessibility to credit in the inner city has generated calls for greater regulation to curb practices by payday lenders that critics claim disproportionately affect poor and minority consumers. Payday lenders argue that they serve communities neglected by traditional banks. This article analyzes the site-location strategies of banks and payday lenders in metropolitan Louisiana, and in Cook County, Illinois, and finds that disenfranchised neighborhoods are simultaneously targeted by payday lenders and neglected by traditional banks. The implications these findings have for public policy and for ongoing discourses on the urban condition, race, and class are briefly discussed. **Key Words: banking, GIS, landscape, predatory lending, race.**

Introduction

Abandoned buildings, pawnbrokers, pool halls, and secondhand stores have marked the landscapes of America's inner cities for decades. All too often, these markers of urban disinvestments occupy spaces formerly home to signifiers of the American dream, such as supermarkets, department stores, and restaurants. In the 1970s, banks also began to trickle out of the inner city. By the 1980s, banks were in full retreat in some areas. In their stead arrived several new signifiers of American urban poverty, among them deferred deposit lenders, popularly known as "payday lenders." In recent years, these and other sources of quick cash have begun to mark the boundaries of tough neighborhoods, vying for space among other emergent signifiers of poverty, such as rent-to-own appliance stores and plasma collection centers.

Payday lenders make small cash loans to people who need money quickly. In exchange for the cash, the borrower writes the payday lender a postdated check for the loan amount plus fees and interest that will be cashed after a few weeks or upon the deposit of the borrower's wage check. The process is easy and quick and requires little of the consumer beyond the provision of proof of employment, a phone number, and a valid driver's license. For some, payday loans are a convenient and efficient stopgap when unexpected expenses arise. For others, payday loans offer entrance into a treacherous spiral of mounting debt.

During the 1990s, some 10,000 payday lenders opened shop in many parts of the United States, sprouting most rapidly in states where banking regulations did not undercut the profit potential of the industry (Robinson and Lewis 1999). Triple-digit growth in the deferred-deposit industry, its potentially predatory lending practices, and the prominence of payday loan centers in minority and low-income neighborhoods have generated calls by consumer advocacy groups and progressive politicians for greater regulation. The payday loan industry has countered that additional regulation is not necessary because their fee and interest-rate schedules are not usurious and because they do not target specific racial or income groups. Payday lenders also argue that they offer important banking services in low-income and minority neighborhoods that were abandoned by mainstream bankers during the era of bank deregulation in the 1980s.

*The author would like to thank several anonymous reviewers, the Illinois Department of Financial Institutions, and the Louisiana Office of Financial Institutions for their assistance with this project.

The Professional Geographer, 55(3) 2003, pages 303–317
Initial submission, August 2001; revised submission, June 2002; final acceptance, January 2003.
Published by Blackwell Publishing, 350 Main Street, Malden, MA 02148, and 9600 Garsington Road, Oxford OX4 2DQ, U.K.

This article examines portions of the competing claims made above through an analysis of the location strategies pursued by banks and payday lenders. I compare the ethnicity and income characteristics of neighborhoods that have payday lenders to those that have bank branches in seven parishes in Louisiana and in Cook County, Illinois, using a difference of means t-test. This analysis, though primarily empirical, is intended to help facilitate a better understanding of how the spatial practices of these two lending institutions condition the (de)construction of urban landscapes. I discuss my findings briefly in terms of their public-policy implications and of how they help to empirically inform current discourses on urban landscapes.

Background

As a system of both meaning and social reproduction, landscapes factor into the way people understand themselves, others, and the life world we must all navigate (Duncan and Duncan 1988). Landscapes have become an increasingly popular and useful tool for understanding the operation of culture and economics in our daily lives (see, e.g., Mitchell 2000). Cultural theorists argue that landscapes act forcefully to condition people's sense of self and group identity. Race, class, gender, and nationality are all constructed through tightly held notions of place and space (Mitchell 2000). Often, analyses of identity are tied to powerful theoretical discourses explaining the dialectic of capital and landscape (e.g., Harvey 1982, 1989; Duncan and Ley 1993). The divisive effect of increasingly mobile capital on the urban landscape has been particularly compelling (Davis 1990; Jakle and Wilson 1992).

Arguably, every urban landscape is a product of capital, but both the structure and the agency of the financial system are frequently masked by the landscape itself (Mitchell 2000, 103–4). The spatial arrangement of payday-loan outlets and bank branch buildings represents a rupture in the mask—a tear where the theoretical structure of capitalism is laid bare as physical structures on the landscape. As such, the two-tiered landscape of banking offers opportunities to analyze a small but visible cog in the capitalist machine that actively builds and destroys urban landscapes.

As powerful as the theoretical tools for understanding landscapes have become, they must stay partially grounded by empirical research, the type that is frequently undertaken with public-policy findings in mind. The spatial practices of the banking industry have stimulated volumes of research since the 1960s. Perhaps most well known is the research focusing on ethnic and racial biases among mortgage lenders (Becker 1971; Darden 1980; Holloway 1998a; Reibel 2000). Several of these studies found that banks and other lenders have systematically, if not purposefully, limited access to loans for minorities. Other studies have found less compelling evidence of race bias (Perle and Lynch 1994). Applied research into practices such as steering and redlining may have helped fashion federal legislation, such as the Equal Credit Opportunity Act (1974), the Home Mortgage Disclosure Act (1975), and the Community Reinvestment Act (1977), that sought to ensure fair lending practices for all consumers.

Despite legislative effort designed to promote fair access to credit, however, studies show that equity is still not a lived reality. Recent studies such as Ando's (1988) examination of bank loans found that black entrepreneurs were still more likely to be rejected by banks, and that blacks were likely to receive less credit from banks than whites when they were approved for a loan. Bates (1997) found that, perhaps because black business owners receive smaller bank loans than their white counterparts, black entrepreneurs are more prone to use alternative forms of credit, such as credit cards, than are whites. Though frequently characterized in the media as a violation of *individuals'* right to fair access to capital, discriminatory limitations upon access to investment credit have been shown to be significant in the emergence of grossly uneven development in urban *regions* (e.g., Darden et al. 1987; Dymski and Veitch 1996).

The development gap within American cities grew during the 1970s and 1980s, as mainstream banks themselves moved out of inner cities. Banks failed at a much higher rate than they had in previous decades, in itself a reason for many closures. Bank deregulation was also a significant factor in the out-migration of banks, because it increased competition among various lending institutions. While giving some consumers access to low-interest lines of credit, increased competition among lenders undermined the ability of traditional banks to subsidize bank branch facilities producing less than desirable rates of return (Squires 1992; Caskey 1994; Pollard 1996). Pollard (1996) points out that branch closure is a sharp reversal of strategy from that pursued by banks during 1950s and 1960s, when banks established a wide network of branches in hopes of appealing to potential customers' desire for convenience. Recently, the service revenue produced by a bank branch facility has become a major determinant of any branch location's viability.

Compounding the bifurcating effects of lending biases and branch closure upon the economic health of inner cities has been the growth of the "fringe banking" sector (Caskey 1994). Although this sector generally offers much more costly banking services than do mainstream bankers, many inner-city consumers have embraced fringe banking, a trend that drains even more money out of already undercapitalized neighborhoods.

Despite the frustratingly scant attention given to economic geography by public-policymakers, some evidence exists suggesting a slight strengthening in the political clout of spatially informed economic studies, as classical economics "discovers" geography. The chance to affect public-policy discourse has energized some corners of the discipline, generating calls for renewed effort to produce research bearing policy implications (e.g., Martin 1999; Amin and Thrift 2000; Henry, Pollard, and Sidaway 2001). Several studies have already answered the call. Analyses of the expanding role of other forms of nontraditional credit among poor and minority groups indicate the dangerous potential of payday lenders (Caskey 1994, 1997; Woodstock Institute 1997; CFA 1998). Several other studies have shown that check-cashing operations, similar in some ways to payday lenders, were prevalent in low-income and minority neighborhoods in Milwaukee (Squires and O'Connor 1998; MCCD 2000; Woodstock Institute 2000). These studies also found that fringe banking operations were preferred over other types of credit sources because they had more convenient locations and extended hours of operation.

Excellent primers on payday lenders and other forms of fringe banking include Stegman and Faris (2003) and Caskey (1994, 1997). However, in general, payday lending has received much less attention from scholars, especially geographers. Because payday lending is the most rapidly expanding segment of the credit industry, and because so little has been published to date on this industry, even a cursory analysis of the spatial pattern of the industry may inform regulatory action on predatory lending as it evolves in the coming years.

Complementing research on the landscapes of credit and finance is an impressive body of accessibility studies, many of which focus on urban quality-of-life issues. Numerous studies (e.g., Brooks and Sethi 1997; Downey 1998) have examined the race, ethnic, and income characteristics of citizens living in close proximity to urban disamenities, such as hazardous-waste sites and industrial polluters. These works have drawn some media interest, critical in forwarding the policy agendas of activists working on such issues. Accessibility studies have also examined landscapes of crime and vice. Several studies (e.g., Voorhees and Swank 1997; LaVeist and Wallace 2000) have shown that use of tobacco and alcohol are underwritten in poor and minority neighborhoods by especially high densities of establishments specializing in the sale of these products and of advertisements promoting the use of these products. Areas with high concentrations of alcohol outlets and alcohol advertising have higher violent crime rates, even when other factors of neighborhood demographics are controlled (see, e.g., Alaniz 1998; Gorman et al. 2001). And the list goes on. Consumers shopping in neighborhoods with high percentages of black or elderly residents have been shown to pay more for groceries while shopping in dirtier stores with a more restricted selection of foodstuffs than those available to consumers shopping in other areas of town (Hall 1983). Additionally, studies have found that accessibility to landscapes offering a variety of amenities—such as parks, employment, or public transportation—is frequently wanting in inner-city neighborhoods (e.g., Ottensmann 1980; McLafferty 1982; Talen 1997; Holloway 1998b).

Studies such as these inform the present research on several fronts. First, accessibility studies occasionally enter public-policy debates. Second, they provide essential methodological guidance, especially in terms of the variety of accessibility measures employed. Finally, these studies help complete our understanding of the recursive interplay between capital and culture in America's urban areas.

Payday Lenders

Establishments offering high-interest, short-term loans have long existed in various guises. In the past, pawnbrokers and "loan sharks" serviced the short-term credit needs of many who, for various reasons, could not or did not use banks. Many states and communities passed laws regulating or outlawing particularly abusive loan practices. In order to make short-term credit more accessible, legislators across the United States permitted banks to loosen restrictions on interest-rate schedules through the passage of various "small loan acts." However, the rate of return on small loans made under these laws remains shy of what is necessary to motivate banks to engage aggressively in the small-loan trade. As access to bank-managed, high-interest credit cards expanded through the 1970s and 1980s, banks naturally balked even more frequently at the prospect of loaning customers less than U.S.$1,000. Bank deregulation during the 1980s made short-term lending even less attractive to bankers, as much higher rates of return became available elsewhere in the financial markets. Deregulation not only propelled the reconfiguration of the mainstream banking industry during this era, but also encouraged the evolution of various forms of alternative financial services that today constitute the fringe banking industry. This alternative banking sector includes payday lenders, check cashers, title/pawn lenders, rent-to-own stores, and subprime mortgage lenders, as well as a variety of hybrid combinations (Caskey 1994).

During the 1990s, the payday loan industry spread rapidly, becoming legal in thirty-one states by decade's end. The remaining states have either tried to outlaw payday lenders or have discouraged the industry by extending existing banking laws or legislating new ones specific to payday lenders. Legislative opposition has been notably weak in the South. About half of all payday loan outlets are in six southern states: Mississippi, Missouri, Kentucky, Tennessee, North Carolina, and South Carolina (Jean Ann Fox, director of consumer protection, Consumer Federation of America, personal correspondence, 30 March 2000). Payday loan stores are opening rapidly elsewhere as well: in Illinois alone, 500 payday lenders opened between 1995 and 2000 (Woodstock Institute 2000). According to the *Los Angeles Times* (2001), California has about 2,000 outlets, already outnumbering McDonald's and Burger King franchises. Industry experts think that in the first decade of the new millennium, market saturation will set in when there are approximately 25,000 outlets nationwide (Robinson and Lewis 1999).

This estimate may prove conservative, however, when additional factors are taken into consideration. Several states are considering measures to further deregulate banking, a move likely to compound the effect of the previous two decades of deregulation. States with strict usury laws continue to see a proliferation of payday lenders, despite legislative and regulatory efforts to outlaw the practice. Payday lenders evade state usury laws by using a loophole in federal banking laws. Under current federal law, payday lenders in states with more liberal usury laws (e.g., Delaware, North Carolina) partner with federally insured banks in other states and offer loans across state lines. Other partnering agents, such as check-cashing outlets, pawnbrokers, liquor stores, and title-pawn outlets, also offer loans made by out-of-state payday lenders. The agents dispense the loan, but the debt is sold to out-of-state payday lending operations, who in turn take the risk and service the loan on terms dictated by the payday lenders' home-state laws (Caskey 2002). Consumer groups and state and federal regulatory authorities have begun to mount legal challenges to this practice (Fox 2002).

Possibly the greatest growth potential in payday lending lies dormant among mainstream bankers. Various newspaper accounts estimate that payday loan operations already earn around $1.5 billion annually (a significant proportion of which is generated during the holiday season, when the number of payday outlets expands by 15 to 25 percent). More compelling is the rate of return realized by payday lending. Estimated to be anywhere from 20 to 45 percent annually (see Stegman and Faris 2003, 10), payday lending's profit margin may prove irresistible to mainstream bankers. Currently, many small payday-lending operations capitalize their business through low-interest loans from traditional banks. Payday lenders take this money across town and reloan it at a significantly higher interest rate. Surely aware of these trends, several banks have already established subsidiary payday lending operations of their own (National Check Cashers Association 1998).

Because state laws regulate payday lending, where, how, and by whom a payday loan is made varies. Some commonalities do exist, however. Most payday loans total less than $500 and are made for a term of two to three weeks. Often, the cost of a payday loan, including interest and fees, is around 20 percent of the value borrowed. For example, in order to get a loan of $300, the borrower must provide a postdated check to the lender for $360, along with proof of employment, a photo ID, and a current phone bill. Once the period of the loan expires, the lender notifies the borrower that the borrower's check is soon to be deposited. The parties may agree to refinance or "rollover" the loan for an additional period of time if insufficient funds to cover the check are in the borrower's account.

In some ways, this exchange differs little from the exchange one might make at a standard bank, but key differences exist. Chief among them are the manner in which payday loans are marketed, the dollar value of the loans, the term length of the loans, and the cost of the loan. Rarely do traditional banks offer easy-to-get, short-term loans for less than $500. Banks that do offer small, short-term loans tend not to aggressively market this service, nor do they advertise these loans as a means to building (or rebuilding) credit histories, as is often the case with payday lenders. Payday loans are offered quickly, with minimal paperwork and less scrupulous attention to borrowers' credit-worthiness. Banks infrequently allow borrowers the opportunity to instantly and repeatedly refinance a loan in the event the borrower has difficulty with payments.

The differences listed above are significant, because they condition the type of consumer likely to use a bank or a payday lender. The payday-loan industry reports that poor and minority borrowers often find mainstream banks standoffish or even hostile (National Check Cashers Association 1998). With the proliferation of hidden fees, penalties, actions against credit histories, and bad-check policies, banks have become far less consumer-friendly, especially to those whose financial means are precarious. Perhaps as important, payday lenders do not extend to credit-challenged borrowers irresponsibly large credit lines, a practice common to many issuers of credit cards. Payday lenders tend to be, at least initially, more sensitive to these sorts of customer-service issues than are banks. Payday lenders stand out from other short-term credit providers in that they will not (immediately) come to your house to repossess your car or take your VCR as collateral. Given the perceived and real differences between banks, payday lenders, and other creditors, it is hardly surprising that the poor and many minorities have begun increasingly to turn to payday lenders.

Friendly service and convenience aside, consumers using payday lenders, almost without fail, encounter fees and interest rates in excess of what they could expect at a bank or other traditional lending institutions. Banks and credit-card lenders are subject to interest-rate regulations that keep annual percentage rates on loans generally under 25 percent. Payday lenders avoid marketing the cost of their loans as interest charges, preferring instead to characterize the cost of taking a loan as "fees." Payday lenders frequently charge as much as $50 in fees on a loan of $200. While this amount may represent only 25 percent of the face value of such a loan, when calculated in terms of an annual percentage rate (APR), the cost of a payday loan may be the equivalent of 500 to 1,000 percent.

Concerns over the rising tide of personal debt and the potentially abusive lending practices of payday lenders have drawn the ire of consumer advocacy groups and some legislators, but payday lending has commanded only a fraction of the attention given over to other types of predatory lending practices, such as subprime mortgage lending. Many state legislatures have recently considered payday-lending bills, and further legislative action is likely as the industry expands. Thus far, however, legislation designed to regulate payday lending has had an unimpressive rate of passage (see, e.g., Stegman and Faris 2003, 26). Even where state laws have been stiffened, loopholes in federal regulation have undermined their effectiveness. Senator Joseph Lieberman (D-CT) held hearings in late 1999 on the payday-loan industry, and two bills regarding payday lending have been forwarded in Congress, but support for additional regulation has been weak.

Politicians and consumer advocacy groups base their calls for greater regulation upon claims that payday lenders charge abusive interest rates while targeting the working poor and minorities. The method of determining whether or not an interest rate is usurious is central to the debate surrounding payday lenders. It is argued by some that APR is an appropriate means to measure interest and fees collected on payday loans because it is a widely accepted measure of the cost of a loan: APR allows consumers to quickly compare the costs of various loan options. Also, since a significant proportion of payday-loan customers maintain relationships with payday lenders over a period of many months, if not perpetually, an *annual* measure of interest accumulation is most appropriate, even though payday loans are ostensibly short-term loans. The Woodstock Institute (2000), a Chicago-based consumer advocacy group, found that a significant proportion of payday-loan consumers refinance or "roll over" payday loans, thus ensuring a long-term relationship with one or more payday lenders. Stegman and Faris (2003) also found that many payday loan customers "roll over" their loans frequently.

Opponents of the payday-loan industry also charge that payday lenders target low-income groups, minorities, and other at-risk groups, trapping them in a spiral of indebtedness. The Woodstock Institute (1997) found currency exchanges, often doubling as payday loan outlets, outnumbered banks eleven to one in some minority neighborhoods in Chicago, with the most uneven ratios in African-American neighborhoods, even though Hispanics were most likely to use currency exchanges. Stegman and Faris (2003, 13) found that payday lenders in Charlotte, North Carolina favored neighborhoods where median incomes range between $20,000 and $40,000. They (2003, 16) also found that blacks were more than twice as likely as whites to use payday lenders, but Hispanics were less likely to use payday lenders than were whites. Neighborhoods in Charlotte with high concentrations of minorities were found to be one-third less likely to have a bank but four times more likely to have a payday lender (Kolb 1999, cited in Stegman and Faris 2003, 13). Perhaps most important, the Woodstock Institute (1997) found that consumers using alternative credit outlets were likely to pay several hundred dollars more per year for financial services than consumers who used traditional banks paid.

The payday-loan industry vigorously defends its business practices and strategies. It has fought, with some success, numerous battles within state legislatures and courts to block further regulation. According to the principal industry association, the Financial Service Centers of America (or FiSCA, formerly known as the National Check Cashers Association), the payday-loan industry serves a legitimate consumer need in communities either neglected or abused by mainstream bankers. The organization (NaCCA 1998) argues that demand for payday loans is rooted in the inappropriate and outdated banking legislation that regulates small loans. Industry officials also vigorously oppose the use of APR as a measure of the cost of their short-term loans. They justify their fee and interest-rate structures by asserting that they assume more credit risk than banks while enduring similar but more frequent processing costs. The payday-loan industry also counters claims that they target at-risk populations. Pointing to the fact that payday lenders require borrowers to have, at the minimum, a checking account, a car, a phone, and a job, industry officials characterize their clientele as people temporarily short on cash or experiencing unexpected expenses. Although payday lenders have not publicly commented on the ethnic composition of their consumers, they do describe their consumers as middle-income, claiming the typical payday borrower in 1998 had an annual income of between $25,000 and $50,000 (NaCCA 1998). Although several studies agree with this broad assessment, others find the estimate too high (see Stegman and Faris 2003, 15).

Methods

To begin to better understand the effects of the increasingly uneven topography of credit in the urban landscape, a useful first step is to map banks and payday lenders, so that an analysis of their location strategies can be undertaken. The spatial distribution of payday loan outlets may indicate the extent to which the payday-loan industry actually targets poor and minority consumers. Mapping the spatial distribution of banks may serve to reinforce earlier studies (e.g., Pollard 1996) that showed banks progressively abandoning poor and minority neighborhoods.

Since the cost of living varies greatly from city to city and region to region, it is not possible to accurately judge the payday-loan industry's assertion that they target households with incomes between $25,000 and $50,000. Payday-loan customers—indeed, all consumers living in locations where wages and prices are high, such as Cook County, Illinois—are likely to fall within the income range cited by the payday loan industry (see Table 1). The reverse is true for those living where the cost of living is low. Taken thus, poverty is a relative measure, an indication of relative deprivation as measured against others within a reasonable market range. An alternate test is therefore forwarded that compares the ethnic and income differences between residents in neighborhoods with nearby payday lenders and residents in neighborhoods without payday lenders. This test is designed to test several hypotheses. My basic hypothesis holds that if payday lenders do not target specific income or ethnic groups, as payday-industry officials suggest, then there will be no statistically significant difference between the mean income and ethnic compositions of neighborhoods with payday lenders and the countywide means. Because poor and minority citizens often live in neighborhoods zoned for commercial purposes—including payday lending—and middle-class whites often live in neighborhoods restricted to residential purposes, statistical tests would very likely demonstrate that *all* commercial interests locate in relatively poorer and minority neighborhoods. To circumvent the potential biases created by zoning ordinances, a secondary hypothesis is necessary. In addition to comparing the statistical composition of payday loan neighborhoods to countywide means, the payday loan neighborhoods will also be compared to neighborhoods containing traditional banks and their branch facilities. The second hypothesis rests on an untested presumption: that banks and payday lenders are subject to identical zoning regulations in each county in the study. A final hypothesis holds that statist-

Table 1 *Income and Ethnicity Means for Selected Counties and Target Neighborhoods*

County	Data Group	% White	% Black	Median Household Income	% Poor	% Vpoor	% Renter-Occupied	Median House Value
Caddo	Countywide	53.59	44.02	$21,421	27.27	14.53	29.76	$53,095
	Bank neighborhoods	67.06	30.07	$24,377	21.91	11.57	32.63	$59,951
	Payday neighborhoods	67.1	30.54	$22,490	20.99	10.15	31.65	$50,457
Calcasieu	Countywide	72.62	25.96	$23,990	20.18	10.22	28.25	$53,544
	Bank neighborhoods	78.54	20.87	$28,350	16.17	8.23	31.08	$61,583
	Payday neighborhoods	68.38	31.28	$23,460	18.48	8.65	37.18	$55,825
East Baton Rouge	Countywide	58.28	40.21	$27,573	23.00	12.38	31.66	$66,167
	Bank neighborhoods	67.61	30.7	$29,928	20.30	10.90	33.49	$72,719
	Payday neighborhoods	57.46	40.29	$25,670	23.51	12.77	34.98	$65,637
Lafayette	Countywide	74.92	23.59	$24,554	23.07	12.12	32.65	$61,101
	Bank neighborhoods	72.01	25.95	$23,618	25.28	14.09	38.16	$63,018
	Payday neighborhoods	69.91	28.07	$21,851	27.48	14.91	40.00	$55,677
Orleans	Countywide	36.4	61.27	$19,892	31.86	17.82	46.05	$77,395
	Bank neighborhoods	50.69	46.34	$24,137	27.55	15.06	47.42	$94,075
	Payday neighborhoods	27.19	69.77	$16,562	34.49	18.81	52.05	$62,408
Ouachita	Countywide	67.06	32.07	$22,442	25.99	12.58	31.59	$51,402
	Bank neighborhoods	72.85	25.92	$20,914	18.10	8.59	26.54	$56,689
	Payday neighborhoods	61.67	37.76	$21,534	25.72	12.13	39.48	$52,619
Rapides	Countywide	69.31	29.42	$20,457	24.30	11.80	30.47	$48,650
	Bank neighborhoods	68.72	29.53	$21,103	19.73	8.48	29.40	$47,891
	Payday neighborhoods	64.96	33.48	$21,524	21.09	7.28	29.54	$49,567
Cook (IL)	Countywide	63.1	26.89	$35,423	13.97	7.51	34.44	$103,251
	Bank neighborhoods	56.89	17.68	$36,754	11.85	6.26	34.36	$115,735
	Payday neighborhoods	70.97	30.77	$31,332	16.39	8.69	41.24	$92,987

ical differences between the data groups will be increasingly evident as the population of the study area increases.

The means by which "neighborhood" was defined was critical in the selection of an analytic strategy. I adapted the definition of "neighborhood" found in public documents filed with the Securities and Exchange Commission (SEC) by a leading payday lender, Check Into Cash Incorporated. According to these filings, Check Into Cash claims that "[C]onvenience of a store's location is extremely important to customers"; therefore, "[M]anagement seeks to open each new store within three miles of the market area that it is intended to serve" (Check Into Cash 1998). Accessibility was also cited as a key advantage of payday lenders in a study done for Union Bank in California by Andre Associates (cited in Stegman and Faris 2003, 13). Stegman and Faris (2003, 19, 23) also found that the rate of use of payday lending is positively associated with accessibility and that location was the primary variable in store profitability. My informal windshield surveys of payday-loan locations in a handful of metropolitan areas across the United States strongly suggests that payday lenders have adopted Check Into Cash's assessment of the importance of location. They agglomerate in patterns similar to automobile dealerships and furniture stores: it is easy to find commercial corridors with a half-dozen or more payday lenders crowded onto a single mile stretch.

Data necessary to conduct the statistical test of neighborhood similarities included address lists and census data. Seven variables were extracted from the 1990 census: percent white, percent black, median household income, percent below poverty, percent 50 percent below poverty level, percent renter-occupied at the block-group level, and median house value (see Table 1). Bank branch addresses were downloaded from the Federal Deposit Insurance Corporation (FDIC) website. Payday-loan outlet addresses in Louisiana and Illinois were obtained through each state's respective banking regulatory authority.

Study sites in Louisiana and Illinois are ideal for a variety of reasons. Payday lending is legal in both states, both states have witnessed recent legislative action on payday lending, and both states' regulatory offices eagerly shared GIS-ready address data for payday lenders. The eight counties selected for inclusion in the study were chosen because they represent a range of city sizes, from 131,000 in Rapides Parish, Louisiana to more than five million in Cook County, Illinois. Each county has a statistically viable number of banks and payday loan operations, and each has sizeable poor and minority districts. Cook County and the metropolitan parishes in Louisiana are also attractive candidates for study because, in some ways, they represent opposite ends of the economic development spectrum and patterns of cost of living and racial segregation. At the same time, all of these counties include a significant proportion of residents that have family histories deeply rooted in the debt servitude of the Delta South. This may be important, as familial attitudes toward debt and savings have been shown to affect the rate of payday lending use (Stegman and Faris 2003).

As a prelude to testing the hypothesis, income and ethnicity data were mapped for each county in the study at the block-group level. Next, the street addresses of no fewer than 95 percent of payday loan outlets in Louisiana were geocoded with a GIS program. In Cook County, 90 percent of addresses for both stand-alone payday-loan outlets and subcontracted payday operations—legally known as "limited-purpose branch offices"—were geocoded. Limited-purpose branches are typically payday-loan outlets set up inside previously established businesses. Subcontracting payday lending or co-operating with these businesses allows payday lenders to take advantage of good site locations and the host businesses' generally credit-impaired customer bases. Once the addresses of payday lenders were mapped, each block group within a quarter mile of any payday lender was extracted from the map. Most of the extracted block-group clusters consisted of three or four contiguous block groups. Collectively, these extracted block groups form a subset of data hereafter referred to as "payday-loan neighborhoods." The process was repeated for bank branch locations. Collectively, these clusters form a second subset of census block groups, hereafter referred to as "bank neighborhoods."

Ethnicity and income variables for each county were compared against the twin subsets of neighborhoods using a two-sample difference of means test. This test was chosen for several reasons. First, the test is a relatively simple one, and its ease of use may prove valuable to others, especially public-advocacy groups seeking to replicate this study in other regions. Second, it is capable of testing the fundamental questions issued by the test hypotheses. Similar tests have been successfully applied in other access studies in which ethnicity and income comparisons were sought (e.g., Talen 1997). Third, the large datasets (e.g., Cook County has over 1,000 bank branches, over 300 payday lenders, and more than 4,500 census block groups) made many of the competing accessibility measures unwieldy. This test is designed to determine whether or not two samples were drawn from a single population. As the test value of t grows, the probability decreases that differences between the two sample means are due to chance. When the value of t exceeds ± 1.96, the probability that the two groups are statistically similar drops to zero at the 95-percent confidence interval.

Findings

The results of the difference of means tests suggest that payday lenders are locating in neighborhoods that are poorer and have higher concentrations of minorities than their county of location as a whole. The test reveals an even stronger pattern of locational bias among banks, one in favor of neighborhoods that are wealthier and whiter than countywide means. These results are strongest in counties with populations in excess of 250,000 (see Table 1). In counties with populations under 250,000, t-test results are mixed, indicating that in less populous market areas, site-location strategies of banks and payday lenders are conditioned less by income and ethnicity than by limitations on retail space. In Ouachita Parish, for example, the 1990 countywide median household income was $22,442, for bank neighborhoods it was $20,914, and for payday loan neighborhoods it was $21,534 (see Table 1). Although these differences are not statistically significant, the trend is opposite to what critics of payday lenders expect (see Tables 2, 3 and 4). Ethnic patterns are also less distinct. Ouachita Parish is roughly 67 percent white and 32 percent black. Bank neighborhoods are 73 percent white and 26 percent black; payday loan neighborhoods are 62 percent white and 37 percent black. While these statistics do support the notion of ethnic bias, none of these differences produce statistically significant t-scores. Similar patterns hold true for Rapides, Calcasieu, Caddo, and Lafayette parishes. Among these less populous metropolitan parishes, only percent renter-occupied generated significant statistical differences.

In Caddo and Rapides parishes, several of the test results were the opposite of expectations. This is largely because neither parish has a sizeable commercial district in any poor or minority districts. Banks and payday lenders are largely concentrated along routes through neighborhoods that are above the county average for percent white and median household income. Here, the t-test revealed a significant locational bias on the parts of both banks and payday lenders *against* black and poor neighborhoods (see Tables 2 and 3). Accordingly, no significant statistical difference was found between bank neighborhoods and payday loan neighborhoods (Table 4).

Table 2 *t-Test Scores for Comparisons of Bank Neighborhoods versus Countywide Means*

County	% White	% Black	Median Household Income	% Poor	% Vpoor	% Renter-Occupied	Median House Value
Caddo	3.26*	−3.42*	1.79	−2.17*	−1.72	1.27	1.85
Calcasieu	1.35	−1.16	2.43*	−1.88	−1.45	1.01	2.39*
East Baton Rouge	2.83*	−2.85*	1.6	−1.44	−1.25	0.96	1.87
Lafayette	−0.74	0.59	−0.53	0.82	1.09	2.14*	0.50
Orleans	5.45*	−5.64*	3.32*	−2.89*	−2.58*	0.96	3.49*
Ouachita	1.17	−1.23	−0.92	−2.93*	−2.36*	−1.73*	1.39
Rapides	−0.11	0.02	0.37	−2.13*	−2.39*	−0.32	−0.24
Cook (IL)	8.70*	−10.07*	2.72*	−5.12*	−4.50*	−0.11	5.65*

** Significant at the 95 percent confidence interval.*

Table 3 *t-Test Scores for Comparisons of Payday Neighborhoods versus Countywide Means*

County	% White	% Black	Median Household Income	% Poor	% Vpoor	% Renter-Occupied	Median House Value
Caddo	2.96*	−2.97*	0.76	−2.32	−2.64*	0.80	−0.92
Calcasieu	−0.7	0.87	−0.26	−0.69	−1.03	2.36*	0.53
East Baton Rouge	−0.23	0.02	−1.34	0.28	0.33	1.69	−0.16
Lafayette	−1.02	0.91	−1.33	1.31	1.31	2.67*	−1.40
Orleans	−3.18*	2.82*	−3.05*	1.22	0.59	3.14*	−4.44*
Ouachita	−0.64	0.68	−0.38	−0.05	−0.17	1.86	0.25
Rapides	−0.63	0.58	0.47	−2.13*	−2.39*	−0.32	−0.24
Cook (IL)	−5.73*	3.34*	−8.75*	4.85*	3.55*	8.45*	−4.72*

** Significant at the 95 percent confidence interval.*

The lack of significant statistical differences in these smaller metropolitan parishes is directly attributable to their lack of viable retail-site options. Where market thresholds are less than 250,000, banks and payday lenders are largely confined to fewer than five retail-service clusters. In these parishes, the imperative to locate near target customers is diminished, because consumers are forced to do business in fewer available commercial districts. Smaller cities tend to have shopping districts less distinctly associated with area neighborhoods; here, everyone in the market range frequents all commercial strips and malls. In regions with larger populations, there may be numerous retail districts, each with distinct mixtures of retail and service establishments that reflect local neighborhood conditions. Where distance and travel costs are great, location becomes a more critical element of site location.

In the most populous counties in the study, neighborhoods with payday loan outlets nearby are generally much poorer and much less white than is the county as a whole. As expected, neighborhoods with banks are much wealthier and whiter than countywide averages (see Tables 2 and 3). Compared against one another, bank neighborhoods are substantially whiter and wealthier than are payday loan neighborhoods (Table 4). The largest study areas have the most extreme test scores. Mean differences among the three datasets are greatest in Cook County (see tables and Figures 1 and 2). Test results reveal substantial differences between payday loan neighborhoods and bank neighborhoods when income and poverty variables are compared. Ethnic differences among the test neighborhoods are greater still, with *t*-scores pushing past 10 for percent white and percent black.

Discussion

The results of the statistical tests suggest that the payday lending industry is targeting neighborhoods with a higher percentage of poor and minority residents. At the same time, traditional banks are avoiding poor and minority communities. In most counties, *t*-test results indicate that banks avoid poor and minority neighborhoods at a rate greater than payday lenders target such neighborhoods. These trends are most pronounced in the more

Table 4 *t-Test Scores for Comparisons of Payday Neighborhoods versus Bank Neighborhoods*

County	% White	% Black	Median Household Income	% Poor	% Vpoor	% Renter-Occupied	Median House Value
Caddo	−1.05	0.01	0.09	−0.3	−0.71	−0.35	−2.49*
Calcasieu	−2.08*	−1.58	1.6	0.85	0.25	1.44	−1.19
East Baton Rouge	−2.58*	−2.60*	2.42*	1.54	1.41	0.66	−1.79
Lafayette	−0.76	−0.38	0.38	0.58	0.33	0.59	−1.58
Orleans	−5.18*	−6.99*	6.78*	2.98*	2.11*	2.19*	−6.44*
Ouachita	0.24	−1.29	1.36	1.48	1.36	2.85*	−0.74
Rapides	0.08	−0.89	0.9	0.57	−0.93	0.03	0.35
Cook (IL)	−9.88*	−12.20*	10.80*	8.48*	6.80*	7.64*	−8.78*

** Significant at the 95 percent confidence interval.*

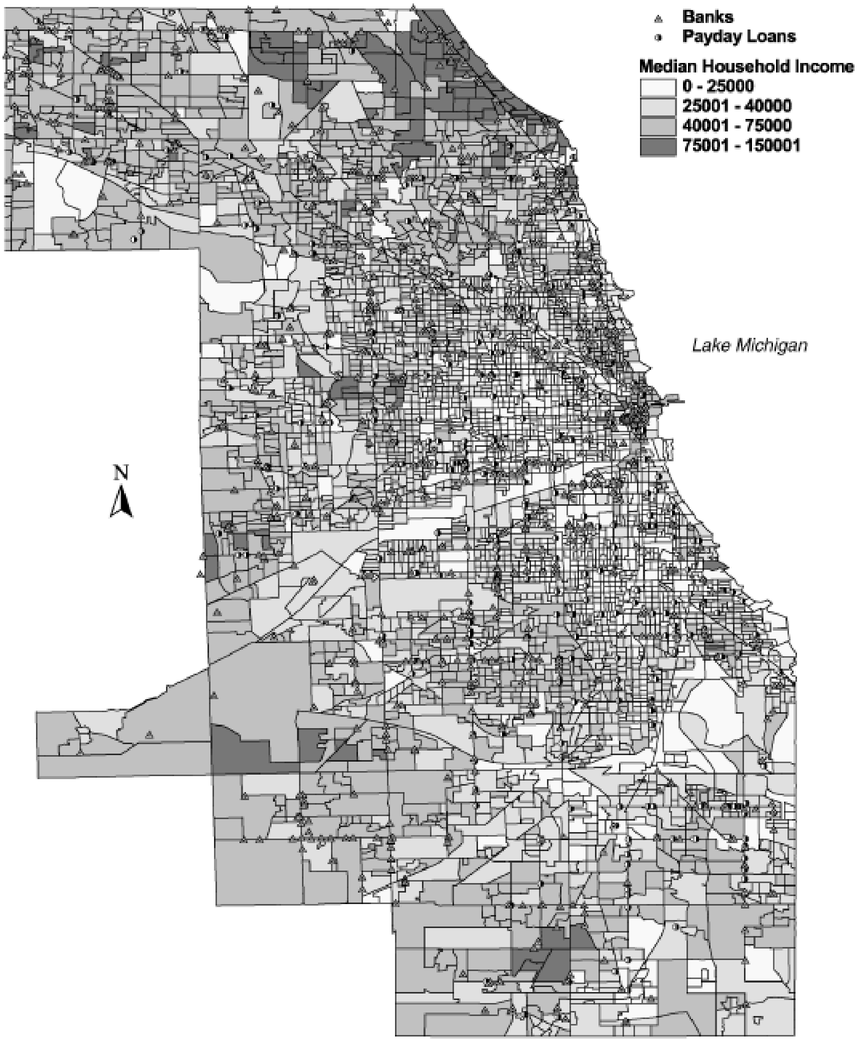

Figure 1 *Median household income and location of payday lenders and banks in Cook County, Illinois.*

populous study sites containing New Orleans and Chicago. In the less populous study sites, the site-location strategies of banks and payday lenders are less evident. Where market thresholds are small and the friction of distance is unexceptional, fewer retail districts emerge. In these instances, banks and payday lenders have less latitude in their location strategies.

The two sample difference of means test used in this study proved to be a useful tool in the characterization of difference between the target neighborhoods. Without this tool, it is difficult to quickly estimate the magnitude of statistical differences between the economic and demographic characteristics of target neighborhoods. However, the utility of this measure as a tool for engaging makers of public policy may be undermined by its inaccessibility to lay audiences, especially mass media audiences, whose political support might be needed to advance legislation on banking practices. The standardized nature of this test statistic may prove useful if can be successfully translated for consumption by voters and politicians.

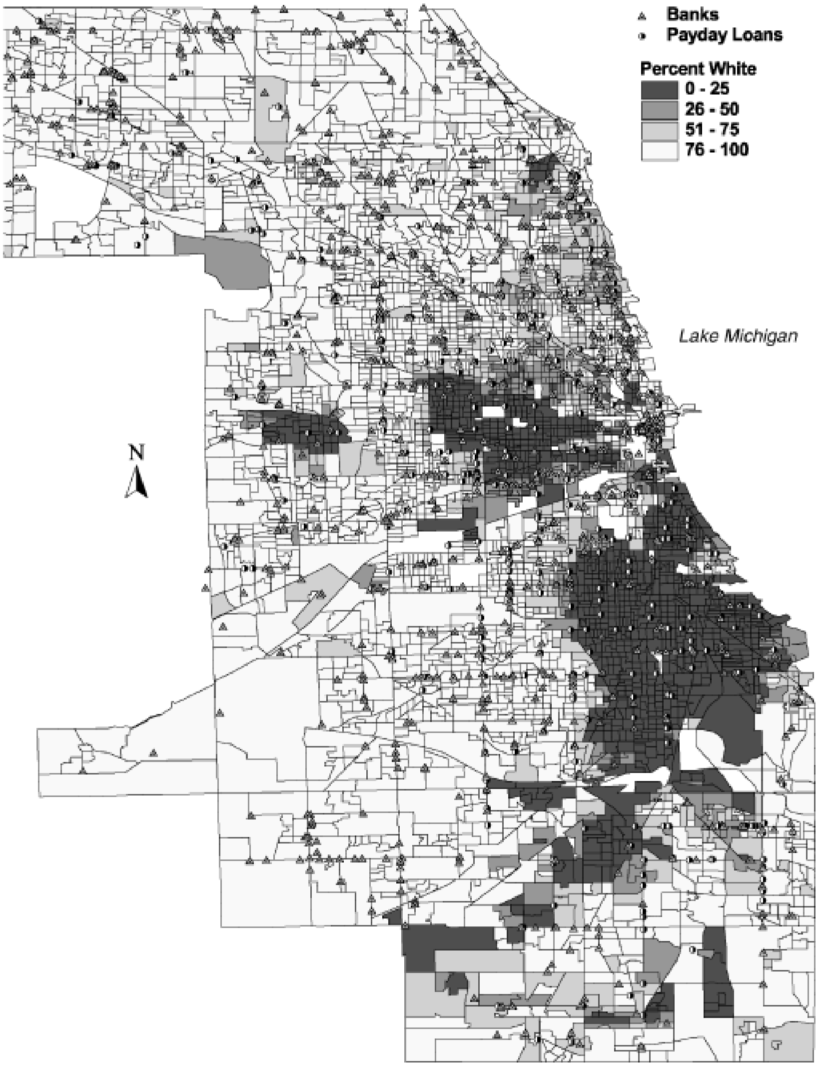

Figure 2 *Percent white and location of payday lenders and banks in Cook County, Illinois.*

I hope that my findings lend empirical support to the discourses surrounding urban life. If the metaphor of the stage is a useful one for understanding human action, then this study helps prove that the stages under the feet of America's inner-city residents are mined with trap doors. Payday lenders are but one invitation to make a bad decision, but one element in what appears to be the predatory landscape of the inner city. In addition to the real costs of predatory lending, the psychological costs may be just as damaging. Perception of neighborhood quality has been shown to be an important and reliable measure of behavioral outcome (Hadley-Ives et al. 2000). Perceptive inner-city residents no doubt understand that opportunities to lower one's quality of life dot the landscape, especially where minorities predominate (see, e.g., Walters 1996). Stores selling overpriced groceries, lottery tickets, liquor, and tobacco compete unscrupulously for scarce dollars with payday lenders, rent-to-own stores, check cashers, pawnbrokers, and other rip-off artists.

While it is tempting to simply characterize predatory lenders as the sleazy villains in yet another scheme to take advantage of helpless inner-city victims, it would be wholly insufficient to do so. Indeed the appeal of payday lending lies in the effective and misleading marketing of payday lending and in the inability of some to fully comprehend the long-term cost of this type of credit (see, e.g., Bates 1997). What is less obvious is how the lack of transparent options for the credit-needy figures into the success of payday lending. This study partly supports the somewhat dubious plea of innocence made by payday lenders, who claim to serve communities underserved by traditional lenders. While it is true that payday borrowers are not completely unbanked, if they live in large cities they may find themselves riding a bus for many blocks to visit a bank that does not serve them pleasantly or appropriately. If traditional banks were able and willing to fulfill the intent of the fair-lending legislation of the 1970s, then payday lenders would have little market appeal. This self-reinforcing pattern of abuse and neglect is widely visible on the urban landscape. For each landscape item signifying structural predation, there is generally a landscape signifying structural neglect. The absence of quality schools, parks, banks, and grocery stores all figure into the construction and maintenance of structural restrictions upon residents' ability to make informed life choices. Far from being a pathologically bad credit choice, payday lending may seem to many inner-city residents to be the best of the bad options available.

If inner-city residents understand the proliferation of payday lenders and retreat of banks as signifiers of the systematic impoverishment of their neighborhoods, what, then, is the effect upon these residents? My guess is that payday lenders are quickly becoming signifiers of "the system" that, by hook or by crook, keeps the downtrodden down. The success of payday lending is very likely underwritten by inner-city cultures that have, over generations, come begrudgingly—or perhaps even passively—to accept perpetual indebtedness as a way of life.

The emergence of a two-tiered financial system offers many opportunities for additional study. The long-term effect of predatory lending practices on economically challenged neighborhoods, their crime patterns, and urban renewal efforts are particularly intriguing. Because payday lenders comprise only one segment of the alternative financial industry, further study into the spatial practices of check cashers, rent-to-own establishments, title-pawn outlets, and subprime lenders is warranted. Continued analysis of the spatial strategies of mainstream bankers is also necessary. How credit unions, community banks, and other consumer-friendly sources of banking sources factor in the production of positive urban landscapes presents yet more opportunities for research.

The growth of a two-tiered financial system in the United States is but one of a number of unwelcome consequences of the deregulatory spirit fashionable among American politicians during the last couple of decades. As has been the case elsewhere, deregulation has disproportionately affected the poor. Clearly, a need exists to revisit earlier banking legislation, and new legislation may be necessary. Pundits, politicians, consumer-advocacy groups, and other researchers have already forwarded numerous legislative suggestions for state and federal policy makers (see, e.g., Woodstock Institute 2000; PPI, AARP 2001; Stegman and Faris 2003), as has the payday-lending industry (NaCCA 1998). There seems to be general agreement that payday lenders can and should continue to provide their unique services. Without them, the prospect of encouraging considerably more dangerous and completely unregulated loan sharks reappears. A consensus may also be possible on appropriate measures to take to discourage multiple rollovers and other practices that create long-term, spiraling debt. Disagreements tend to emerge over the way in which payday lenders should be allowed to market their services and what constitutes a reasonable interest/fee structure.

Perhaps the most contentious debate is over the apparent lack of federal regulation of cross-border, interstate payday lending. Used to evade state regulations, interstate charter-bank lending undermines local and state authority and seems to transgress the spirit of laws intended to prevent such practices. Payday lenders who are willing to take advantage of the shelter afforded to interstate bankers by federal statutes should be held to federal regulations that require banks to equitably serve the communities in which they operate. Congressmen who shield local interests from federal regulation by standing behind the cloak of states' rights must also extend their logic in order to protect local constituents—especially the debt-prone ones—from out-of-state, predatory lenders. Left unchecked, the combination of financial neglect by legitimate bankers and predation by fringe bankers threatens to further destroy inner cities and to erode the already fragile condition of America's working poor. ■

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