Alternative Financial Services: Chattanooga, Tennessee
Introduction

In the fall of 2004, the Chattanooga City Council Legal and Legislative Committee requested that the Chattanooga Hamilton County Regional Planning Agency research alternative financial services. This request was in response to concerns expressed by neighborhood residents that the proliferation of such businesses may negatively affect property values and increase the rate of crime. This report summarizes current research on the alternative financial business sector, reviews methods that other municipalities have used to control the location of such businesses, and investigates the possible negative secondary effects of alternative financial services on local property values and crime rates.

Background

The following section provides a discussion of the businesses that are the focus of this report as well as a description of the regulatory environment for each in the state of Tennessee.

Alternative Financial Services

The alternative financial services industry is a loose term for non-bank entities providing some type of financial service. Sometimes included in this group (but not this report) are rent-to-own businesses and specialty auto and mortgage lenders. There are a total of 101 alternative financial service businesses in Chattanooga.

Payday advance loans: Payday loans are typically very small consumer loans, usually $150 to $300, backed by a postdated check or authorization to make an electronic debit against an existing financial account. The check or debit is held for an agreed-upon term, usually about two weeks or until an applicant's next payday, and then cashed unless the customer repays the loan to reclaim his or her check. If the customer does not have funds for the check to clear, the same process is followed to obtain an additional loan or extend the existing loan, commonly referred to as a rollover or renewal. There are 64 payday loan/check cashing business located in the city of Chattanooga.

The payday advance industry emerged in the 1990s in response to the demand for small, short-term consumer loans. According to fringe banking scholar John Caskey, the rise in payday advance services is attributed to three complementary factors: (1) With the rise of direct deposit, check cashing companies are looking for new business because there are fewer checks to cash; (2) friendly state legislatures allow payday lenders to charge fees that, while moderate in absolute terms, translate into extremely high and profitable annual interest rates; and (3) strong demand is driven by a steady increase in the number of people with impaired credit. In addition, in the 1980s traditional financial institutions exited the small-denomination, short-term credit market, largely due to its high cost structure and deregulation of the industry. Tennessee began regulation of payday advance and check cashing businesses in 1997.

Tennessee has one of the highest rates of payday lending in the country, with several counties and ZIP codes ranking among the most densely crowded with payday lenders in the country (Peterson and Graves, 2004). Chattanooga has five of the top 30 ZIP codes ranked by payday
lending in Tennessee. Peterson and Graves attribute the high concentration of payday lenders in Chattanooga to the laws restricting their operation in neighboring Georgia. Approximately 44 percent of payday advance locations in Chattanooga have begun operation since 2002.

In Tennessee no minimum loan term is specified for cash advances, the maximum loan term is 31 days. Tennessee legislation exempts payday advance services from state usury laws that regulate conventional financial institutions (T.C.A. 45-17-118). Usury laws regulate the practice of lending money and charging the borrower interest, especially at an exorbitant or illegally high rate. Regulations authorize payday advance businesses to issue loans up to $500 and charge a fee equaling the lesser of 15 percent of the face value of the check or $30.00. Under this formula a one hundred dollar loan with a 14 day term would equal an annual percentage rate (APR) of 391 percent. A loan with an 8-day term would yield an APR of 684%. However, industry advocates point out that a payday loan is designed as a short-term loan with an appropriately scaled fee for the risk involved. Other common fees—like late fees on movie rentals or credit card payments, bounced checks—carry similarly high rates if converted to annual percentages.

Industry analysts estimate that more than 15,000 payday advance locations across America extend about $25 billion in short-term credit to millions of households experiencing cash-flow shortfalls between paydays. Approximately 44 percent of payday advance locations in Chattanooga have begun operation since 2002. Statewide, between June 2002 and June 2003 payday advance offices increased in number from 1042 to 1186, a 13.8% increase. Between June 2003 and June 2004, the number of offices increased to 1,299, a 9.5% increase.

Consumer advocacy groups argue that payday advance lenders prey on the poor because they generally have few other credit alternatives, and encourage them to get further into debt. The payday lending industry has countered this argument with an industry-sponsored study by Georgetown University's Credit Research Center. The study found that borrowers are typically moderate-income younger families—35 percent are married with children and nearly 25% are single parents. Over half have some education beyond high school. Fully half of all borrowers have household incomes between $25,000 and $49,999. The requirement that payday advance customers have a checking account likely reduces the number of low-income customers. The typical borrower is more likely to use consumer credit and have a higher debt to income ratio than the general population, which, as might be expected, leads to credit problems. The study concluded that most borrowers are informed about their alternatives and are aware of the high costs of payday loans, although not always in terms of annual percentage rates. The results of the Georgetown study may be questioned based on the small sample size of participants. Out of 5,400 payday borrowers, 726 denied using payday lending services, and only 427 borrowers actually completed the survey.

The Georgetown study also found that payday borrowers tend to be repeat customers, with 48 percent taking out seven or more total advances in a year, and 22 percent taking 14 or more. Borrowers also tend to roll over or renew the same loan, postponing final payment and accruing significant interest charges; about 40 percent had renewed loans five times or more. These numbers concur with a study by Michael Stegman of the University of North Carolina at Chapel Hill, which found that the practice of payday lending encourages repeat usage and debt rollovers.

Tennessee regulations do not allow a borrower to renew a cash advance transaction with the proceeds of another cash advance transaction made by the same licensee. However, this
regulation would not prevent a customer in Tennessee from taking out a new loan with a different licensee, and using the proceeds of the new loan to settle the original loan. This regulation may contribute to the proliferation of payday lenders as consumers switch loans between licensees concentrated in a specific area. Tennessee regulations are designed to prevent debt rollover and to cap the maximum amount a customer can have in outstanding loans from all payday lenders at $500.

Violations of the regulations do occur. For the year ending December 31, 2002, the Tennessee Department of Financial Institutions Compliance Division conducted a random sample of licensee’s transactions in 924 payday advance offices. As a result, 93 licensees made total refunds of $41,528 to 667 customers for charging excessive or unauthorized fees pursuant to Tennessee Code Annotated § 45-17-115. From January 1 through June 30, 2003, the Department conducted an additional 672 examinations resulting in refunds of $21,672 to 593 customers.

**Title pawn:** Title pawn loans are also small consumer loans that leverage the equity value of a car as collateral. The car title must be owned free and clear by the loan applicant; any existing liens on the car cancel the application. Loan terms are often for 30 days, and failure to repay the loan or make interest payments to extend the loan allows the lender to take possession of the car. Tennessee began regulation of title pawn businesses in 1995. Title Pawn businesses are allowed to charge a one time administrative fee of up to 20 percent of the total loan amount, plus 2 percent monthly interest. There are 22 title pawn locations in Chattanooga.
**Pawnbroking:** Pawnbrokers provide financing based on the value of tangible property brought to a store. Typically, a flat fee is charged for the transaction, and the merchandise is held for an agreed-upon period of time for repayment and reclaiming of property. Upon contract expiration, if the loan is not repaid or extended by an interest payment, the broker assumes ownership of the merchandise and can put it up for resale. Tennessee began regulation of pawnshops in 1988. Pawnshops, like title pawn businesses, are allowed to charge a one time administrative fee of up to 20 percent of the total loan amount, plus 2 percent monthly interest. There are 15 pawnshops located in Chattanooga, with the majority beginning operation prior to 1999.

Pawnshops have existed for centuries. In large part, pawnshops serve the “working poor.” Based on a 1998 study by the Credit Research Center, the majority of pawnshop customers come from the family-raising stage of life, ages 25 to 44 years, when the demands upon household frequently are greater than the income. Pawnshop customers tend to have larger households, marital instability, and less education than the general population. The result is lower incomes and job instability. Similar to payday advance services, pawnshops have incurred public criticism because their rates are higher than those of other lenders who make larger loans.

A criticism of pawnshops is that they act as intermediaries for the trade of stolen goods. In general, research by scholars and journalists suggests three things. First, pawnbrokers do have some role in recycling stolen goods. Second, frequent pawners present the highest likelihood of acting as main agents through which pawnshops acquire stolen goods. Third, the volume and value of stolen goods may be substantially greater than the tiny fractions that have been proposed.

A recent University of Texas study on the role of pawnshops in the trade of stolen goods concludes that the best solution to the problem is the “support of actions to render more efficient monitoring of people and things circulating through pawnshops, secondhand stores, and similar establishments.” The study advocates, “…efficient monitoring of suspicious pawners and goods achieved through strengthened police pawn details, speedier transfer of transaction records from pawnshops to police computers, and accelerated analysis of the data.”
Analysis

Secondary Effects: Property Value

It is perceived that the location of alternative financial services may have a negative impact on local property values. Residents of Chattanooga neighborhoods have expressed concern with the tremendous growth and concentration of alternative financial businesses along area major roads. The following table illustrates the major concentration of alternative financial services along Brainerd Road, Highways 58 and 153, and Rossville Boulevard. In the entire city of Chattanooga, there are 101 alternative financial service locations, with 59 (58 percent) concentrated along four major roads.

<table>
<thead>
<tr>
<th>Alternative financial services: concentration on major roads</th>
<th>Alternative financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chattanooga (total)</td>
<td>101</td>
</tr>
<tr>
<td>Brainerd Rd</td>
<td>22</td>
</tr>
<tr>
<td>Highway 58</td>
<td>10</td>
</tr>
<tr>
<td>Highway 153</td>
<td>9</td>
</tr>
<tr>
<td>Rossville Blvd</td>
<td>18</td>
</tr>
</tbody>
</table>

Two methods were used to determine the possible effect of alternative financial services on property value. First, the median appraised value of residential property between 2000 and 2004 was analyzed citywide according to proximity to alternative financial services. Second, single-family property sales from 1990 to 2004 were analyzed citywide and for the four areas with major concentrations of alternative financial services. Single-family property sales were analyzed by the average sales price paid per square foot according to proximity to the alternative financial service locations.

Appraised value

The following map shows the location of the types of businesses in question with a range of buffers in quarter mile increments used to summarize property appraisal data.
Alternative financial services location

- Yellow: Outside buffer zone
- Grey: Buffer zone
  - 1/4 mile
  - 1/2 mile
  - 3/4 mile
  - 1 mile
- Red flag: Alternative financial service
- Green checkmark: Interstate
- Black line: Major road

June 2005
The following table illustrates the results of the analysis of the median appraised value of residential property according to proximity to alternative financial service locations. Residential property located within one-quarter mile of alternative financial services had the smallest percentage gain in appraised value between 2000 and 2004, and was 8 percent below the citywide gain.

<table>
<thead>
<tr>
<th>Proximity to Alternative Financial Services</th>
<th>Percentage Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 1/4 mile</td>
<td>23%</td>
</tr>
<tr>
<td>1/4 to 1/2 mile</td>
<td>27%</td>
</tr>
<tr>
<td>1/2 to 3/4 mile</td>
<td>29%</td>
</tr>
<tr>
<td>3/4 to 1 mile</td>
<td>33%</td>
</tr>
<tr>
<td>&gt; 1 mile</td>
<td>29%</td>
</tr>
<tr>
<td>Citywide</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Average sales price per square foot**

Single-family property sales from 1990 to 2004 were analyzed citywide and for the four areas with major concentrations of alternative financial services, Brainerd Road, Highway 153, Highway 58, and Rossville Boulevard. Single-family property sales were analyzed by the average sales price paid per square foot according to proximity to the alternative financial service locations. The percentage change in the average sales price per square foot is summarized for each area in five-year intervals. Five-year appreciation rates are considered negative if they are 5 percent or more below the citywide average. The results of the analysis show a pattern of increasing negative results for portions of the study areas that are located within a quarter mile of alternative financial services. Brainerd Road, which has the largest number of alternative financial services, shows the clearest pattern of decreasing appreciation rates in relation to the citywide average.

The following map illustrates the location of the study areas. The table on page eleven illustrates the results of the analysis.
Alternative financial services: location and study areas

Alternative financial service

Distance from alternative financial service
- 0 to 1/4 mile
- 1/4 to 1/2 mile
- 1/2 to 3/4 mile
- 3/4 mile to 1 mile

Chattanooga

Interstate

Major road

Tennessee River
<table>
<thead>
<tr>
<th>Distance from Citywide</th>
<th>Citywide</th>
<th>0 to ¼ mile</th>
<th>¼ to ½ mile</th>
<th>½ to ¾ mile</th>
<th>¾ to 1 mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brainerd</td>
<td>16%</td>
<td>14%</td>
<td>7%</td>
<td>22%</td>
<td>-16%</td>
</tr>
<tr>
<td>Highway 153</td>
<td>27%</td>
<td>16%</td>
<td>18%</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Highway 58</td>
<td>8%</td>
<td>28%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Rossville Blvd</td>
<td>13%</td>
<td>9%</td>
<td>21%</td>
<td>4%</td>
<td>18%</td>
</tr>
</tbody>
</table>

The results of the analysis of four areas with major concentrations of alternative financial services suggest that the concentration of such businesses may have a negative impact the appreciation of residential property values. However, the valuation of property is complex and there may be other factors that have contributed to the slower rate of appreciation. Further study should include the development of a hedonic pricing model to clarify the relation of AFS clusters to residential property value.
Secondary Effects: Crime

Crime data is presented for four areas with a high concentration of alternative financial services locations (Brainerd, Highway 58, Hixson, and Rossville Blvd). Chattanooga is included to illustrate citywide crime trends.

<table>
<thead>
<tr>
<th>Business Count by Area</th>
<th>Alternative financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brainerd</td>
<td>22</td>
</tr>
<tr>
<td>Highway 58</td>
<td>10</td>
</tr>
<tr>
<td>Hixson</td>
<td>16</td>
</tr>
<tr>
<td>Rossville Blvd</td>
<td>16</td>
</tr>
</tbody>
</table>
According to the Tennessee Bureau of Investigation (TBI) some factors known to affect the volume and type of crime occurring from place to place are:

- Variations in composition of the population, particularly youth concentration.
- Stability of population with respect to residents' mobility, commuting patterns, and transient factors.
- Economic conditions, including income, poverty level, and job availability.
- Family conditions with respect to divorce and family cohesiveness.
- Effective strength of law enforcement agencies.
- Policies of other components of the criminal justice system (e.g. prosecutorial, judicial, correctional, and probational).

Four demographic characteristics (Family Structure, Employment, Household Income, and Poverty) were examined to establish the character of each area. It should be noted that the information is from the 2000 U.S. Census and represents a “snapshot” of area characteristics at a specific point of time.

- The Rossville Boulevard area had the largest percentage of single parent families, the highest unemployment rate, the largest percent of the population in poverty, and the lowest household income.
- The Hixson and Highway 58 areas had the lowest percentage of single parent families, the lowest unemployment rate, the smallest percentage of the population in poverty, and the highest household income.
- Chattanooga and the Brainerd area are in the middle between the Rossville Boulevard area and the Hixson and Highway 58 areas concerning the demographic variables considered.

<table>
<thead>
<tr>
<th></th>
<th>Brainerd</th>
<th>Highway 58</th>
<th>Hixson</th>
<th>Rossville Blvd</th>
<th>Chattanooga</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>4,153</td>
<td>1,956</td>
<td>4,971</td>
<td>2,141</td>
<td>39,650</td>
</tr>
<tr>
<td><strong>Married</strong></td>
<td>62%</td>
<td>68%</td>
<td>78%</td>
<td>54%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Single Parent</strong></td>
<td>38%</td>
<td>32%</td>
<td>22%</td>
<td>46%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: U.S Census Summary File 3, Table P34
<table>
<thead>
<tr>
<th>Employment</th>
<th>Brainerd</th>
<th>Highway 58</th>
<th>Hixson</th>
<th>Rossville Blvd</th>
<th>Chattanooga</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Force</td>
<td>8,623</td>
<td>3,574</td>
<td>8,903</td>
<td>3,114</td>
<td>76,444</td>
</tr>
<tr>
<td>Employed</td>
<td>8,069</td>
<td>3,450</td>
<td>8,618</td>
<td>2,747</td>
<td>70,505</td>
</tr>
<tr>
<td>Unemployed</td>
<td>515</td>
<td>114</td>
<td>285</td>
<td>367</td>
<td>5,847</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.97%</td>
<td>3.19%</td>
<td>3.20%</td>
<td>11.79%</td>
<td>7.65%</td>
</tr>
</tbody>
</table>

Source: U.S Census 2000 SF-3, Table P43

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Brainerd</th>
<th>Highway 58</th>
<th>Hixson</th>
<th>Rossville Blvd</th>
<th>Chattanooga</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>12.0%</td>
<td>6.7%</td>
<td>6.5%</td>
<td>23.9%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Less than $20,000</td>
<td>26.8%</td>
<td>20.3%</td>
<td>19.4%</td>
<td>48.6%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Less than $30,000</td>
<td>44.7%</td>
<td>37.3%</td>
<td>34.2%</td>
<td>65.8%</td>
<td>46.9%</td>
</tr>
<tr>
<td>Less than $40,000</td>
<td>59.2%</td>
<td>46.9%</td>
<td>49.2%</td>
<td>77.6%</td>
<td>59.4%</td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>71.5%</td>
<td>62.4%</td>
<td>62.2%</td>
<td>85.1%</td>
<td>69.6%</td>
</tr>
</tbody>
</table>

Source: U.S Census 2000 Summary File 3, Table P52

<table>
<thead>
<tr>
<th>Poverty</th>
<th>Brainerd</th>
<th>Highway 58</th>
<th>Hixson</th>
<th>Rossville Blvd</th>
<th>Chattanooga</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of persons for whom poverty is determined</td>
<td>15,671</td>
<td>7,036</td>
<td>17,283</td>
<td>8,007</td>
<td>158,612</td>
</tr>
<tr>
<td>Number in poverty</td>
<td>2,206</td>
<td>677</td>
<td>1,222</td>
<td>2,264</td>
<td>27,709</td>
</tr>
<tr>
<td>Percent of total in poverty</td>
<td>14.1%</td>
<td>9.6%</td>
<td>7.1%</td>
<td>28.3%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

Source U.S Census 2000 Summary File 3, Table P87

Citywide crime data was provided by the Chattanooga Police Department Crime Analysis Unit for the years 1996 through 2004. The crime statistics prepared from original police department data are meant to identify and represent trends in the crime rate.

To determine overall trends, crimes are grouped and summarized according to whether they are violent crimes (assault, murder, rape, and robbery) or property crimes (auto theft, burglary, and theft). Crime trends are also charted individually to identify each crime type’s contribution to overall trends. *Charts of specific crime trends are included in the appendix.*
Crime Rates are calculated as the number of crimes committed per 1000 persons.

- Crime rates generally follow the preceding demographic indicators; The Rossville Boulevard area has the highest crime rates, the Hixson and Highway 58 areas have the lowest, and Chattanooga and the Brainerd area fall in the middle.
- The overall property crime rate increased between 1996 and 2000 in all areas. Between 2000 and 2004, the overall property crime rate decreased in all areas except the Hixson area (+14%) and the Highway 58 area (+10%). However, the property crime rate in the Hixson and Highway 58 areas remains lower than the rate in other study areas.
- Between 1996 and 2000, the overall violent crime rate increased in all areas. Brainerd, followed by the Rossville Boulevard area experienced the greatest increase in the violent crime rate during this period. Assault crimes drove the increase in the overall violent crime rate from 1996 to 2000. Assault, murder, and rape are not the types of crime that would typically be associated with alternative financial services. However, robbery could conceivably be associated with the alternative financial sector. From 1996 to 2004, robbery crime rates declined in all areas. Between 2000 and 2004, the overall violent crime rate decreased in all areas. A table detailing specific crime rates is included in the appendix.

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</thead>
<tbody>
<tr>
<td>Brainerd</td>
<td>83.9</td>
<td>88.8</td>
<td>85.1</td>
<td>6%</td>
<td>-4%</td>
</tr>
<tr>
<td>Highway 58</td>
<td>61.0</td>
<td>71.4</td>
<td>78.4</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Hixson</td>
<td>62.8</td>
<td>66.6</td>
<td>76.0</td>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>Rossville Blvd</td>
<td>132.0</td>
<td>134.2</td>
<td>125.7</td>
<td>2%</td>
<td>-6%</td>
</tr>
<tr>
<td>Chattanooga</td>
<td>87.3</td>
<td>91.8</td>
<td>86.5</td>
<td>5%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

*Includes Burglary, Theft, Auto Theft

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</tr>
</thead>
<tbody>
<tr>
<td>Brainerd</td>
<td>18.1</td>
<td>31.1</td>
<td>23.0</td>
<td>72%</td>
<td>-26%</td>
</tr>
<tr>
<td>Highway 58</td>
<td>15.3</td>
<td>17.9</td>
<td>16.1</td>
<td>17%</td>
<td>-10%</td>
</tr>
<tr>
<td>Hixson</td>
<td>11.4</td>
<td>13.7</td>
<td>12.5</td>
<td>20%</td>
<td>-8%</td>
</tr>
<tr>
<td>Rossville Blvd</td>
<td>48.0</td>
<td>70.2</td>
<td>45.3</td>
<td>46%</td>
<td>-36%</td>
</tr>
<tr>
<td>Chattanooga</td>
<td>27.0</td>
<td>36.0</td>
<td>24.6</td>
<td>33%</td>
<td>-32%</td>
</tr>
</tbody>
</table>

*Includes Assault, Murder, Rape, and Robbery
Conclusion

Alternative financial services have grown at a rapid rate and seem to be ubiquitous along the major thoroughfares of Chattanooga. It can be argued that they provide necessary financial services to low and moderate-income persons that traditional financial institutions do not provide. Their rapid growth is a testament to consumer demand for such services. On the other hand, the fees that alternative financial services charge translate into what some consider outrageous annual percentage rates. Consumers that are unable to settle their loans in a timely manner may lose personal property or continue to take out loans (from different licensees) or face the possibility of legal action. Additionally, alternative financial services often have gaudy signage and colors that give the perception of a commercial district in decline.

This report examined trends for two specific issues (property value and crime rates) in relation to the location of alternative financial services. This report did not find a negative relationship between the location of study businesses crime rates. However, the rapid growth and concentration of alternative financial services in areas of Chattanooga may be impeding the appreciation of residential property values. The two analyses of property value, single-family sales values from 1990 to 2004 and appraised valued from 2000 to 2004 found evidence that the concentration of alternative financial services in certain areas may have a negative impact on the appreciation of residential property values.

In a report to the Milwaukee Board of Zoning appeals, Christopher Peterson provided expert testimony that “…an excessive concentration of multiple lenders in one community all using the same business technique is likely to harm the public welfare” (Peterson 2003). Peterson continued to describe the impact of alternative financial services on the general public welfare including:

1. Taxpayers costs associated with increased personal bankruptcy filings, delinquent loan collection, and police auctions of personal property
2. The burden and expense imposed on state and municipal law enforcement in policing alternative financial services
3. Economic costs not only on borrowers, but also on those who are forced to absorb their losses -- whether through lost rent payments, personal debts, or even bankruptcy.
4. The alternative financial service business model leads to the tendency for unaesthetic business appearances with aggressive advertisements, large signs, and bold and contrasting colors.

Finally, a report by the St. Louis County Planning Department concluded that “when an area is overdeveloped with several check cashing/loan facilities, there is a perception that there are underlying economic problems within the community. An over concentration of check cashing/loan facilities may serve as an impetus for the economic decline of an area” (St Louis County Planning Department 2002). If local leaders look to the example of other cities to control the proliferation of such businesses, land use control is a local power that may be reasonably exercised to control the location of these types of businesses.
Christopher Peterson, a law professor at the University of Florida, commented in a recent San Diego Tribune article that more and more cities are turning to zoning laws because land-use policy is one of the few ways local governments can exercise control over high-interest lenders.

A May 2003 draft report written for the Annie E. Casey Foundation supports the option for communities concerned about the proliferation of payday loan stores in their neighborhoods to work with city lawmakers to change zoning laws.

The Columbia, South Carolina City Council approved an ordinance requiring cash advance and title loan businesses to get a special exceptions to open a new location (February 11, 2004).

St. Louis, Missouri amended the zoning ordinance by adding a definition for “Check Cashing Establishment” and by defining zoning districts in which check-cashing establishments may be established.

Spring Valley, Nevada allows check cashing in commercial zoning districts with a condition to meet a 200-foot separation from residential development and 1,000 feet from another check cashing business.

On December 16, 2004, the Pittsburgh, Pennsylvania City Council tentatively approved new land use standards to crack down on check-cashing and payday advance outlets, barring them from opening in residential business districts. The new standards allow check cashing and payday advance outlets citywide, but relegate them to industrial zones only. The new standards also prohibit the outlets from being open more than nine hours per day; from being within 500 feet of a residence or 1,000 feet of another outlet or pawnshop; and from allowing bars, chains or other security devices to be viewed from public streets and sidewalks.

The following summarizes a review of the zoning policies of other cities for alternative financial services:

- Zoning – permitted in all commercial zones, no special standards or requirements (Memphis, El Paso, Denver, Nashville, Seattle, Washington)
- Zoning – permitted in medium/ high intensity commercial zones, not permitted in neighborhood commercial zones (Austin, Baltimore, Jacksonville)
- Require Special Permits - (St Louis, St Louis County, Minneapolis, Las Vegas, Chicago, Columbia, Pittsburgh)

The preceding policy recommendations and examples focus on zoning regulations. Design review, lobbying for stronger state regulation and strict enforcement of existing regulations are other options for area lawmakers. Regulations examined from other municipalities often require a special permit for alternative financial services. This requirement allows local government the opportunity to verify that the new business has obtained the proper state license. Local residents also have the opportunity to comment on the location of these types of businesses. A common concern is the concentration of alternative financial services in a geographic area that leads to the perception of a commercial area in decline. The concentration of these types of businesses in a particular area limits the variety of commercial services available to area residents. Finally, given the role that pawnshops play in the transfer of stolen goods it would be prudent to evaluate the police pawn detail in regard to staffing and resources, the transfer of transaction records from pawnshops to police computers, and analysis of the data.
Appendix

I. Business Location

Sources for identifying locations Pawn Shops, Cash Advance, Check Cashing and Title Loan establishments in Hamilton County:
1. Phone directory yellow pages
2. Hamilton County Clerk’s Office
3. Tennessee Department of Financial Institutions
4. Chattanooga City Directories

1 on Ashland Terrace Chattanooga
1 on Brainerd Road Chattanooga
1 on Dodson Avenue Chattanooga
1 on East 23rd Street Chattanooga
1 on East 3rd Street Chattanooga
1 on East Main Street Chattanooga
1 on Glass Street Chattanooga
2 on Highway 153 Chattanooga
1 on Highway 58 Chattanooga
2 on Lee Highway Chattanooga
3 on Rossville Blvd Chattanooga
3 on Dayton Pike Soddy Daisy
1 on Lee Highway Unincorporated County
1 on Hixson Pike Unincorporated County
2 on Ringgold Road East Ridge

Cash Advance/Title Pawn/Check Cashing: 119 (86 in Chattanooga).
Start Dates:
Before 2000 32
2000-2002 36
2003-2004 24
Unknown 28

1 on Ashland Terrace Chattanooga
1 on Bonny Oaks Chattanooga
17 on Brainerd Road Chattanooga
3 on Broad Street Chattanooga
1 on Browns Ferry Chattanooga
2 on Cherokee Blvd Chattanooga
3 on Dayton Blvd Chattanooga
1 on East 23rd Street Chattanooga
1 on East 28th Street Chattanooga
1 on East 48th Street Chattanooga
3 on East Brainerd Road Chattanooga
1 on Elmendorf Street Chattanooga
2 on Gunbarrel Road Chattanooga
9 on Highway 153  Chattanooga
10 on Highway 58  Chattanooga
3 on Hixson Pike  Chattanooga
5 on Lee Highway  Chattanooga
1 on Market Street  Chattanooga
1 on Minor Street  Chattanooga
1 on Mountain Creek Road  Chattanooga
1 on Quintus Loop Road  Chattanooga
11 on Rossville Blvd  Chattanooga
3 on Shallowford Road  Chattanooga
1 on Signal Mountain Road  Chattanooga
1 on Tennessee Avenue  Chattanooga
22 on Ringgold Road  East Ridge
5 on Dayton Blvd  Red Bank
2 on Dayton Pike  Soddy Daisy
1 on Depot Street  Soddy Daisy
1 on Dayton Pike  Unincorporated County
2 on Apison Pike  Unincorporated County
II. Examples from other cities with regard to this kind of control

1) Las Vegas, Nevada Zoning Ordinance (Definition)

Financial Institution, Specified. Any business whose primary function is to lend money; to cash checks or other negotiable instruments for a fee, service charge or other consideration; or to provide funds in exchange for the acceptance of a check on a post-dated or deferred-deposit basis. The term includes without limitation a check cashing service, paycheck advance service, and any business primarily providing cash loans, installment loans or cash advances, but does not include a pawn shop.

Ord 5561 1/22/03 Las Vegas

2) St Louis County, Missouri Zoning Ordinance (Definition)

(125) Small Loan Businesses: Establishments which (a) engage in the business of providing money to customers on a temporary basis, wherein such loans are secured by post-dated check, paycheck or car title, or (b) are registered as lenders under state of federal law. The classification does not include a state or federally chartered bank, savings association, credit union, or industrial land company. Further, this classification does not include establishments selling consumer goods, including consumables, where the cashing of checks or money orders is incidental to the main purpose of the business. This classifications does include, but is not limited to, check cashing stores, payday loan stores, and car title loan stores.

3) Pittsburgh, Pennsylvania (Ordinance)

No. 23. An Ordinance amending certain portions of the Pittsburgh Code of Ordinances, Title Nine, Zoning, Chapter 911.02 (Use Table) to create a definition for the use of Check Cashing, Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table) to create standards for the use of Check Cashing, and Chapter 914.02.A (Schedule A) to create parking standards for Check Cashing facilities.

Be it resolved by the Council of the City of Pittsburgh as follows:
Section 1. Amending certain portions of the Pittsburgh Code of Ordinances, Title Nine, Zoning, Chapter 911.02 (Use Table) to create a definition for the use of Check Cashing, Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table). A. Amend Chapter 911.02 (Use Table) to include:

Check Cashing means an establishment engaged in some or all of a variety of financial services including cashing of checks, warrants, drafts, money orders or other commercial paper securing the same purpose; deferred deposit of personal checks whereby the check casher refrains from depositing a personal check written by a customer until a specific date; money transfers, payday advances; issuance of money orders; distribution of governmental checks and food stamps; payment of utility bills; issuance of bus passes and tokens; sale of phone cards and similar uses. This use shall not include a state or federally chartered bank, savings association, credit union, industrial loan association, or rental-purchase company and shall not include a retail seller engaged primarily in the business of selling consumer goods, including consumables, to retail
buyers that cashes checks or issues money orders for a minimum flat fee not exceeding $2.00 as a service to its customers incidental to the main use of the establishment.

B. Amend Chapter 911.02 (Use Table) to include:
Check Cashing as a Use by Special Exception in the NDI (Neighborhood Industrial), HC (Highway Commercial), GI (General Industrial), and UI (Urban Industrial) Zoning Districts.

C. Amend Chapter 911.04.A (Standards That Apply to Uses Listed in the Use Table) to include Check Cashing

The following standards shall apply to all Check Cashing uses:

(a) Check Cashing facilities shall not be open for business to customers for more than nine (9) hours within any twenty-four (24) hour period and shall not be open for business on Sundays;

(b) The building housing a Check Cashing facility shall not be located within five hundred (500) feet from any residential use as measured from the center point of the subject building;

(c) The building housing a Check Cashing facility shall not be located within one thousand (1,000) feet from another Check Cashing facility, a Pawn Shop, or a facility containing mechanical or electronic devices, machines, tables or apparatus of any kind used for playing games of skill or amusement, as a primary or accessory use, as measured from the center point of the subject building;

(d) A Check Cashing use shall not be conducted as a unit of another business and shall be financed and conducted as a separate business unit, however, this shall not prevent a check cashing facility from leasing part of the premises of another business for the conduct of check cashing activities on the same premises;

(e) A Check Cashing facility may not accept money or currency for deposit or act as agent for persons, firms, partnerships, associations or corporations to hold money or currency in escrow for others for any purpose, however, a check cashing facility may act as agent for the issuer of money orders or travelers checks;

(f) The applicant is required to be licensed as a Check Casher with the Commonwealth of Pennsylvania Department of Banking;

(g) Not more than one place of business may be operated under the same Commonwealth of Pennsylvania Department of Banking license;

(h) A licensee may not contract with another individual or business entity to manage the Check Cashing facility, not including persons employed to operate the facility;

(i) Check cashing facilities shall not issue tokens to be used in lieu of money for the purchase of goods or services from any enterprise;

(j) The use of bars, chains, or similar security devices that are visible from a public street or sidewalk shall be prohibited.
Gene Ricciardi
President
Attest: Linda M. Johnson-Wasler
City Clerk
Approved: Tom Murphy
Mayor

4) Tempe, Arizona (Separation Requirements)

Section 3-423 Use Separation Requirements.
1. Deferred Presentment Companies, also known as Pay Day Loan, shall not be located on a lot within 1,320 feet, measured by a straight line in any direction, from the lot line of another deferred presentment company. The requirements in this section shall also apply to deferred presentment companies, which are ancillary to another existing or permitted use.
State law reference – A.R.S. Title 6, Chapter 12.1, Deferred Presentment Companies

2. Auto Title Loan businesses shall not be located on a lot within 1,320 feet, measured by a straight line in any direction, from the lot line of another auto title loan. The requirements in this section shall also apply to auto title loan businesses, which are ancillary to another existing or permitted use.

5) City of North Las Vegas (Ordinance)

ORDINANCE NO. 2262
AN ORDINANCE AMENDING TITLE 17 OF THE MUNICIPAL CODE OF THE CITY OF NORTH LAS VEGAS, RELATING TO ZONING (ZOA-07-06); AMENDING SECTIONS 17.12.020, 17.20.100, 17.20.110, 17.20.120, 17.20.130, 17.20.140, 17.20.210 and 17.28.050 TO ADD DEFERRED DEPOSIT LOAN AND SHORT-TERM LOAN DEFINITIONS AND ALLOW AUTO TITLE LOAN, DEFERRED DEPOSIT LOAN, AND SHORT-TERM LOAN AS SPECIAL USES AND TO REQUIRE SEPARATION DISTANCES BETWEEN THE USES AND OTHER LAND-USES, AND PROVIDING FOR OTHER MATTERS PROPERLY RELATED THERETO.

THE CITY COUNCIL OF THE CITY OF NORTH LAS VEGAS DOES ORDAIN THAT TITLE 17 BE AMENDED AS FOLLOWS:

17.12.020 Definitions.

“Auto Title Loan” See “Automobile Pawnbroker” Section 5.10.010
“Cash Advance Services” See “Deferred Deposit Loan”

“Check Cashing” See “Deferred Deposit Loan”

“Deferred Deposit Loan” means any establishment that provides to the customer an amount of money that is equal to the face value of the check or the amount specified in the written authorization for an electronic transfer of money, less any fee charged for the transaction, and where there is an agreement not to cash the check or execute an electronic transfer of money for a specified period of time. This term does not include a retail seller engaged primarily in the business of selling consumer goods, including consumables, to retail buyers that cash checks, issue money orders, or money transfers for a minimum flat fee as a service that is incidental to its main purpose or business.

“Short-term Loan” is an establishment providing loans to individuals that charges an annual percentage rate of more than 40 percent and requires the loan to be paid in full in less than one year. This term does not include a loan offered or made to a person based on the person’s anticipated federal income tax refund.

“Payday Advance” See “Deferred Deposit Loan”

“Payday Loan” See “Deferred Deposit Loan”

17.20.100 Neighborhood Commercial District (C-1)

C. Special Uses Subject to Section 17.24.020.

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.110 General Commercial District (C-2)

C. Special Uses Subject to Section 17.24.020.

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.120 General Service Commercial District (C-3)

C. Special Uses Subject to Section 17.24.020

Auto Title Loan
Deferred Deposit Loan
Short-term Loan

17.20.130 Business Park Industrial District (M-1)

C. Special Uses Subject to Section 17.24.020
Auto Title Loan  
Deferred Deposit Loan  
Short-term Loan

17.20.140 General Industrial District (M-2)

C. Special Uses Subject to Section 17.24.020

Auto Title Loan  
Deferred Deposit Loan  
Short-term Loan

17.20.210E Commercial/Retail Subdistrict (R-A/CR)

3. Special Uses Subject to Section 17.24.020

Auto Title Loan  
Deferred Deposit Loan  
Short-term Loan

17.20.210F Office Subdistrict (R-A/OFF)

3. Special Uses Subject to Section 17.24.020

Auto Title Loan  
Deferred Deposit Loan  
Short-term Loan

17.20.210H.1 Focus Area Subdistrict (R-A/FA)

3. Special Uses Subject to Section 17.24.020

Auto Title Loan  
Deferred Deposit Loan  
Short-term Loan

17.28.050 Procedure for Special Use Permit.

B. Application for Special Use Permit.

6. Application for Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan.

   a. Proof of Proximity Distance Compliance Required.

If an applicant desires to file a special use permit application for a Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment, the City shall not accept, nor set for hearing such request unless the applicant provides to the City the following with the application: a notarized statement by the applicant that the location of the proposed Deferred Deposit Loan, Short-Term
Loan or Auto Title Loan establishment complies with the proximity distance requirements as provided below; and a survey plat prepared by a Nevada Licensed Professional Land Surveyor showing that the proposed Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment is separated from the following types land uses as provided below; or a request for a waiver of the proximity distance requirement as provided herein.

b. Proximity Distance Requirements:

(1) The proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must be at a distance greater than one thousand feet (1,000 ft.) from all existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishments, unless a waiver is approved pursuant to NLVMC 17.28.050(B)(6)(d). Such distance shall be measured utilizing the shortest direct line distance between the primary public entrance of all other existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishments.

(2) The proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must be at a distance greater than two hundred (200 ft.) from any developed residential district. For purposes of this section, “developed residential district” means a parcel of land zoned for residential use in which construction for at least one residential unit has begun on the date the applicant applied for the special use permit.

c. Floor Area Requirements for Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan Use.

The building or portion thereof that is dedicated to the Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment must have a minimum size of 1,500 square feet of building floor area.

d. Waiver of Title 17 Proximity Distance Requirements for Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan Use.

Waiver permitted for NLVMC 17.28.050(B)(6)(b)(1) only. Findings Required. A waiver of the one thousand (1,000) foot proximity distance requirement between a proposed Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment, and any other existing or approved Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment may be granted by the planning commission upon finding that an “adequate barrier” exists between a Deferred Deposit Loan, Short-Term Loan or Auto Title Loan establishment location. An “adequate barrier” is defined as: an improved drainage facility, Clark County Interstate 215, US Interstate 15, other constructed roadway with a minimum width of one hundred twenty (120) feet, or a topographical feature which prevents vehicular and pedestrian access between a Deferred Deposit Loan, Short-Term Loan, or Auto Title Loan establishment. A topographical feature does not include any building, wall, fence or other man-made structure. The boundary limits of these streets, freeways and freeway crossovers are as defined by the official city of North Las Vegas, Nevada Department of Transportation and Clark County right–of-way maps for such roadways, respectively.

SECTION 2: NON-INFRINGEMENT OF RIGHTS. The City Council of the City of
North Las Vegas has been informed by the City Attorney as to the constitutionality of this ordinance and based upon such information we are adopting this ordinance in good faith with a reasonable belief that the actions taken by the City of North Las Vegas are not in violation of any rights, privileges, or immunities secured by the laws providing for equal rights of citizens or persons.

SECTION 3: SEVERABILITY. If any section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall in no way affect the validity and enforceability of the remaining provisions of this Ordinance.

SECTION 4: EFFECTIVE DATE. This Ordinance shall become effective after its passage by the City Council of the City of North Las Vegas and, after such passage by the City Council, publication once by title in a newspaper qualified pursuant to the provisions of Chapter 238 of NRS, as amended from time to time.

SECTION 5: PUBLICATION. The City Clerk shall cause this Ordinance, immediately following its adoption, to be published once by title, together with the names of the Councilmen voting for or against passage, in a newspaper qualified pursuant to the provisions of Chapter 238 of NRS, as amended from time to time.

PASSED AND ADOPTED THIS 3rd day of May, 2006.

AYES: Mayor Montandon, Mayor Pro Tempore Robinson, Council Members Smith and Eliason

NAYS: None

ABSTAIN: None

ABSENT: Councilman Buck

APPROVED: /s/ Michael L. Montandon
           MICHAEL L. MONTANDON, MAYOR

ATTEST: /s/ Karen L. Storms
         KAREN L. STORMS, CMC, CITY CLERK
Sources:


Peterson, Christopher. (October 8, 2003). Expert Report by Christopher Peterson presented to the Milwaukee Board of Zoning Appeals.


St Louis County Planning Department. (11/19/2002). *Report on small loan businesses to the St Louis County Planning Commission.* Obtained a copy by fax on 7/18/2005 from the St Louis County Planning Department.


Wirtz, Ronald A (October 2000). *A helping hand, or new age loan sharking? Amid growing market demand for nonbank financial services, critics decry abuse by and high costs of industry* Retrieved April 1, 2004 from http://www.minneapolisfed.org/pubs/fedgaz/00-10/fringe.cfm