

Summary of “Credit for Me but not for Thee: The Effects of the Illinois Rate Cap” (*Public Choice*, vol. 197(3), December 2023)

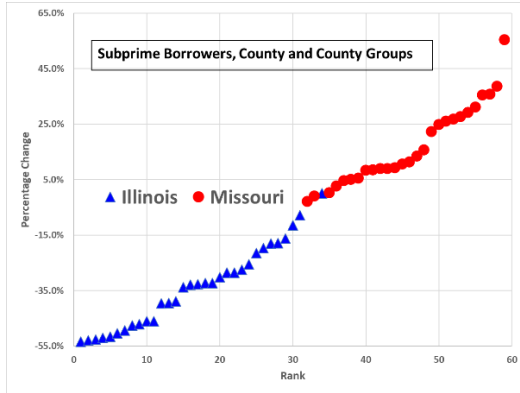
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The 36-percent all-in rate cap enacted in 2021 by Illinois adversely affected credit access for Illinois consumers who already had few credit options.

The 36-percent all-in rate cap reduced credit access for subprime borrowers and negatively affected their well-being (in their own assessment).

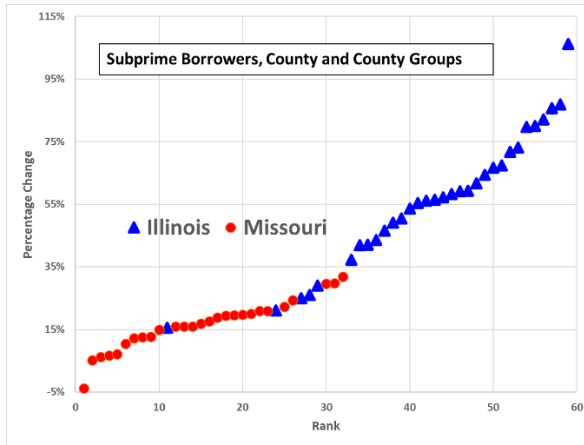
- **Motivation: Illinois Predatory Loan Prevention Act, Passed March 23, 2021**
 - 36% all-in Military Lending Act-style interest-rate cap
 - Applies to any entity lending to a consumer in Illinois (includes online lenders, exempts banks and credit unions) for consumer loans < \$40,000
- **Method: We Compare two states, Illinois (with cap) and Missouri (without cap), and we ask: “How many loans WOULD HAVE been made without the cap?”**
- **We study the number and average size of unsecured installment loans originated and reported to the credit bureau in Illinois and Missouri from 4Q 2020 – 3Q 2021**
 - Missouri is the control state: It had no legislated interest rate cap
 - *VantageScore* Buckets: Subprime: < 600 (Deep Subprime < 500); Prime ≥ 650
- **We find the interest rate cap caused a statistically significant decrease in the number of unsecured installment loans made to subprime borrowers (i.e., those who legislators—presumably—wanted to help). There was a:**
 - Decrease of about 34,000 loans to all subprime borrowers (~38% decrease)
 - Decrease of about 4,700 loans to deep subprime borrowers, (~57% decrease)
 - Decrease in the total dollars loaned to subprime borrowers (~14%)
 - Total credit access loss to subprime borrowers of \$29 million (thousands of families)
- **The Online Lenders Alliance (OLA) surveyed actual former users of unsecured installments loans—nine months after the rate cap. The majority of respondents said:**
 - Their initial loan had helped their financial situation at the time.
 - They lack, or perceive a lack of, other credit options.
 - They would like the option to return to their previous lender.
 - They have faced difficult choices/circumstances because of lack of credit.

Changes in the Actual Number of Unsecured Installment Loans to Subprime and Prime Borrowers, in 000's



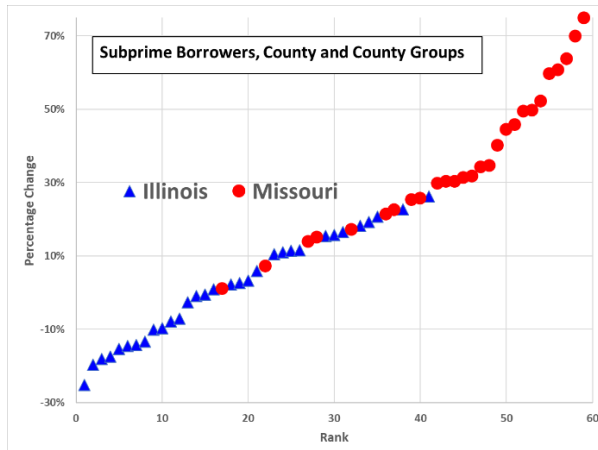
| Subprime | Q2 2021 | Q3 2021 |
|--------------------------------------|----------------|----------------|
| Counterfactual | 42.9 | 47.8 |
| Ill Actual | 26.0 | 30.4 |
| Percent Decrease from Counterfactual | -39.4% | -36.4% |
| Prime | Q2 2021 | Q3 2021 |
| Counterfactual | 55.6 | 61.1 |
| Ill Actual | 63.4 | 72.5 |
| Percent Increase over Counterfactual | 14.0% | 18.7% |

Changes in the Actual Loan Size for Unsecured Installment Loans to Subprime and Prime Borrowers, in \$



| Subprime | Q2 2021 | Q3 2021 |
|--------------------------------------|----------------|----------------|
| Counterfactual | \$2,177 | \$2,169 |
| Ill Actual | \$2,785 | \$2,824 |
| Dollar Increase | \$608 | \$655 |
| Percent Increase from Counterfactual | 27.9% | 30.2% |
| Prime | Q2 2021 | Q3 2021 |
| Counterfactual | \$11,761 | \$11,444 |
| Ill Actual | \$12,382 | \$12,206 |
| Dollar Increase | \$621 | \$762 |
| Percent Increase over Counterfactual | 5.3% | 6.7% |

Percent Change in the Actual Dollars Amount (in millions) of Unsecured Installment Loans Made to Subprime and Prime Borrowers



| Subprime | Q2 2021 | Q3 2021 |
|--------------------------------------|----------------|----------------|
| Counterfactual | 90 | 97 |
| Ill Actual | 72 | 86 |
| Percent Decrease from Counterfactual | -20.0% | -11.3% |
| Loss (in \$Million): | (\$18) | (\$11) |
| Total: | (\$29) | |
| Prime | Q2 2021 | Q3 2021 |
| Counterfactual | 611 | 657 |
| Ill Actual | 785 | 885 |
| Percent Increase over Counterfactual | 28.5% | 34.7% |