[To run Chicago better, Mayor Johnson needs to hire better - Chicago Sun-Times (suntimes.com)](#)

Interest rate cap on payday lenders hurt consumers

The recent article in the Sun-Times on how fewer Illinois residents are using payday lenders points to an obvious fact: the number of those loans decreased sharply after the Predatory Loan Prevention Act went into effect. The article, however, fails to report how the PLPA's all-in rate cap of 36% negatively impacted consumers. The PLPA did not just affect payday loans nor did it affect Illinois consumers equally: it had a predictably disastrous effect on consumers with sub-prime credit scores—likely the very consumers the law was intended to help.

Our research team directly tested the effects on Illinois consumers. We use credit bureau data for Illinois and its neighbor, Missouri, a state without any legislated interest-rate cap, to estimate the effects of the Illinois rate cap on unsecured installment loans.

In our published article, we report that the PLPA dramatically restricted access to consumers who have subprime credit, borrowers generally not served by banks and credit unions.

Following the imposition of the rate cap, we estimate that the number of loans to subprime borrowers decreased by 38% and the average loan size to subprime borrowers by 35%, with a net effect of decreasing dollars loaned by about 20%. Shockingly, we estimate that about 34,000 Illinois families, who already had few options when seeking credit, lost access to an installment loan

Our study also includes the results of a survey of Illinois borrowers who had previously used small-dollar credit products that were effectively banned under the PLPA. Of those borrowers surveyed, 93% said their loan helped manage their financial situation; 79% said they would like the option to return to their previous lender, and almost 40% reported that their financial well-being declined.

Imposing rate caps reduces the supply of small-dollar loans, but it does not reduce the need for credit. Small-dollar loans are likely the best option available to consumers who choose to use them. Removing choices from consumers who already have few credit options leaves them worse off.

Supporters of interest rate caps must provide an answer to a basic question. To whom do consumers turn when an emergency need for cash arises?

Thomas W. Miller, Jr., Jack R. Lee Chair in Financial Institutions and Consumer Finance, Mississippi State University and Senior Research Fellow at Consumers' Research