Credit for Me but not for Thee: The Effects of the Rate Cap in Illinois

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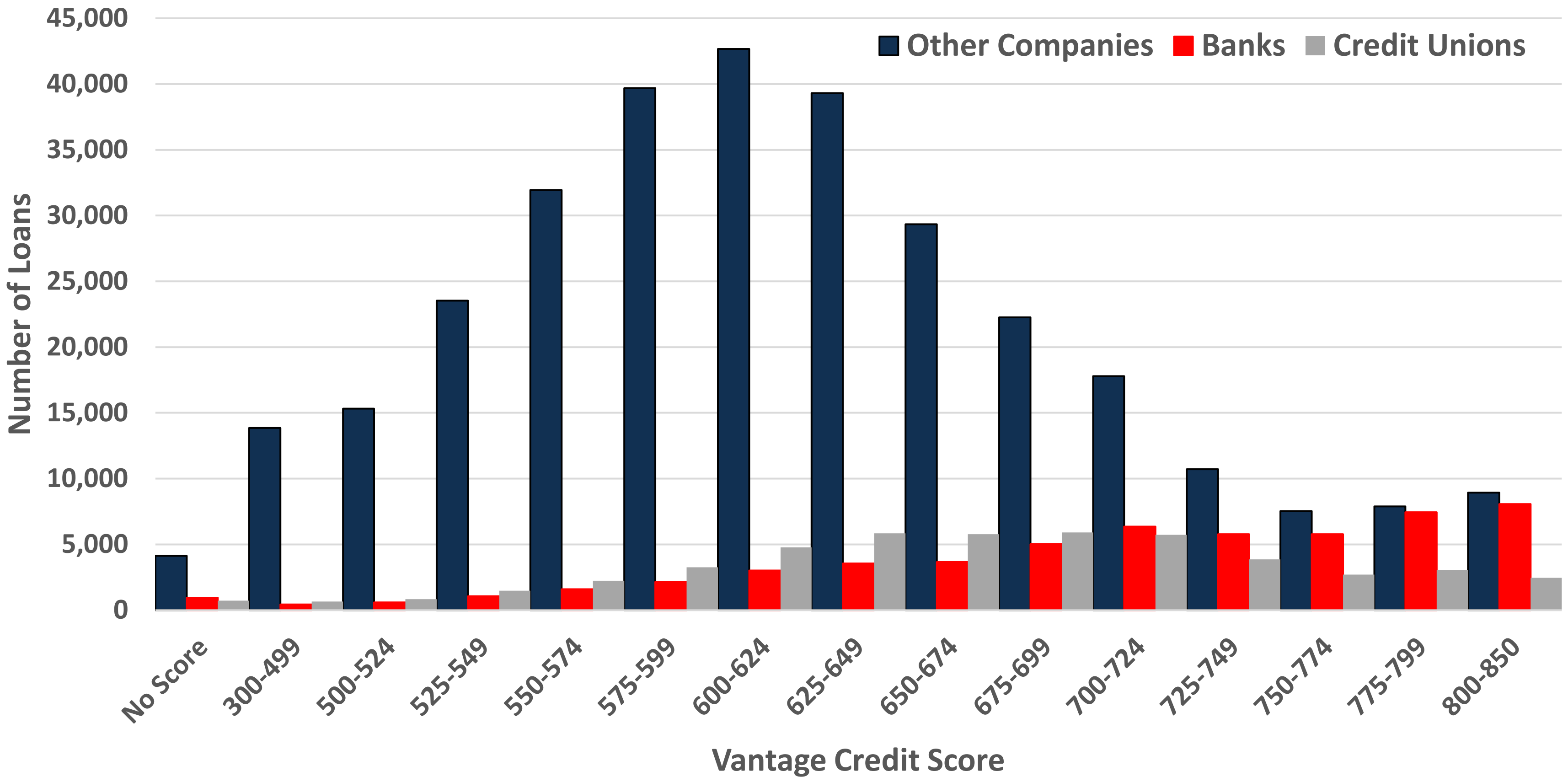
Bolen, Elliehausen, and Miller
(*Public Choice*, Forthcoming, 2023)

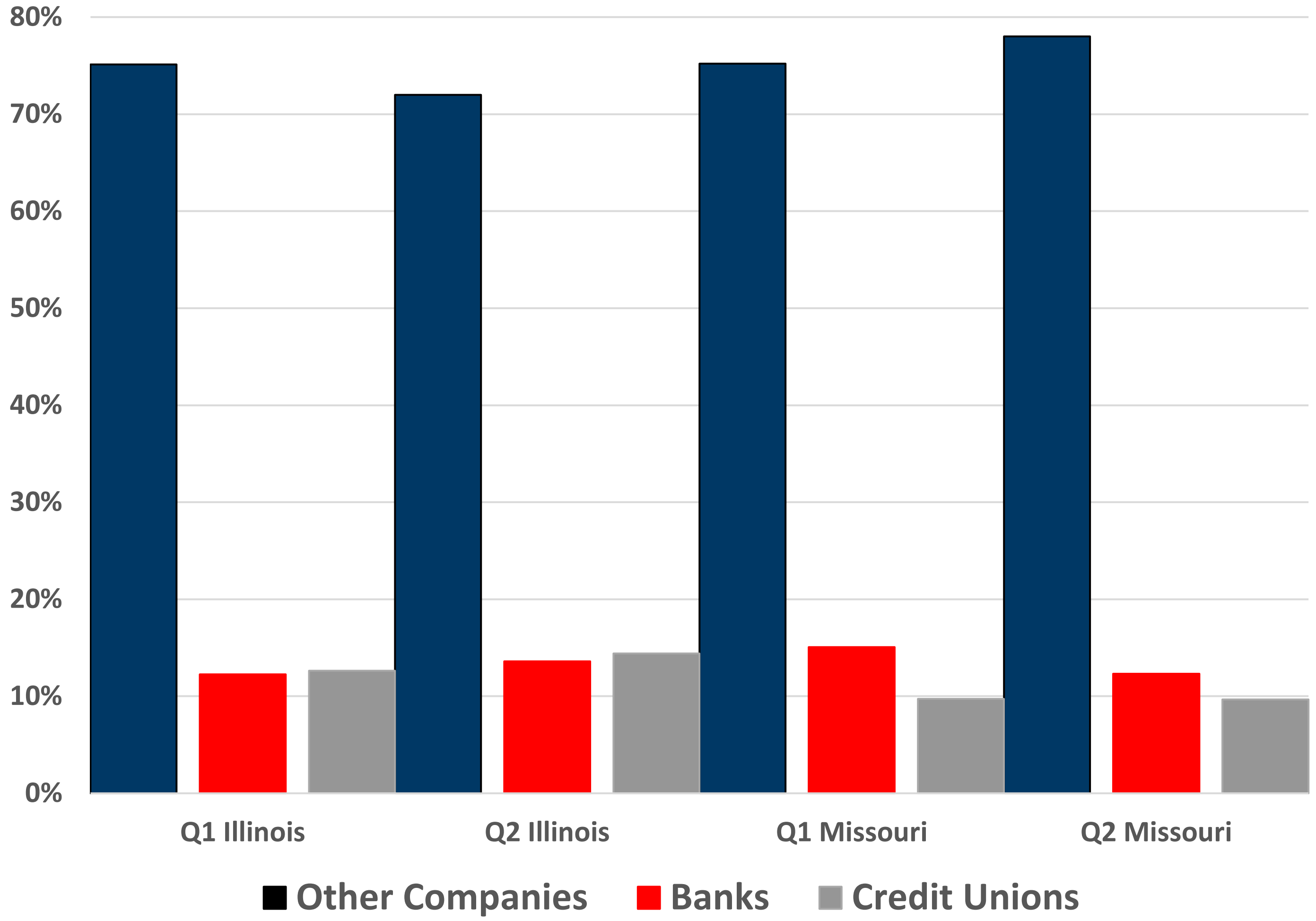
- **Motivation:** What does data tell us about what happens in the period right after an all-in rate cap is imposed?
- Credit Bureau Data for Q4 2020 through Q3 of 2021
- Main VantageScore Groups
  - Subprime: <600
  - Prime: ≥650
  - Near-Prime: 600-649

Number of Unsecured Installment Loans, Banks, Credit Unions, and Other Companies

By Credit Score for IL and MO (Q1 2021 and Q2 2021 Combined)

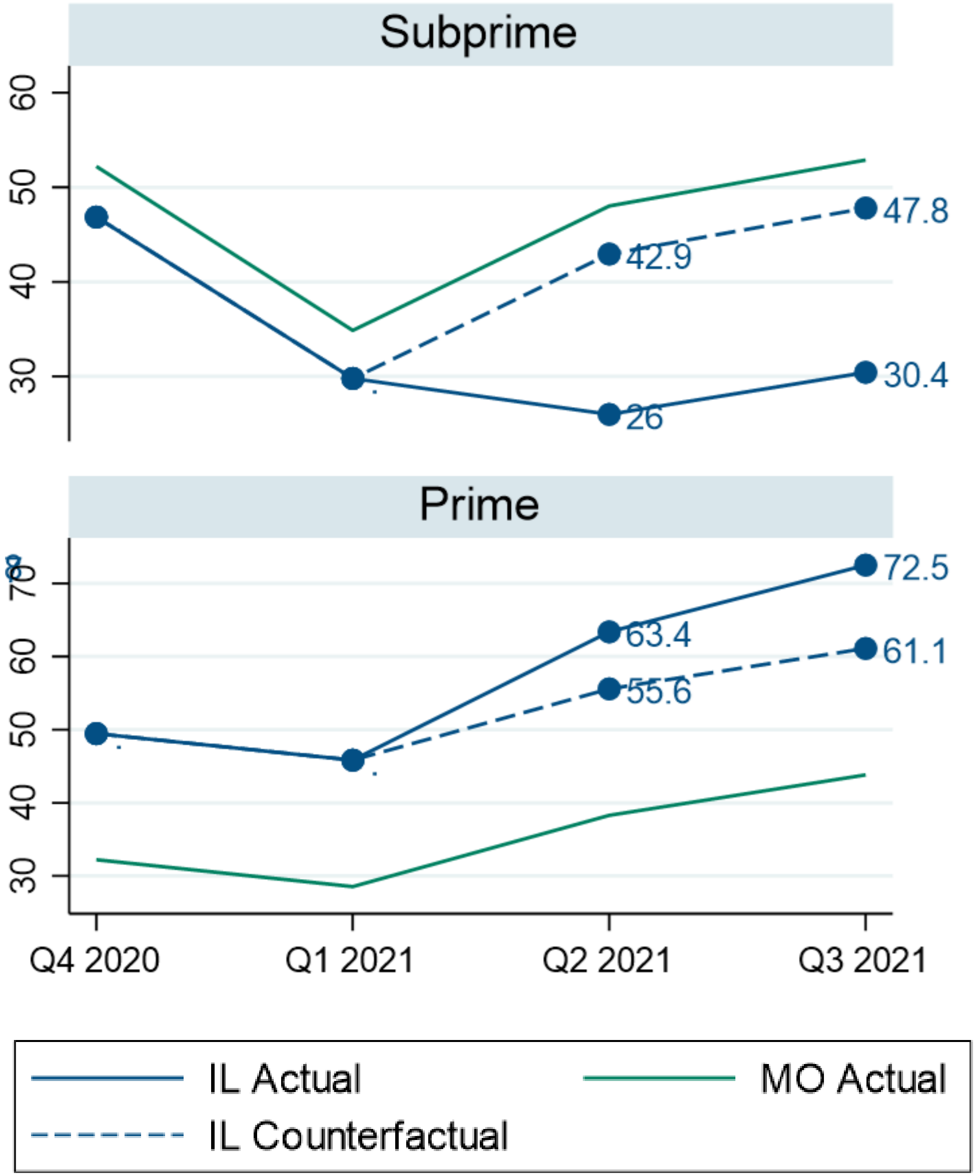


Percent of ALL Unsecured Installment Loans, Q1 versus Q2, Illinois and Missouri



Banks and Credit Unions did not increase their number of loans.

Number of Unsecured Installment Loans from all Lenders by Two VantageScore Groups



Subprime		
	Q2 2021	**Q3 2021**
Counterfactual	42.9	47.8
Ill Actual	26	30.4
Percent Decline 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%**

We Analyzed the OLA Survey Dataset

- Online Lenders Alliance (OLA) sent hyperlinks to 38,860 customers of 4 online lenders who ceased operations in IL following the 36 percent interest-rate cap

- Survey conducted December 14 – 31, 2021: About 9 months after the cap

- 699 responses

- The survey collected demographic information and responses regarding customers' experiences with unsecured installment loan products from their lender and experiences since the lender ceased operations in IL

Since March 2021, how often were you unable to pay bills?

67%

At least once

Since March 2021, how often were you unable to borrow money?

56% At least once

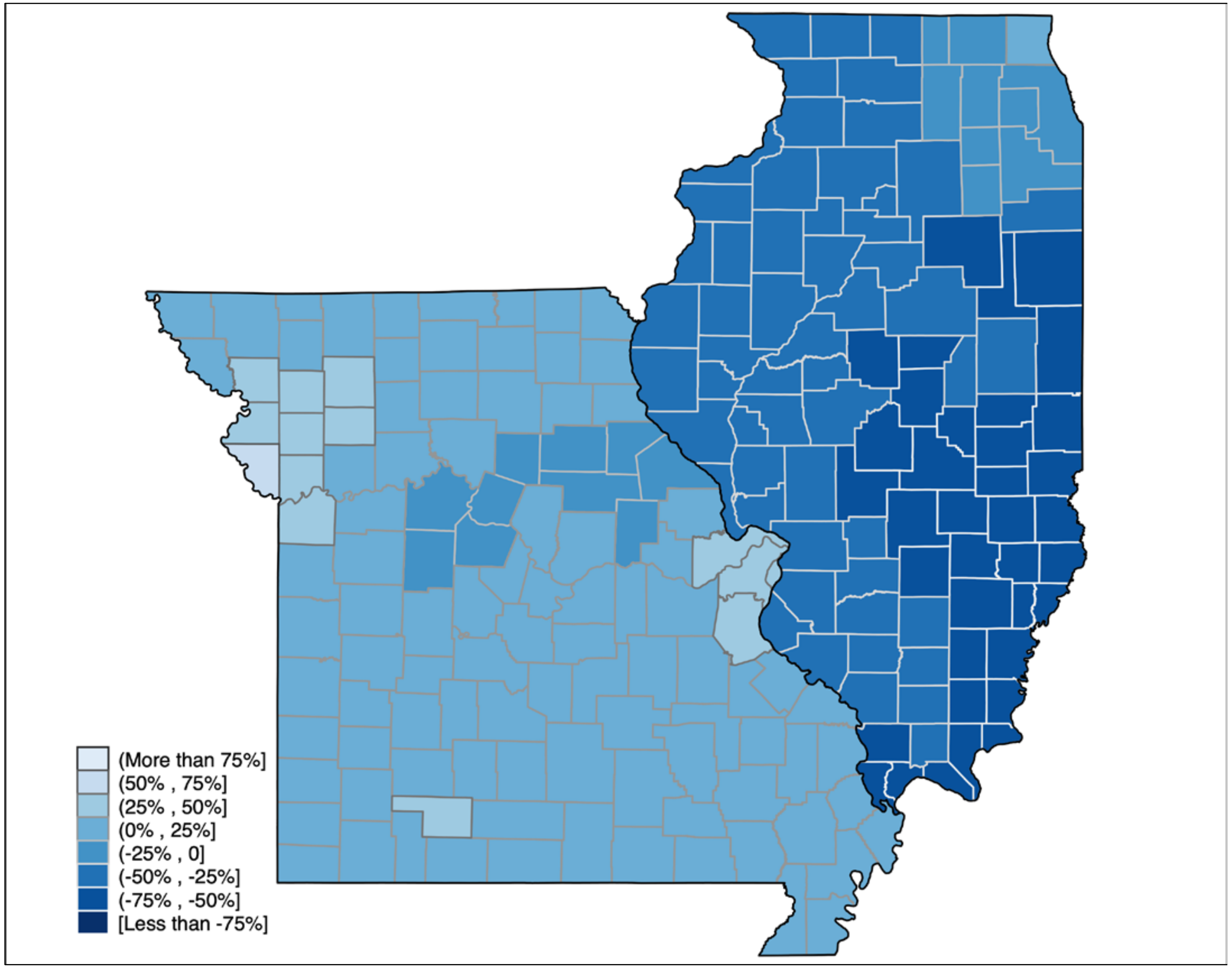
If you had a funding need, would you like the option to return to your previous lender?

79%

Yes

Percent Change in Actual Number of Unsecured Installment Loans to Subprime Borrowers

(Six months after rate cap compared to six months before)



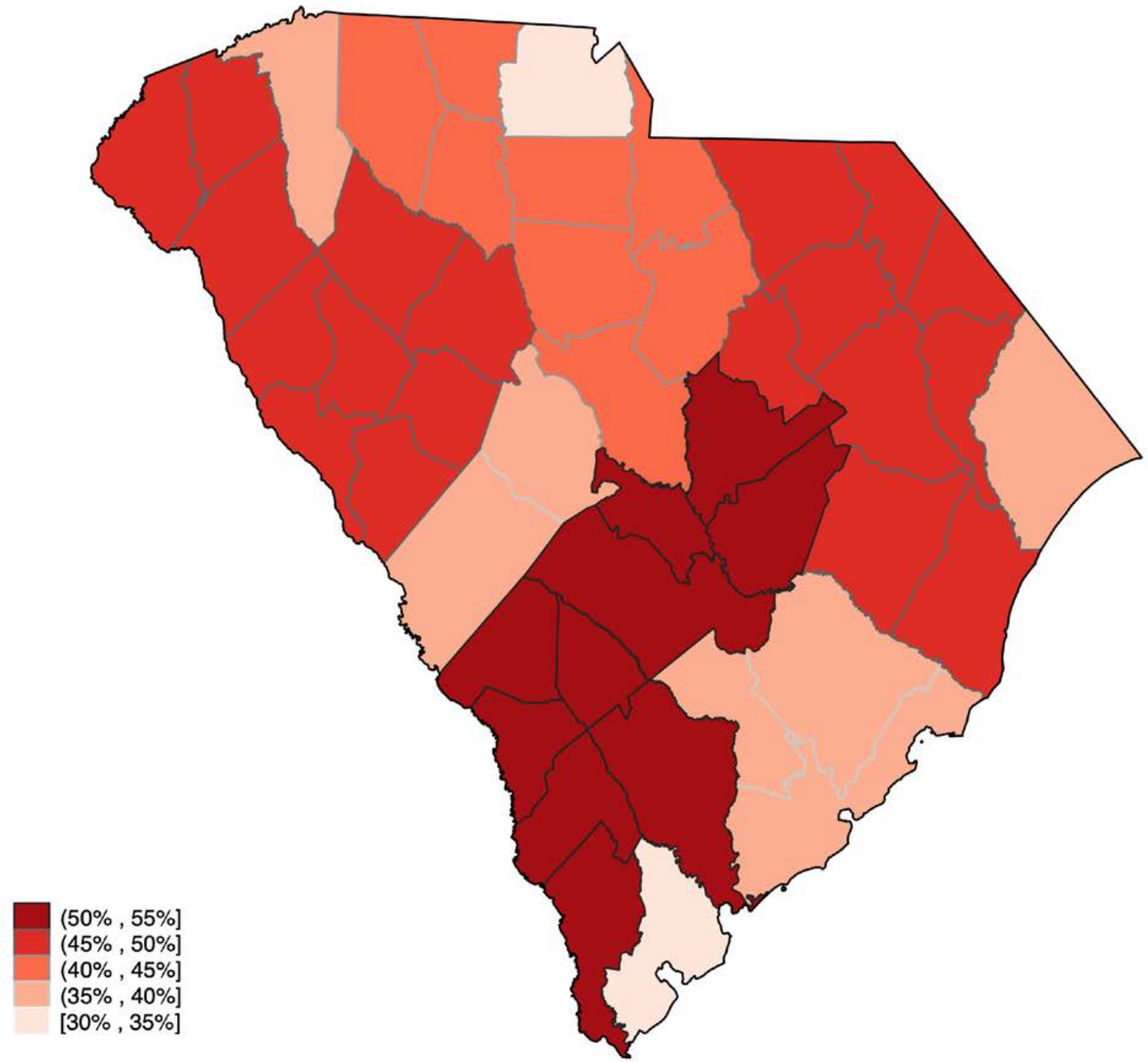
What Could Happen In South Carolina?

- Our core statistical results in Illinois for loan numbers:
  - 38 percent decrease in the number of loans to subprime borrowers
  - 16 percent increase in the number of loans to prime borrowers
  - 4 percent decrease in the number of loans to near-prime borrowers

- The effect appears to be concentrated in rural areas.

- Suppose the rate cap effects in South Carolina mimic Illinois.

Percent of Subprime Loans in Each County or County Group, as a percent of all Loans made by Banks, Credit Unions, and Other Lenders



What Could Happen In South Carolina?

Sub-Prime Installment Loans as a Percent of All Installment Loans

Highest Population Density Areas:

Rank	County	Sub-Prime	Total	Pct.
1	Greenville	3,191	8,157	39.1%
2	Richland	3,251	7,775	41.8%
3	Charleston	1,559	4,336	36.0%
4	Lexington	1,729	4,770	36.2%
5	York	2,070	6,390	32.4%
6	Spartanburg	3,134	7,784	40.3%
7	Beaufort	627	2,044	30.7%
8	Horry	2,260	6,039	37.4%
9	Anderson	1,999	4,219	47.4%
	Total for Group	**19,820**	**51,514**	**38.5%**
10	Dorchester	1,111	2,824	39.3%
	South Carolina	49,580	115,977	42.7%

Lowest Population Density Areas:

Rank	County	Sub-Prime	Total	Pct.
11	Northwest	1,825	4,020	45.4%
12	Berkeley	1,695	4,537	37.4%
13	Aiken	1,247	3,202	38.9%
14	Central-East	3,607	7,550	47.8%
15	North	4,896	11,866	41.3%
16	Central	5,523	10,194	54.2%
17	Central-West	3,548	7,532	47.1%
18	Northeast	3,801	8,051	47.2%
19	South	2,507	4,687	53.5%
	Total for Group	**28,649**	**61,639**	**46.5%**

What Could Happen In South Carolina?

Number of Unsecured Installment Loans

Highest Population Density Areas:

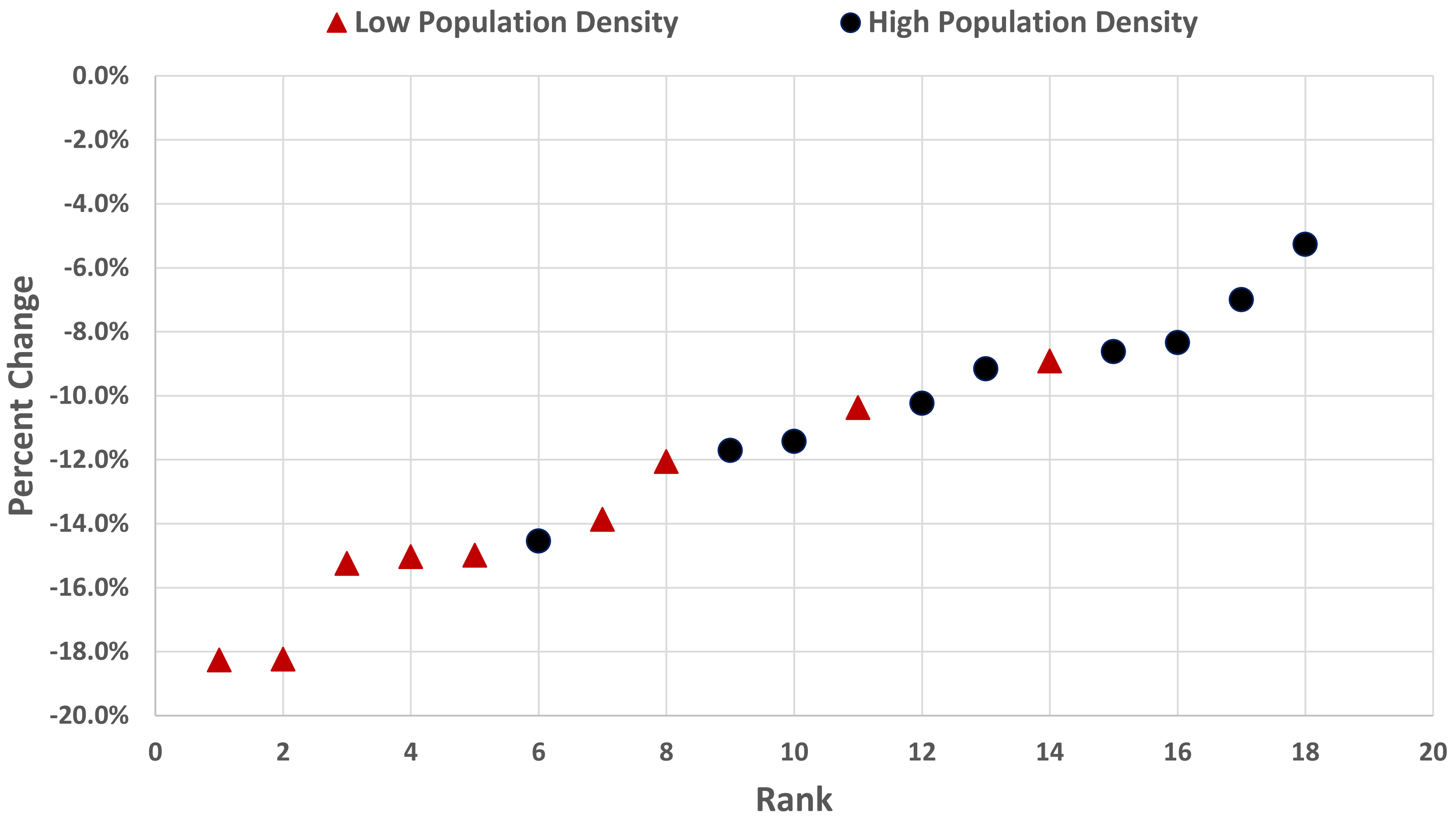
Rank	County	Actual, Q4 2022	Counterfactual	Pct. Chg.
1	Greenville	8,157	7,321	-10.2%
2	Richland	7,775	6,864	-11.7%
3	Charleston	4,336	3,974	-8.3%
4	Lexington	4,770	4,359	-8.6%
5	York	6,390	5,943	-7.0%
6	Spartanburg	7,784	6,894	-11.4%
7	Beaufort	2,044	1,936	-5.3%
8	Horry	6,039	5,486	-9.2%
9	Anderson	4,219	3,605	-14.5%
	Group Total	**51,514**	**46,383**	**-10.0%**
10	Dorchester	2,824	2,539	-10.1%
	South Carolina	115,977	101,631	-12.4%

Lowest Population Density Areas:

Rank	County	Actual, Q4 2022	Counterfactual	Pct. Chg.
11	Northwest	4,020	3,463	-13.9%
12	Berkeley	4,537	4,132	-8.9%
13	Aiken	3,202	2,870	-10.4%
14	Central-East	7,550	6,399	-15.2%
15	North	11,866	10,435	-12.1%
16	Central	10,194	8,335	-18.2%
17	Central-West	7,532	6,403	-15.0%
18	Northeast	8,051	6,841	-15.0%
19	South	4,687	3,831	-18.3%
	Group Total	**61,639**	**52,709**	**-14.5%**

What Could Happen In South Carolina?

(Ranking the Percent Changes in Unsecured Loans, all credit scores, by Population Density Groups)



Thank You and Additional Resources

- CFPB Taskforce Report:
  Vol. 1: https://files.consumerfinance.gov/f/documents/cfpb_taskforce-federal-consumer-financial-law_report-volume-1_2021-01.pdf
  Vol. 2: https://files.consumerfinance.gov/f/documents/cfpb_taskforce-federal-consumer-financial-law_report-volume-2_2021-01.pdf

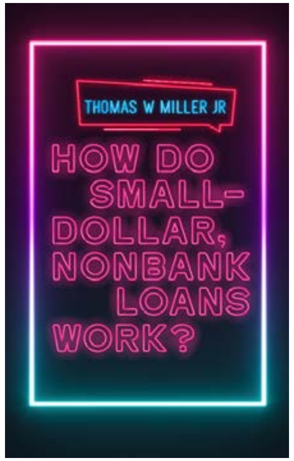
- Small-Dollar Loan Primer:
  https://www.mercatus.org/publications/financial-markets/how-do-small-dollar-nonbank-loans-work

- Illinois Paper: Bolen, Elliehausen, and Miller, *Public Choice, Forthcoming*:
  https://ssrn.com/abstract=4315919

- Research Summary: Bolen, Elliehausen, and Miller, *Economic Inquiry*, Fall 2020:
  https://brandonbolen.com/wp-content/uploads/2020/04/Bolen_Elliehausen_Miller.pdf

- Arguments for Rate Caps Debunked (in Reframing Financial Regulation):
  https://www.mercatus.org/system/files/peirce_reframing_ch13.pdf

- Consumers' Research Legislative Handout:
  https://consumersresearch.org/state-laws-can-give-consumers-more-loan-choices/



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