

A NEW MEXICO CONSUMER SURVEY

Understanding the
Impact of the 2023 Rate
Cap on Consumers



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Executive Summary

In 2022, New Mexico Governor Michelle Lujan Grisham signed into law a 36 percent interest rate cap that took effect January 1, 2023. The law applied specifically to nonbank lenders, the financial institutions that provide the majority of personal loans to underserved consumers.

This survey had a singular goal: to better understand how this interest rate cap impacted consumers who took out loans with APRs above 36 percent before the imposition of the rate cap. Rate cap proponents often claim that most Americans support capping loans at 36 percent, yet they primarily survey those who are not users of short-term or small-dollar loans with APRs higher than 36 percent. This survey seeks to correct this imbalance by surveying the actual borrowers of these loans.

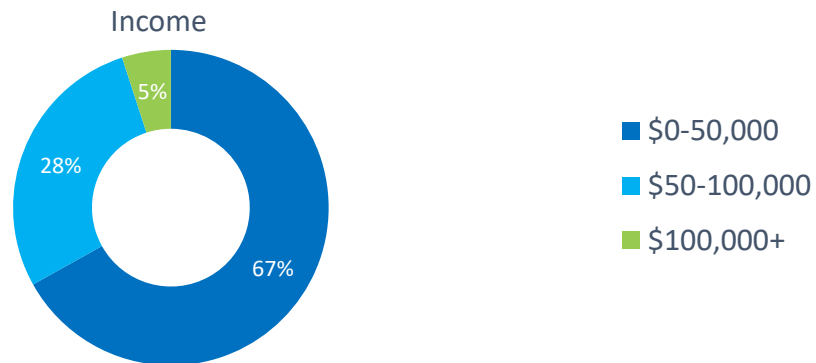
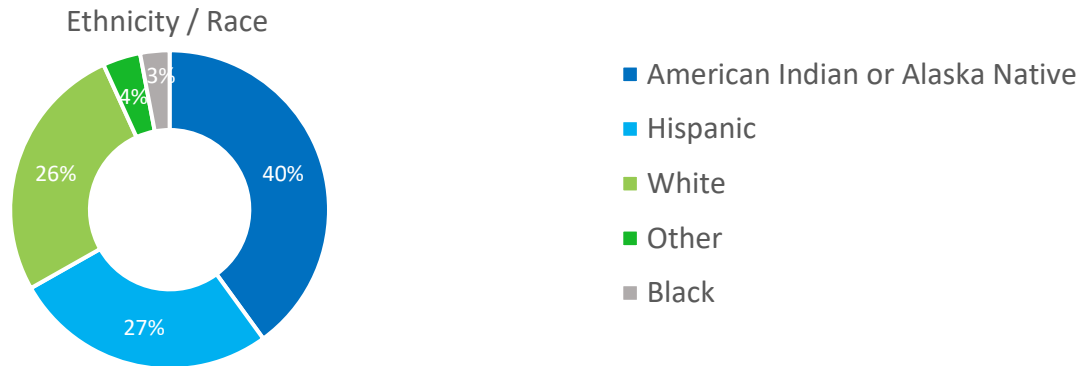
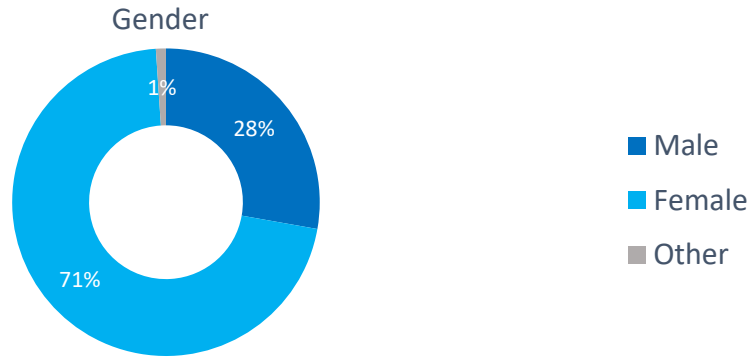
Key findings include:

- Short-term, small-dollar loans help borrowers manage their financial situations, irrespective of the borrower's income.
- The rate cap has failed to improve the financial wellbeing of New Mexicans, specifically those who had previously relied on short-term, small-dollar loans.
- Most former short-term, small-dollar loan users struggled with paying their bills since the rate cap took effect on January 1, 2023. At the same time, a majority of borrowers indicated they were unable to access credit at some point following the rate cap.
- When unable to obtain credit, consumers said they were left with poor alternatives, including late bill payments, skipping urgent appointments or vital expenses, or pawning valuables.
- The vast majority of borrowers want the option to return to their previous lender, demonstrating support for the loan options available before the rate cap.

Survey Methodology

OLA surveyed New Mexico consumers who took out short-term, small-dollar loans from January 1, 2021, to January 1, 2023. The survey included 476 responses and was conducted from August 21 to September 18, 2023.

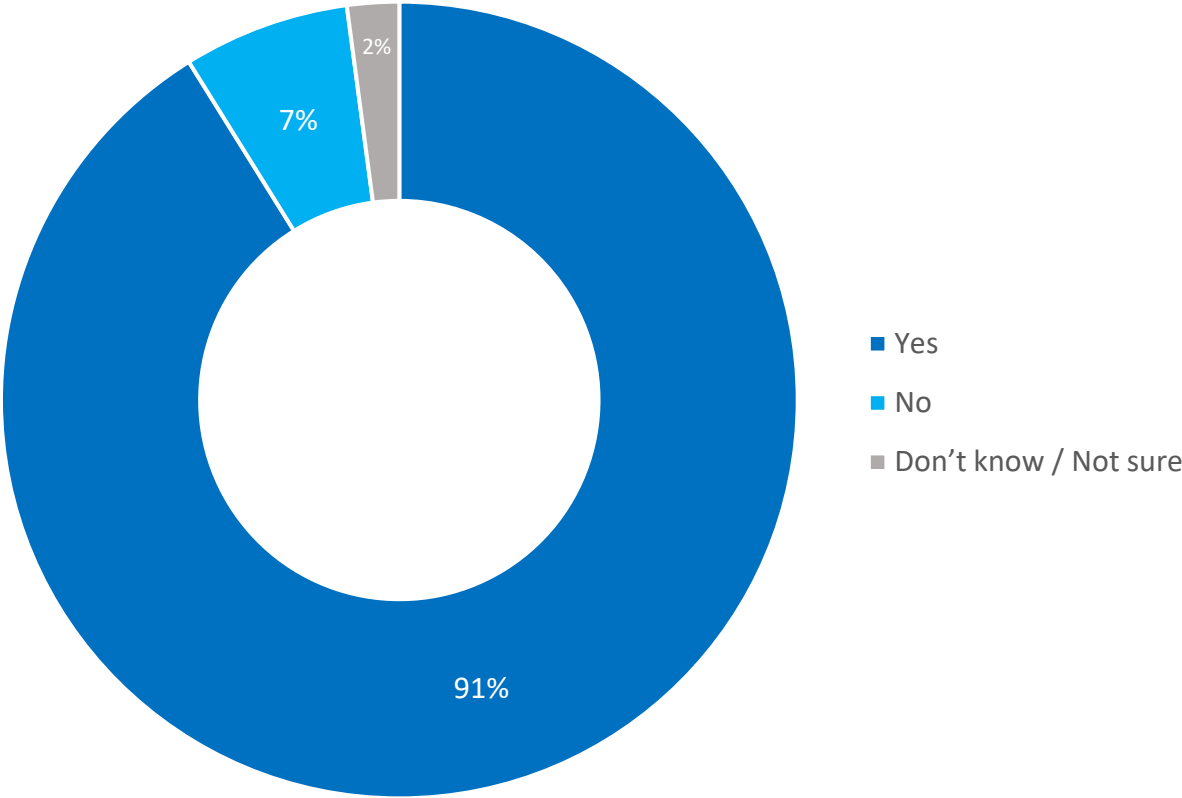
In this survey, more than two-thirds of respondents were female and about a third were male.¹ Forty percent described themselves as American Indian or Alaska Native, 27 percent were Hispanic, 26 percent were White, and less than 8 percent were Black or “Other.”² In addition, two-thirds had personal incomes³ under \$50,000, 28 percent had between \$50,000-100,000, and 5 percent had more than \$100,000.⁴



Loan Effectiveness

To better understand why respondents had originally taken out a small-dollar loan, OLA asked whether the original loan had helped the consumer manage the financial situation they were facing at the time they took out the loan. The vast majority of respondents answered in the affirmative.

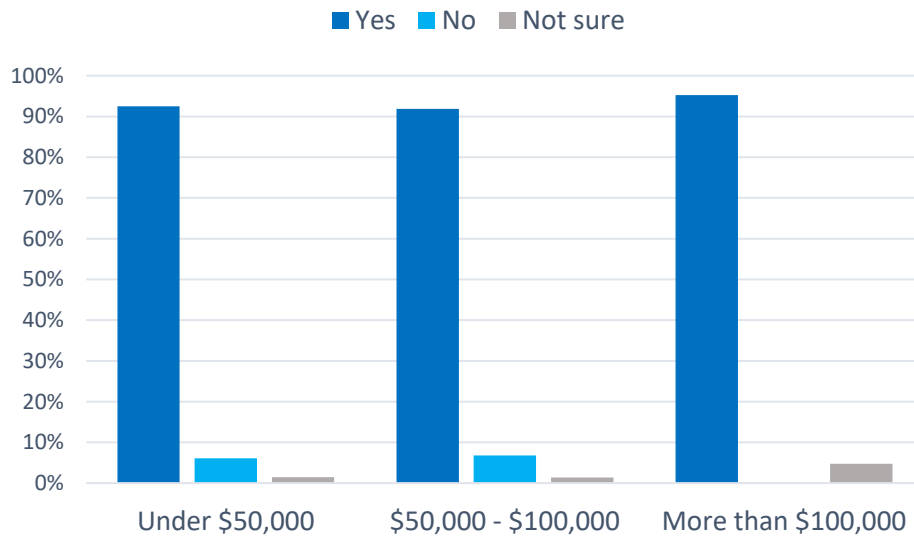
Question: “Did your loan help you manage your financial situation that you were facing at the time?”



Source: Online Lenders Alliance

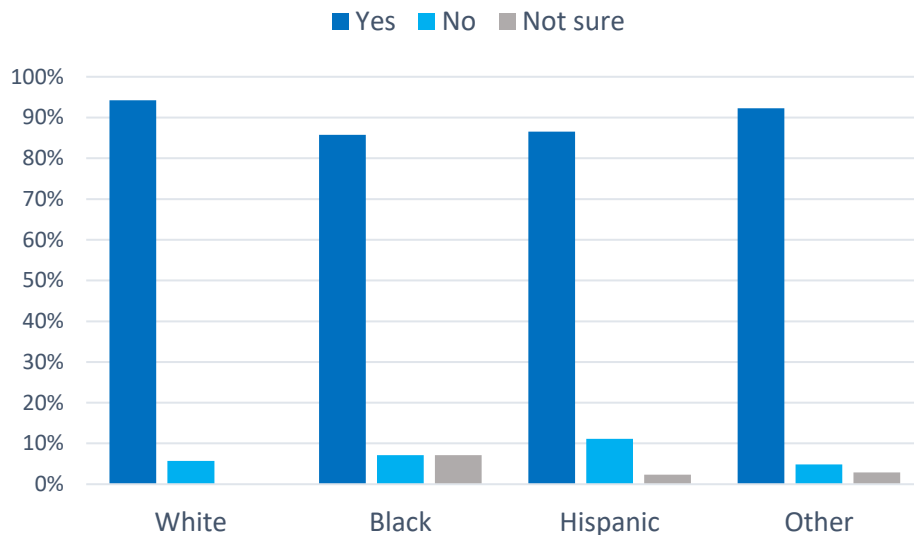
By Income

The vast majority of respondents at all income levels stated that their personal loan helped them manage the financial situation they were facing at the time they took out the loan.



By Ethnicity/Race

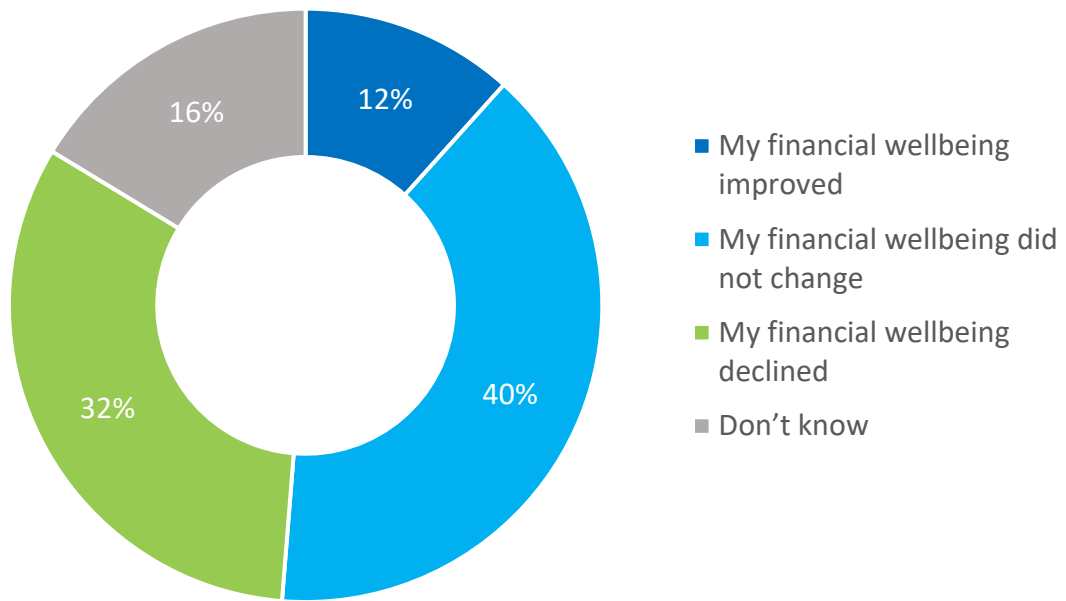
The vast majority of respondents – whether White, Black, Hispanic, or “other” – indicated that their loan helped them manage their financial situation.



Financial Wellbeing

When asked if they had seen improvements in their financial wellbeing since their preferred lender left New Mexico following the rate cap, most consumers – 32 percent – indicated that their financial wellbeing declined, compared to only 12 percent who said that it had improved.

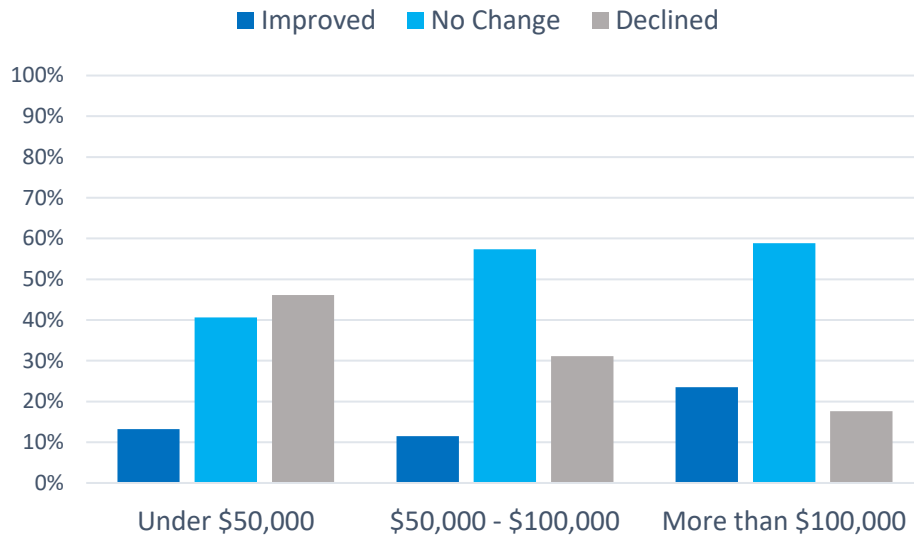
Question: “Since your previous lender stopped offering loans in New Mexico, how has your overall financial wellbeing been impacted?”⁵



Source: Online Lenders Alliance

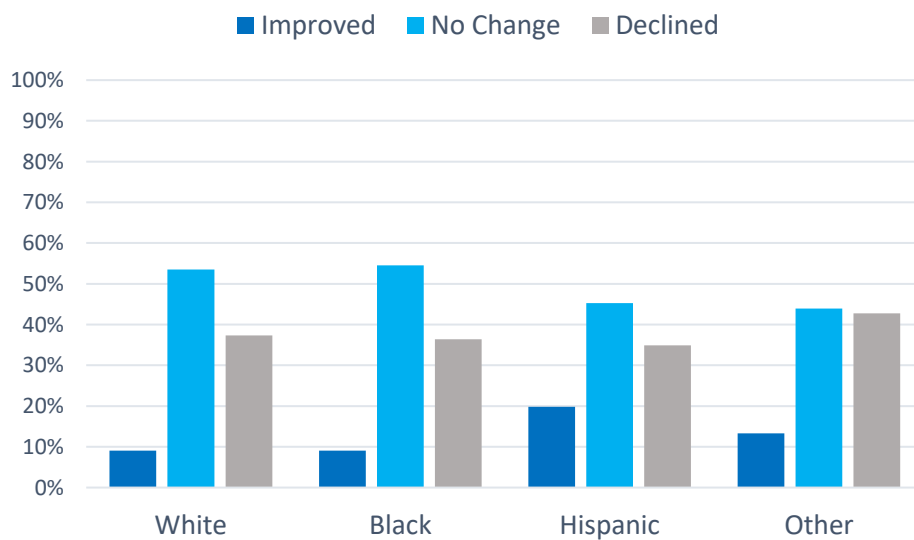
By Income

Respondents making less than \$50,000 saw the largest declines in financial wellbeing after the rate cap took effect, although there were large numbers of those making \$50,000-\$100,000 who saw declines in their financial wellbeing as well.



By Ethnicity/Race

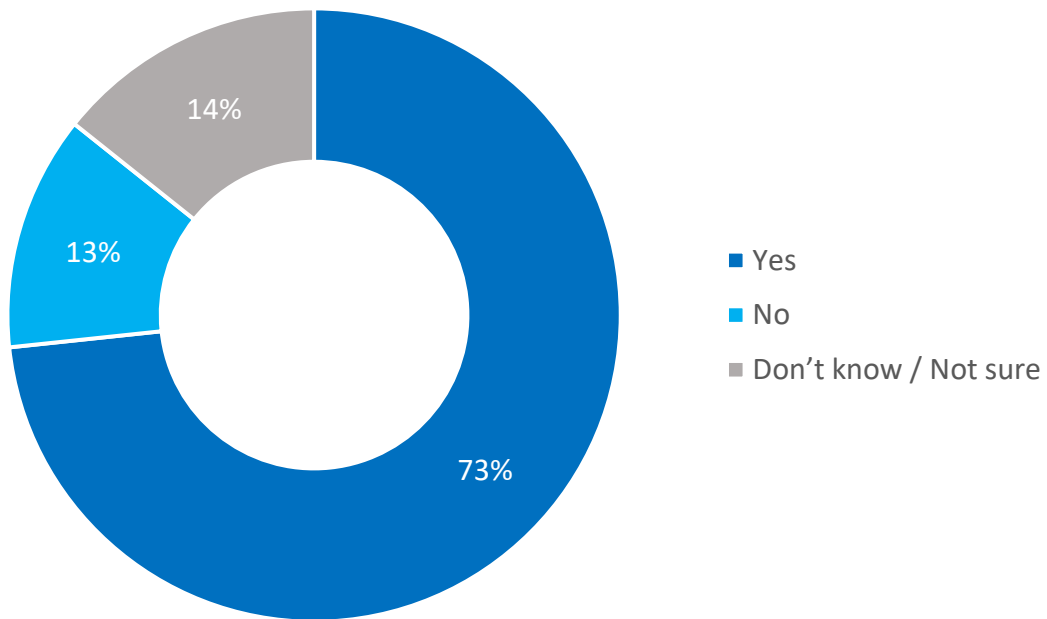
A plurality of consumers in each ethnic/racial group said that their financial wellbeing had not changed or had declined following the departure of their lender.



Consumer Preference

New Mexico consumers who had utilized short-term, small-dollar loans prior to the rate cap want the option to go back to their previous lender, indicating a strong desire for more choices and a high-level of satisfaction with the loan they received from their previous lender. However, many of these lenders no longer operate in the State after the rate cap took effect.

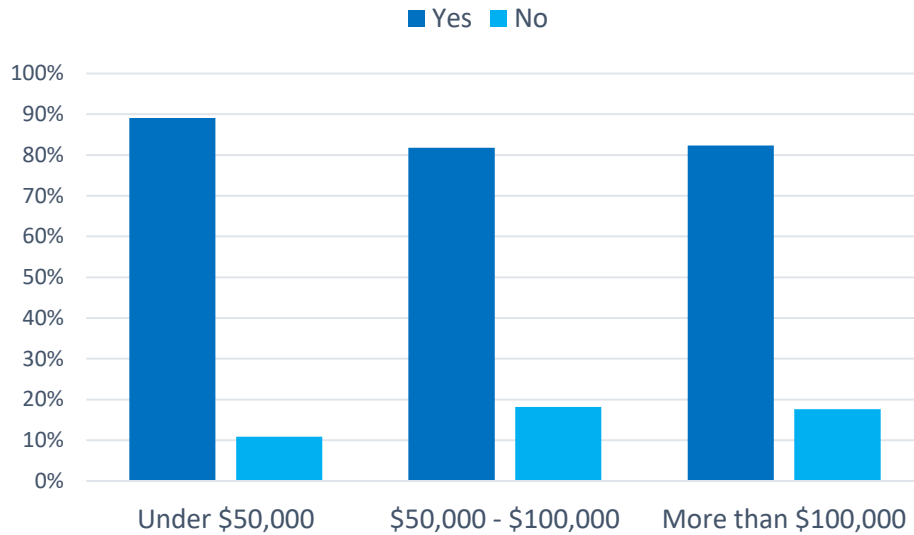
Question: “If you had a funding need, would you like the option to go back to your previous lender?”⁶



Source: Online Lenders Alliance

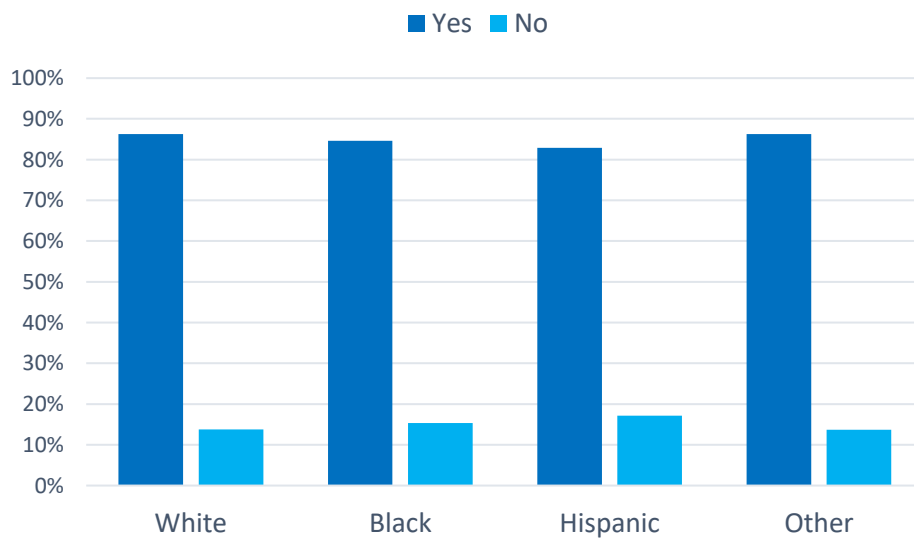
By Income

The vast majority of consumers, especially those making less than \$50,000 in personal income per year, would like the option to return to their preferred lender if they had a funding need.



By Ethnicity/Race

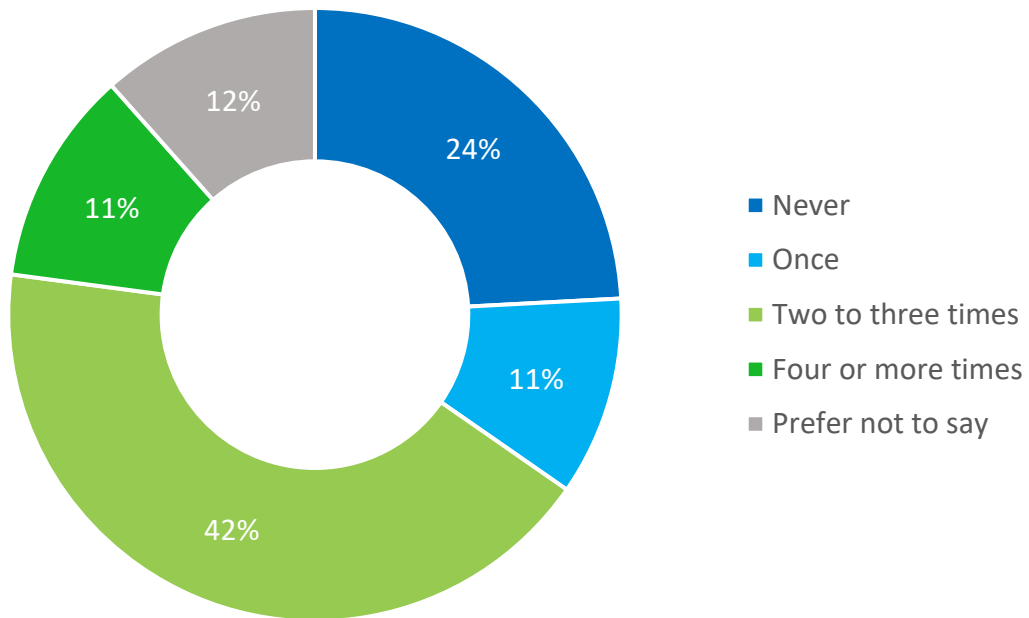
Among all races and ethnicities, the majority of consumers would like to return to their previous lender.



Need for Credit

Since the New Mexico rate cap took effect on January 1, 2023, more than half of former users of short-term, small-dollar loans had said they have been unable to pay their bills more than once.

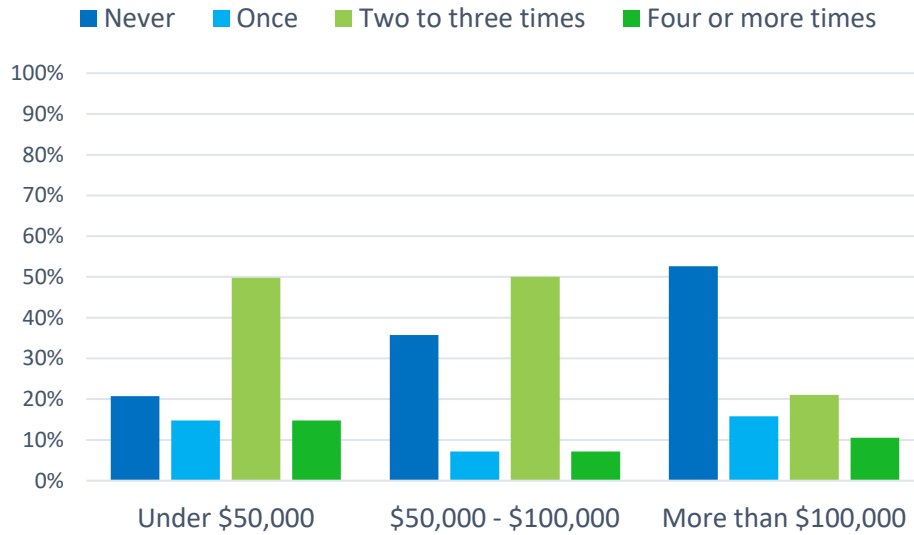
Question: “Since January 2023, how often were you unable to pay one or more bills?”



Source: Online Lenders Alliance

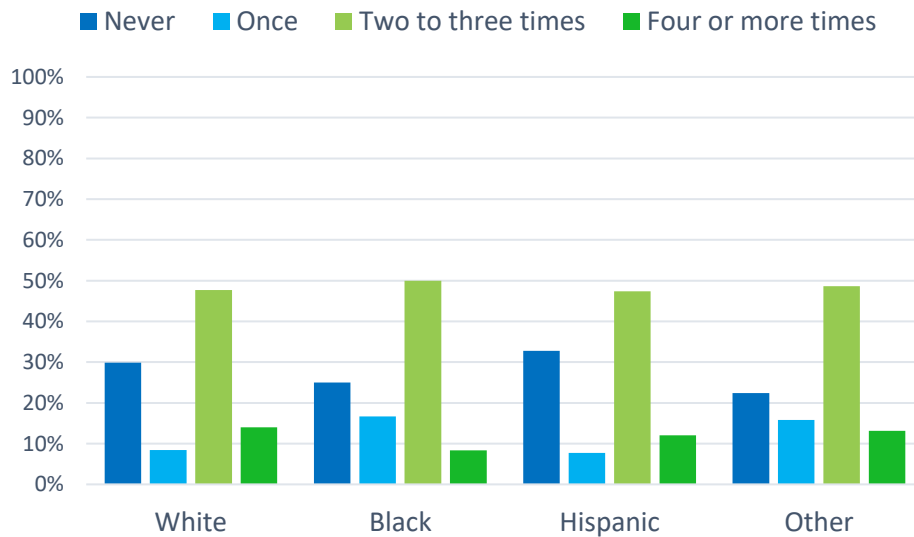
By Income

Most consumers making under \$100,000 in annual income have struggled to pay their bills since January 2023.



By Ethnicity/Race

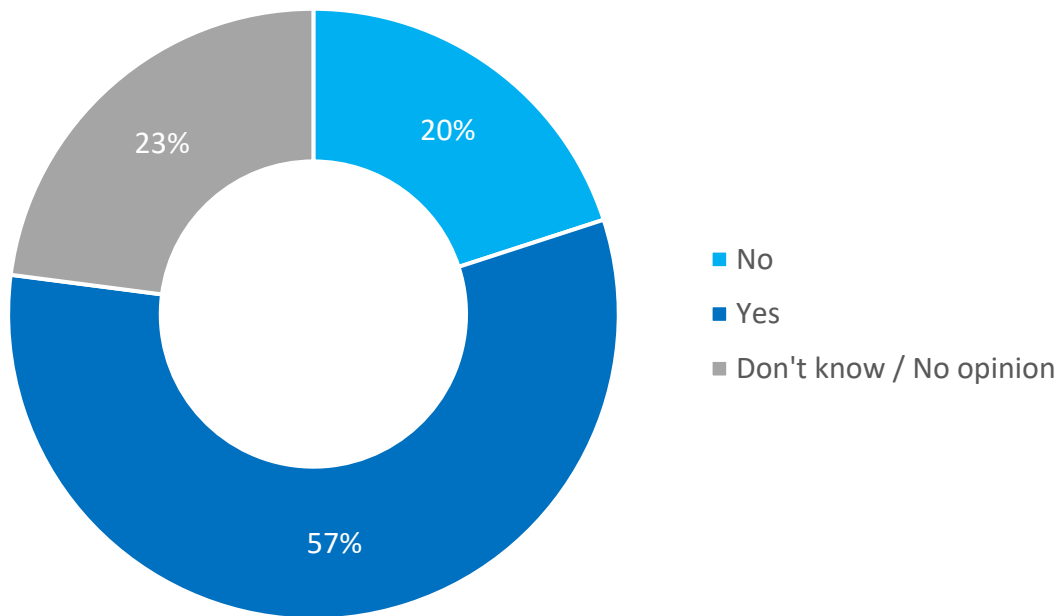
A majority of borrowers – irrespective of race or ethnicity – have struggled to cover their bills since the rate cap took effect.



Unavailability of Credit

Nearly three-quarters of New Mexicans who used short-term, small-dollar loans were unable to borrow money when they needed it after the rate cap took effect on January 1, 2023.

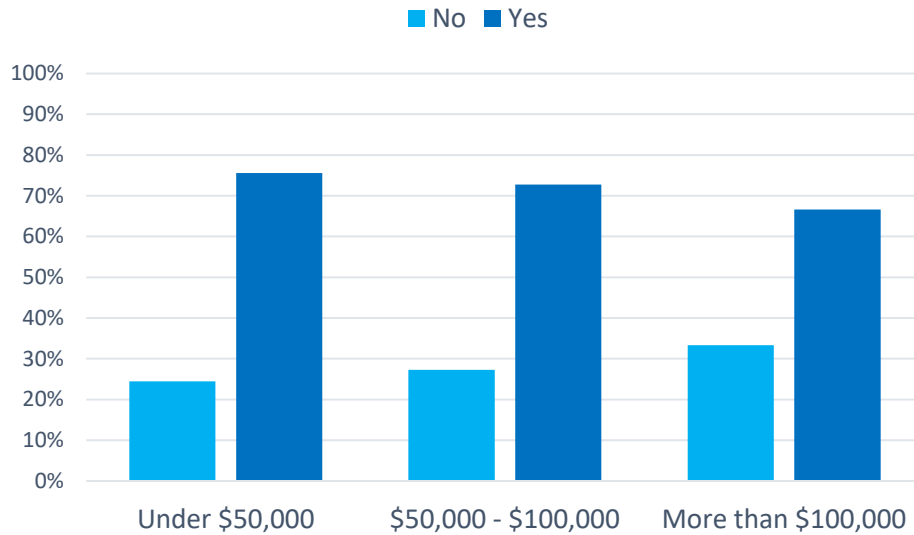
Question: “Since January 2023, have you been unable to borrow money from a lender when you needed it?”



Source: Online Lenders Alliance

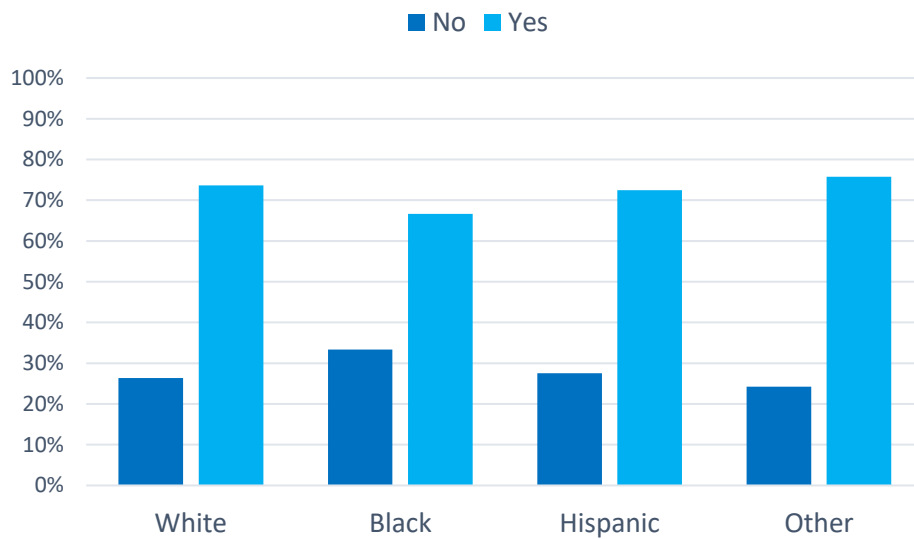
By Income

Those making less than \$50,000 in income per year are more likely to struggle accessing credit than higher income consumers, although consumers at all income levels have struggling to obtain credit since the New Mexico rate cap law took effect.



By Ethnicity/Race

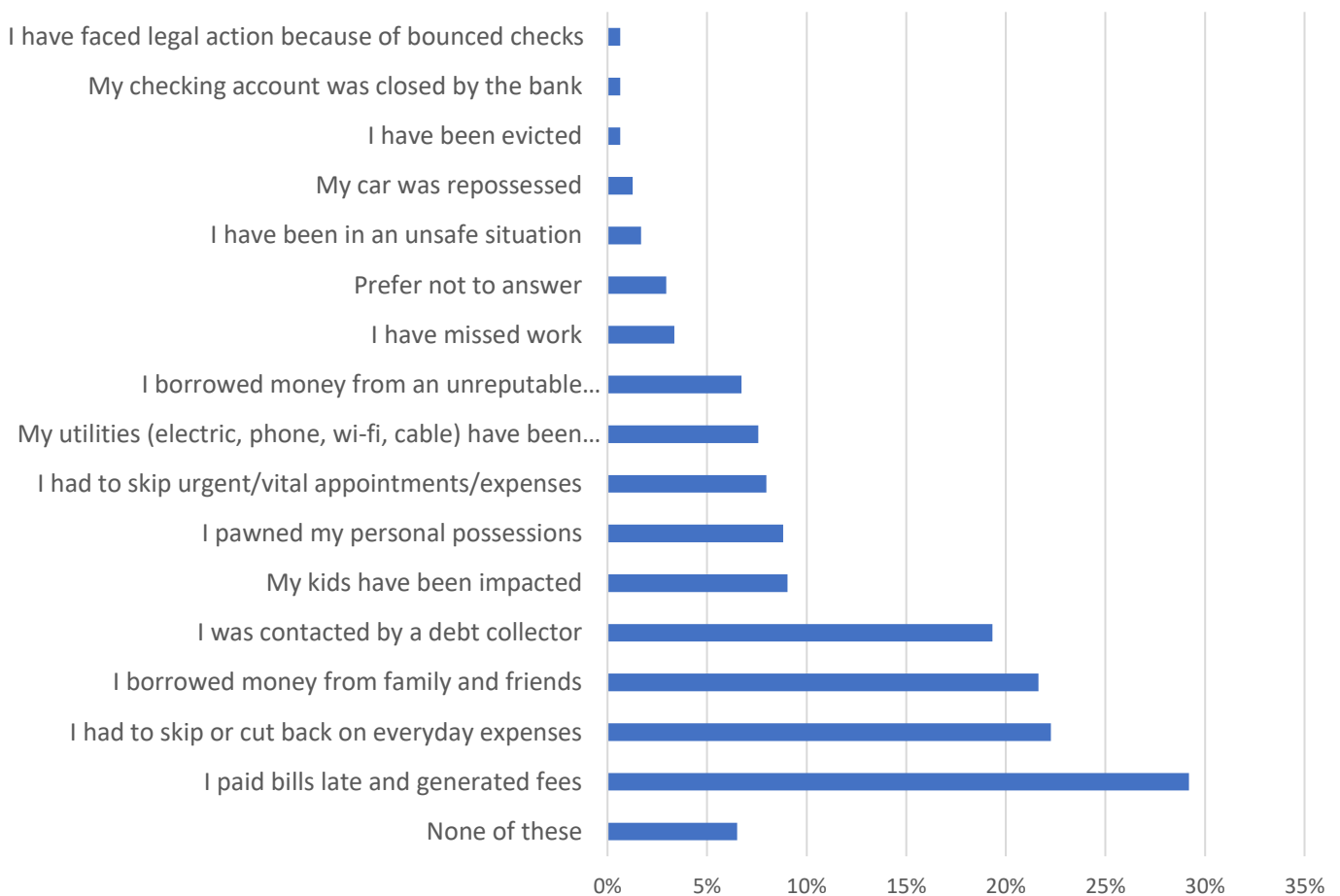
Most users of short-term, small-dollar loans have struggled to borrow money since the enactment of the rate cap when they need it, regardless of their ethnicity or race.



Impact of Fewer Credit Options

When New Mexico imposed a 36 percent rate cap, many lenders ceased making loans in the state, leaving many consumers with few credit alternatives. In the survey, respondents were asked what happened when they had been unable to borrow money from a lender. Some may borrow money from friends or family while others might be able to cut back on everyday expenses. However, the largest share of consumers paid bills late, which generated fees. Another large share received calls from debt collectors. Although only a few individuals, some respondents had stated that they had been evicted or had to miss work due to their inability to obtain credit.

Question: “Which of the following situations have occurred because you were unable to borrow money from a lender? Select all that apply.”



Source: Online Lenders Alliance

Why This Matters

From the survey, it is clear that most users of short-term or small-dollar loans did not benefit from the rate cap law that passed in New Mexico on January 1, 2023, and many former users suffered adverse consequences as a result of it. Many former borrowers say that their previous loans had helped them manage their finances, and the vast majority wish they had the option to return to their preferred lenders. Unfortunately, many of those lenders left the state because they could not operate under the current law.

When asked why they originally took out these loans, the most commonly cited reasons from the survey were: (1) to cover utilities like electricity, water, trash, cell phone, etc., (2) to cover a car payment or car repair, or (3) debt consolidation. Interest rate caps do not make these problems disappear; they only reduce the credit options available to help consumers manage these situations when they inevitably occur.

With the rate cap now in place, previous users of these loans now have fewer credit options available to address their needs, likely leading to more negative consequences or more expensive alternatives for these individuals.

Endnotes

¹ The survey provided several gender options, including transgender and gender variant or non-conforming. No one elected the former, and one respondent elected the latter.

² “Other” includes Asian or Pacific Islander and two or more races.

³ Income was defined as “personal annual income” in the survey.

⁴ When responses are broken down by demographic information, the number of responses will decrease in size. This is particularly true for those making more than \$100,000 in annual income as there were only a few individuals in the survey that fit this category.

⁵ This question was altered from its original phrasing in order to maintain the confidentiality of the lenders or consumers participating in the survey.

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