



OLA Tribal Lending Conference

The Intersection of Policy and Data

November 7, 2023



Credit for Me but not for Thee:

The Effects of the Rate Cap in Illinois

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Public Choice, July 2023

Fair or Foul?

Amount Borrowed	Interest Paid	Total Repaid	
\$9,000	\$5,125	\$14,125	
\$10	\$4.40	\$14.40	
\$40,000	\$10,400	\$50,400	
\$300,000	\$347,515	\$647,515	
\$300	\$60	\$360	
\$1,000	\$440	\$1,440	
\$5	\$1	\$6	

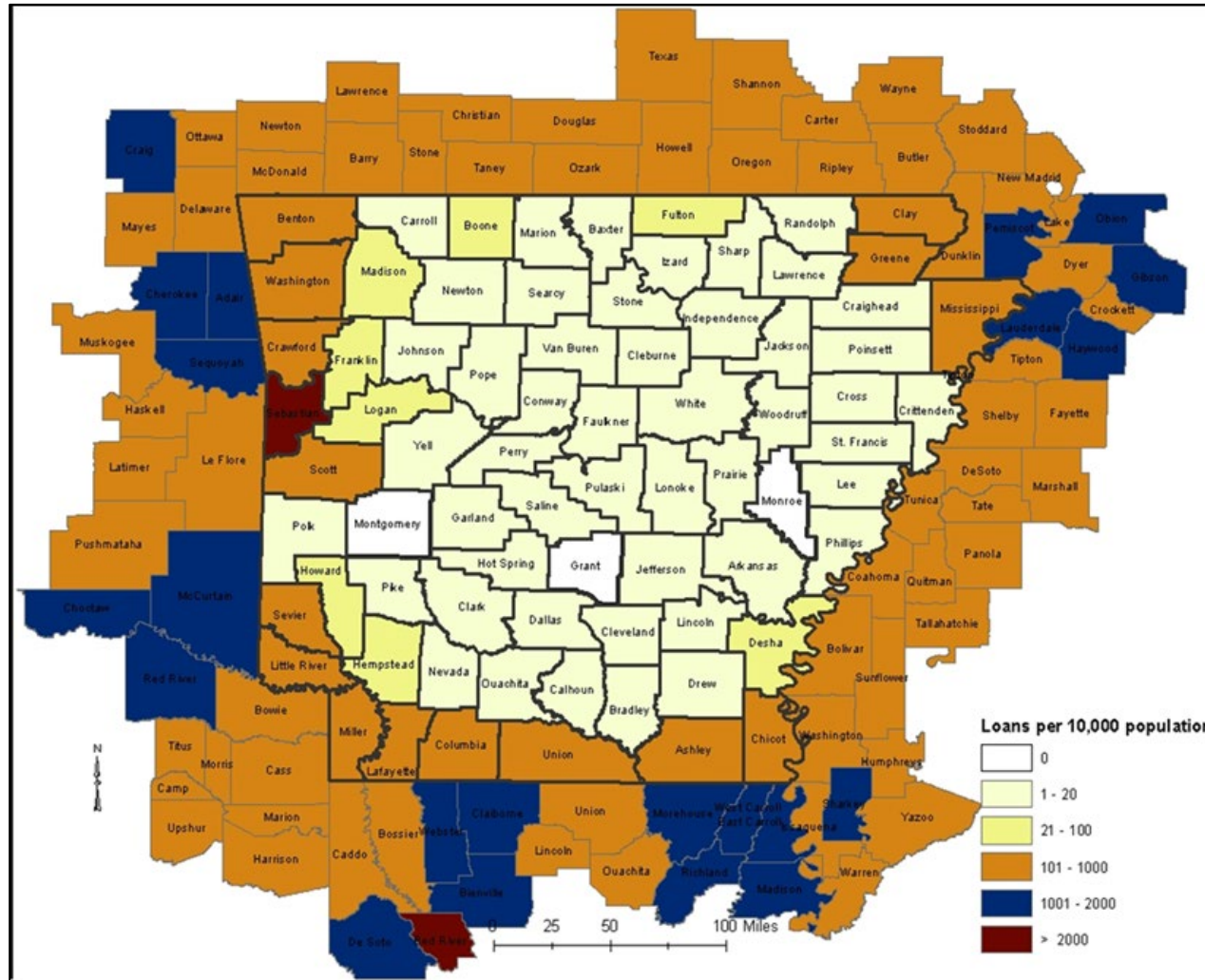
Fair or Foul?

Amount	Interest Paid	Total Repaid	Term	“APR”	TIP	Product
\$9,000	\$5,125	\$14,125	7 years, monthly payments	14%	0.57	Used Auto
\$10	\$4.40	\$14.40	6 weeks, weekly payments	600%	0.44	1910 Loan Shark
\$40,000	\$10,400	\$50,400	6 years, monthly payments	8%	0.26	New Auto
\$300,000	\$347,515	\$647,515	30 years, monthly payments	6%	1.16	Mortgage
\$300	\$60	\$360	2 weeks, single payment	520%	0.20	Payday
\$1,000	\$440	\$1,440	1 year, monthly payments	72%	0.44	Installment
\$5	\$1	\$6	1 day, single payment	7,200%	0.20	“Cafeteria Table”

Lukongo, O. and Miller, T

(Journal of Financial Research 2022):

The Effects of the 17% Cap in Arkansas on Traditional Installment Loans

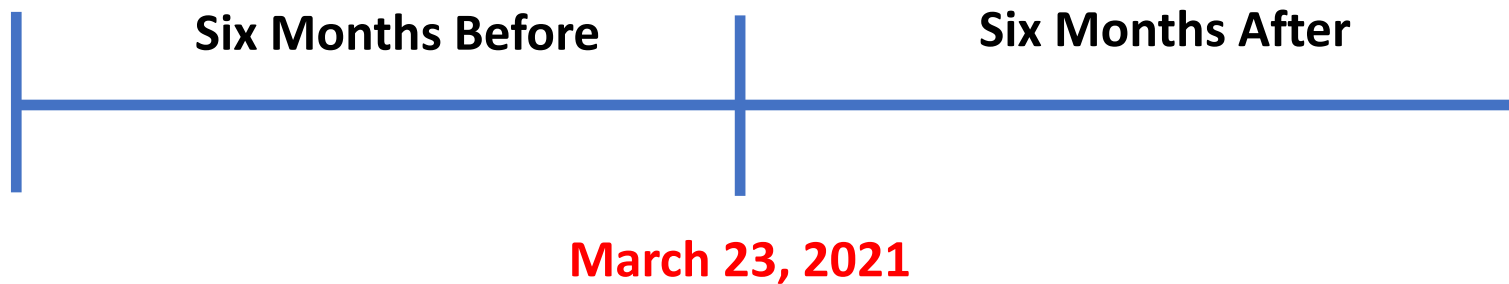


**No small-dollar
installment lenders
operate in Arkansas.**

**But small-dollar
Installment borrowers
live in Arkansas
(nearly all on border).**

Illinois Predatory Loan Prevention Act

- Passed March 23, 2021
- 36% all-in MLA-style interest-rate cap
- Applies to consumer loans under \$40,000
- Banks and credit unions exempt



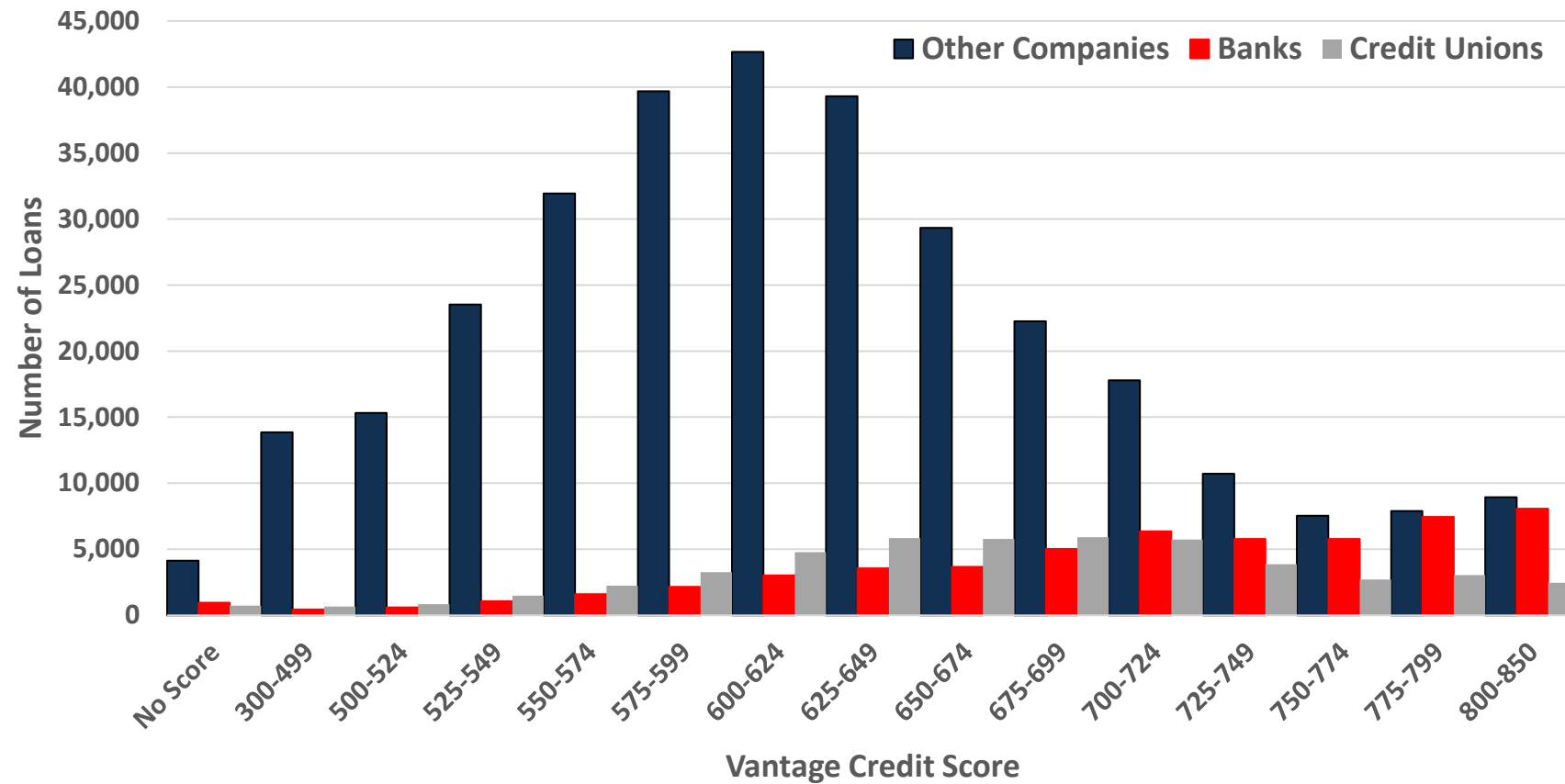
Bolen, Elliehausen, and Miller

(Public Choice, July 2023)

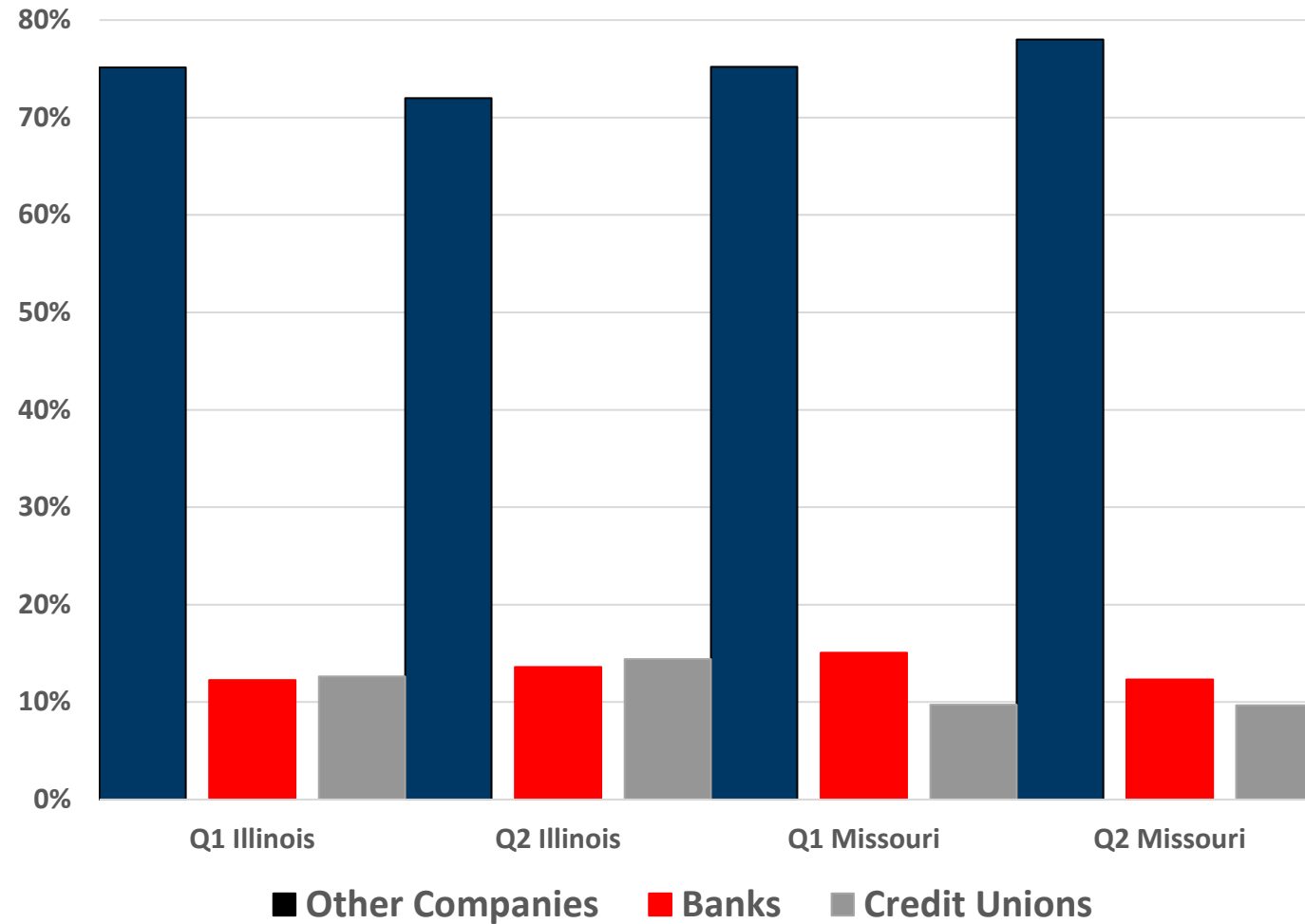
- **Motivation:** What does **data** tell us about what happens in the period right after an all-in rate cap is imposed?
- **Credit Bureau Data for Q4 2020 through Q3 of 2021**
- **Main VantageScore Groups**
 - Subprime: <600
 - Prime: ≥ 650
 - Near-Prime: 600-649

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

IL and MO, 2021 (Q1 and Q2 Combined)



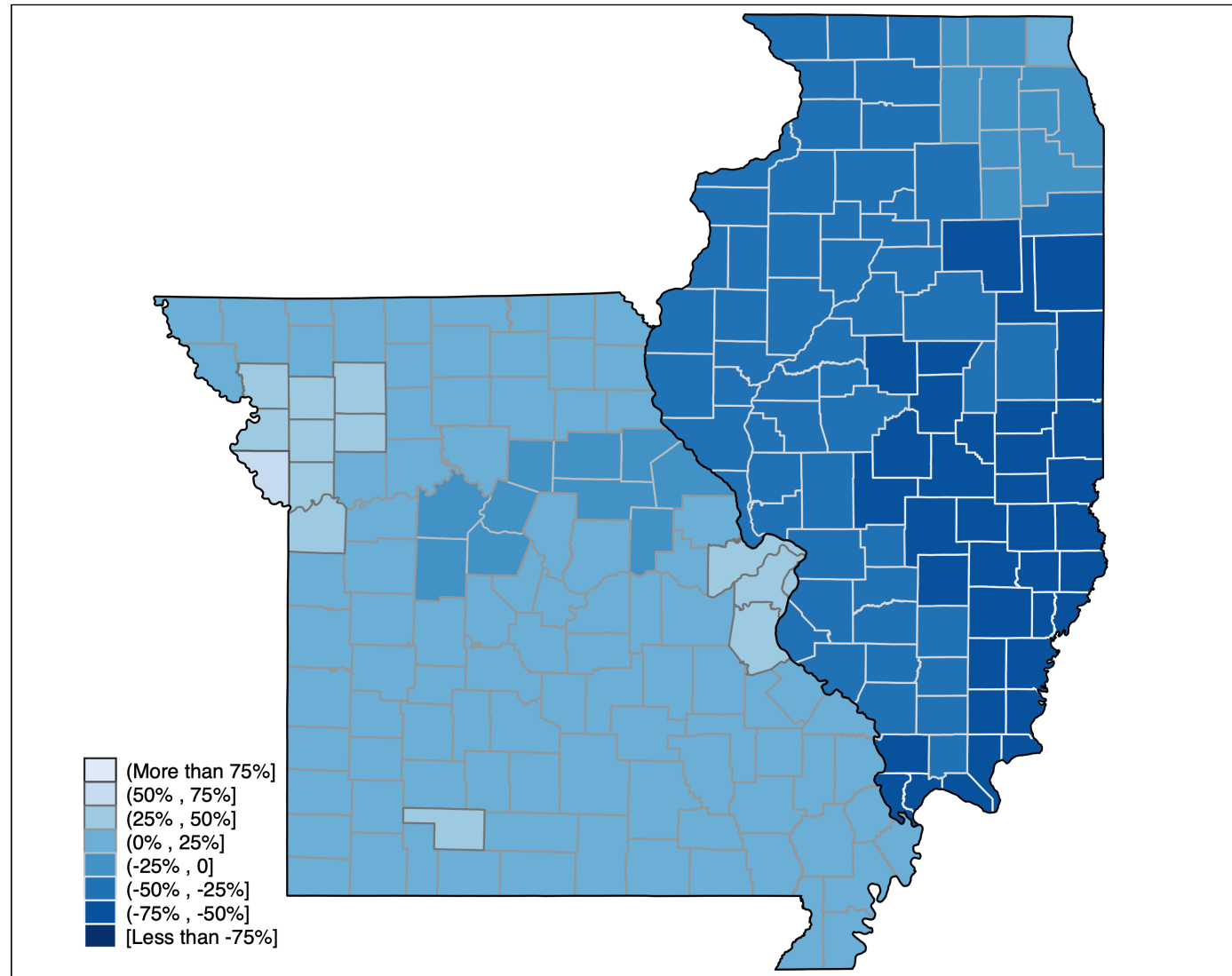
Percent of Unsecured Installment Loans, Q1 versus Q2, Illinois and Missouri



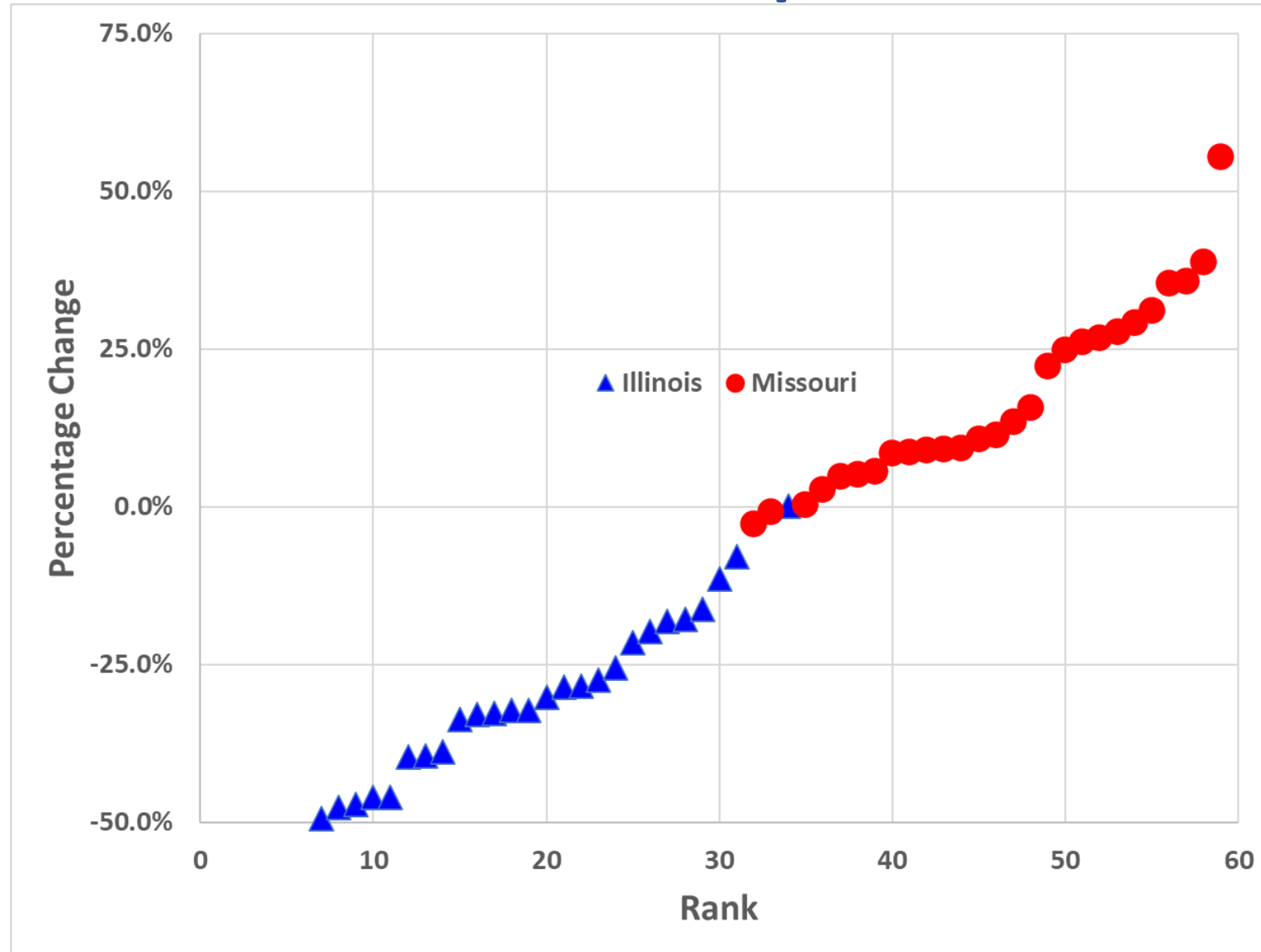
**Banks and Credit
Unions did not
increase their
number of loans.**

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

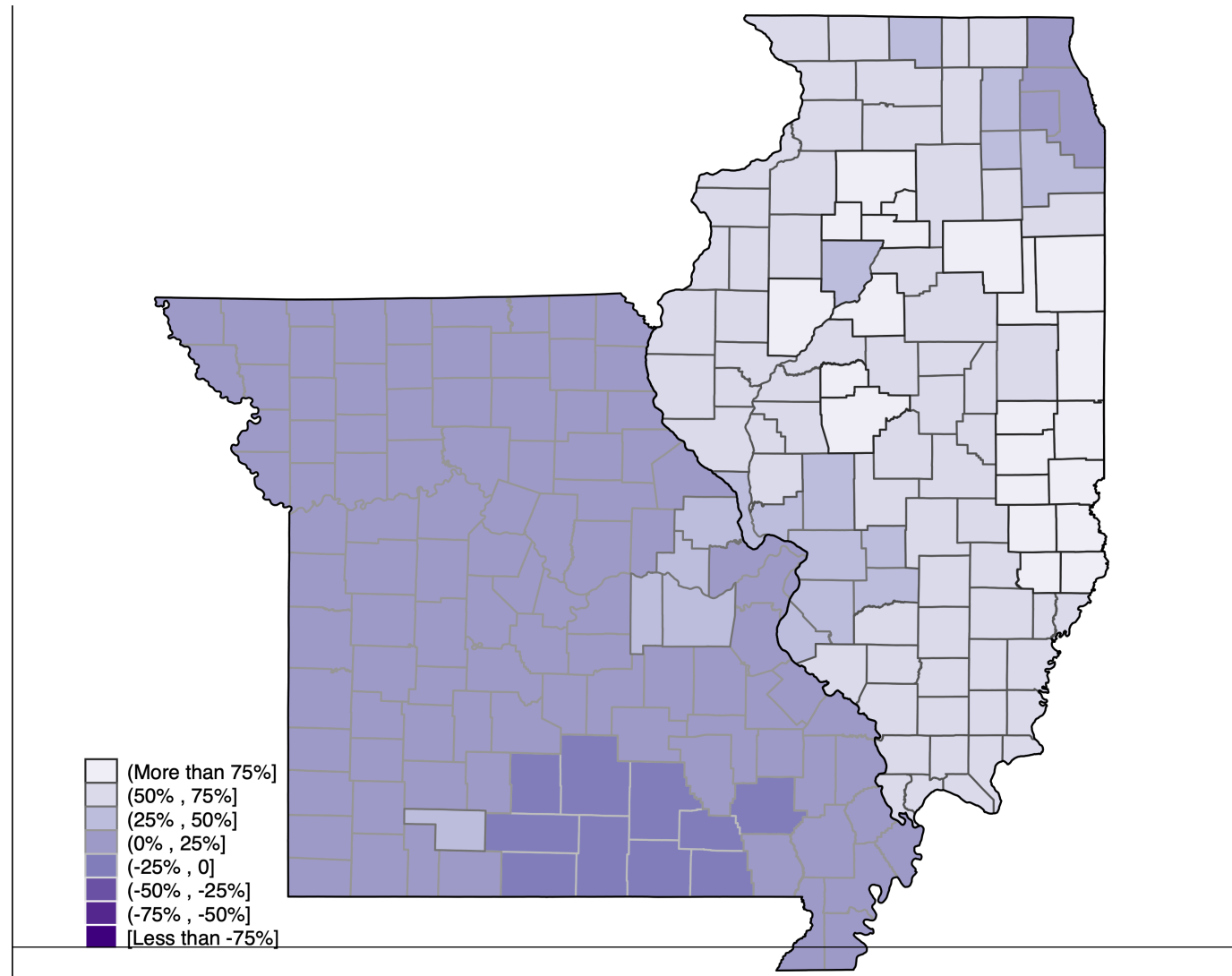
(Six months after rate cap compared to six months before)



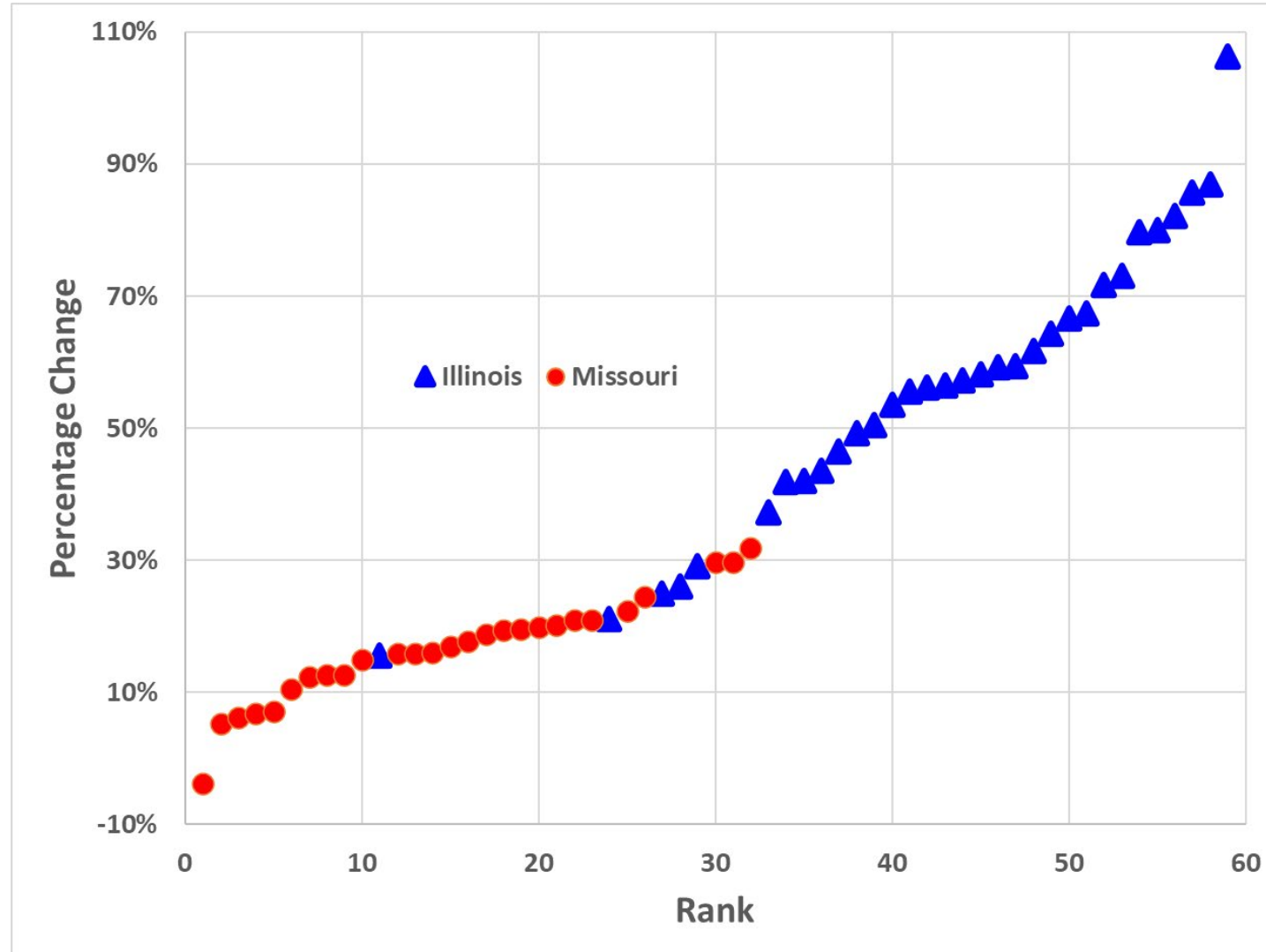
Percent Change in the Actual Number of Unsecured Installment Loans to Subprime Borrowers



Percent Change in Actual Loan Size to Subprime Borrowers (Six months after rate cap compared to six months before)

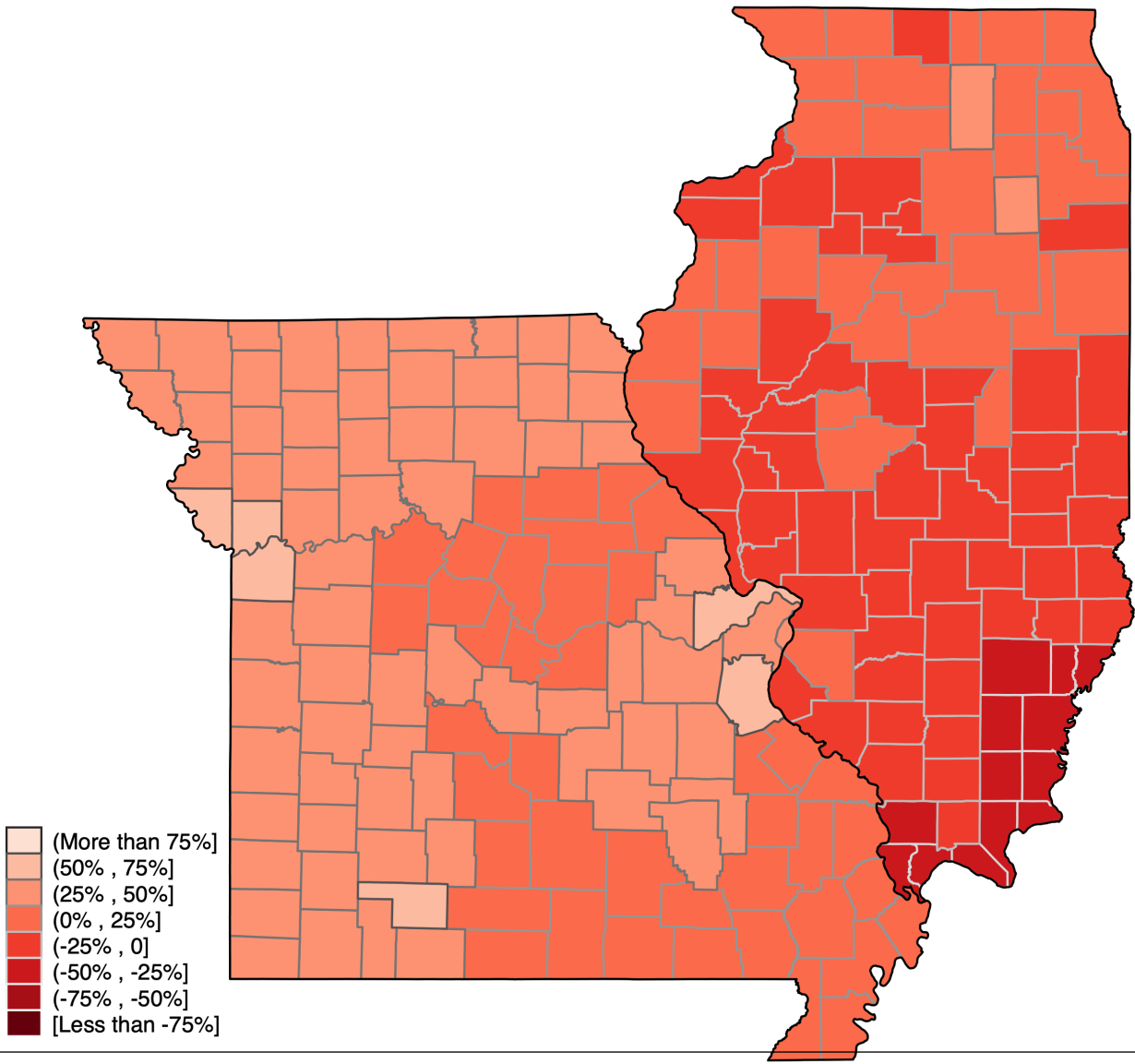


Percent Change in the Actual Loan Size of Unsecured Installment Loans to Subprime Borrowers

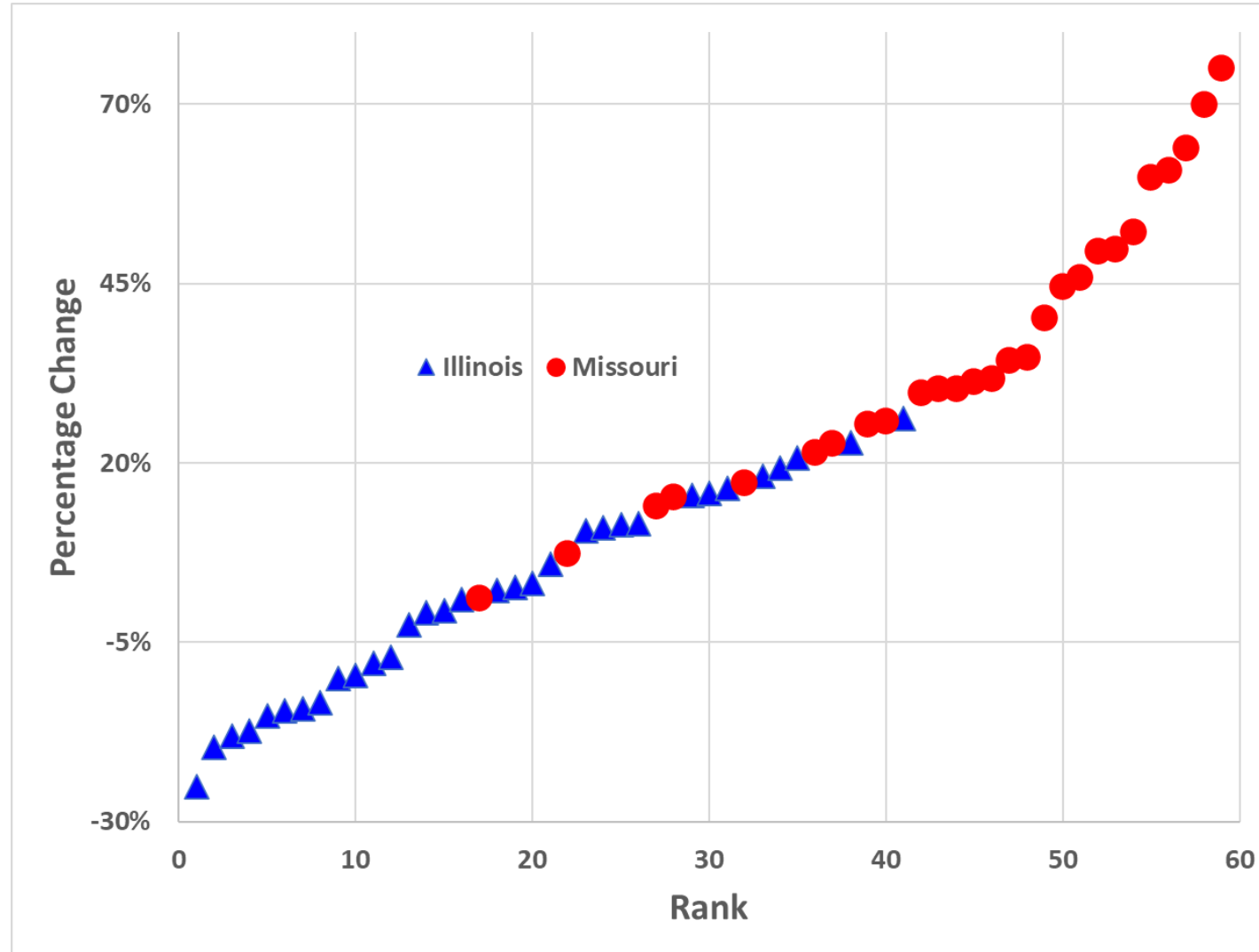


Percent Change in the Actual Dollars of Unsecured Installment Loans Made to Subprime Borrowers

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



Percent Change in the Actual Dollars of Unsecured Installment Loans Made to Subprime Borrowers

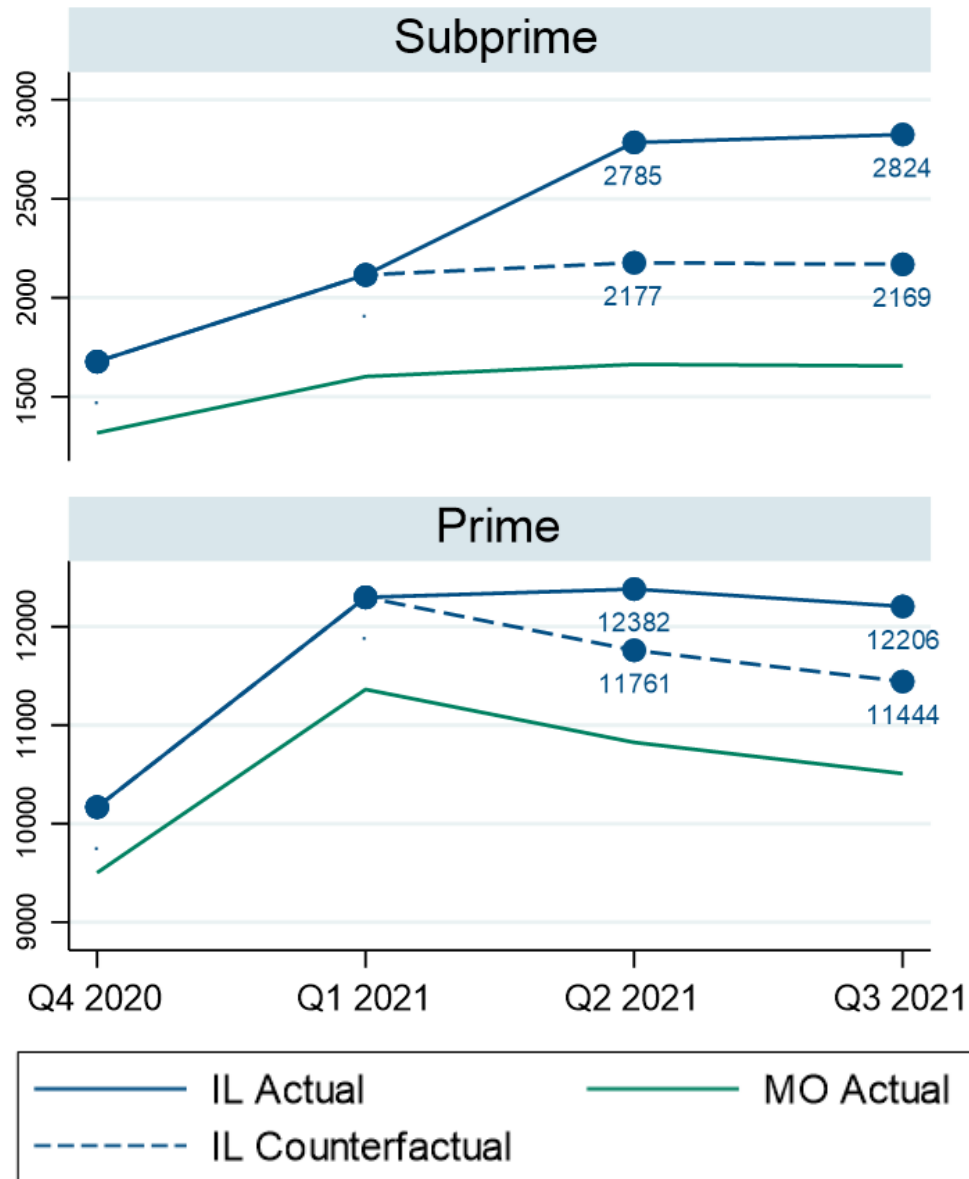


But What Really Matter is How Many Loans Were Lost Due to the Cap

Technique: Difference-in-Differences-in-Differences

	Number of Unsecured Installment Loans from All Lenders	Avg. Size of Unsecured Installment Loans from All Lenders
Illinois × Treatment Period × Prime	19,238 (+16 percent)	815 (+7 percent)
Illinois × Treatment Period × Near-prime	-3,115 (-4 percent)	833 (+19 percent)
Illinois × Treatment Period × Subprime	-34,052 (-38 percent)	730 (+35 percent)

Average Unsecured Installment Loan Size from all lenders by two VantageScore Groups



Subprime		
	Q2 2021	Q3 2021
Counterfactual	\$2,177	\$2,169
III 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
III Actual	\$12,382	\$12,206
Dollar Increase	\$621	\$762
Percent Increase over Counterfactual	5.3%	6.7%

OLA Survey Dataset

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

Did Your Loan Help Your Financial Situation?

Did Your Loan Help Your Financial Situation?

93%

Helped



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

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?

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?

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

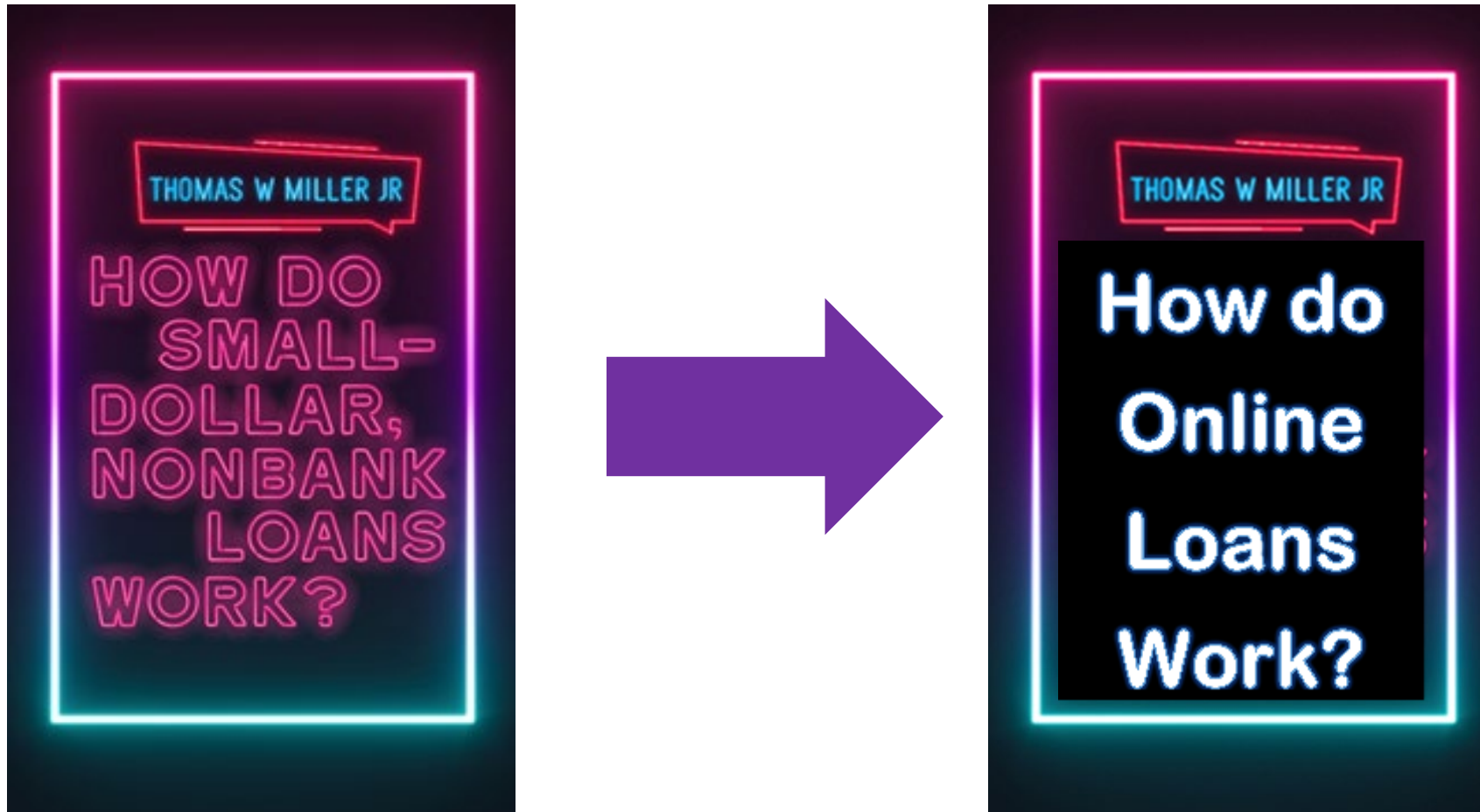
79%

Yes



Looking Forward

One of my Goals:



What is needed for the Primer?

- **I need a thorough understanding of Tribal Lending:**
 - **Its Regulatory Framework**
 - **Its Products**
 - **Its Best Practices**
 - **And?**
- **I need a thorough understanding of Non-Tribal Online Lending**

Academic Papers Published in Peer-Reviewed Journals Must Have:

- **Strong Research Questions**
 - **Data to Answer Them**
- **What Data Sources Exist?**
 - **What Data to Create?**
 - **What Industry Information to obtain?**
 - **How best to proceed forward?**

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*, July 2023:

<https://ssrn.com/abstract=4315919>

- Research Summary: Bolen, Elliehausen, and Miller, *Economic Inquiry*, Fall 2020:

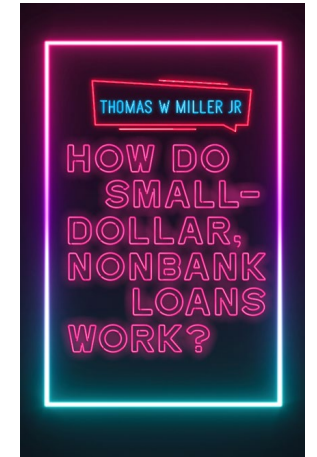
https://brandonbolen.com/wp-content/uploads/2020/04/Bolen_Elliehausen_Miller.pdf

- 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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Thank You