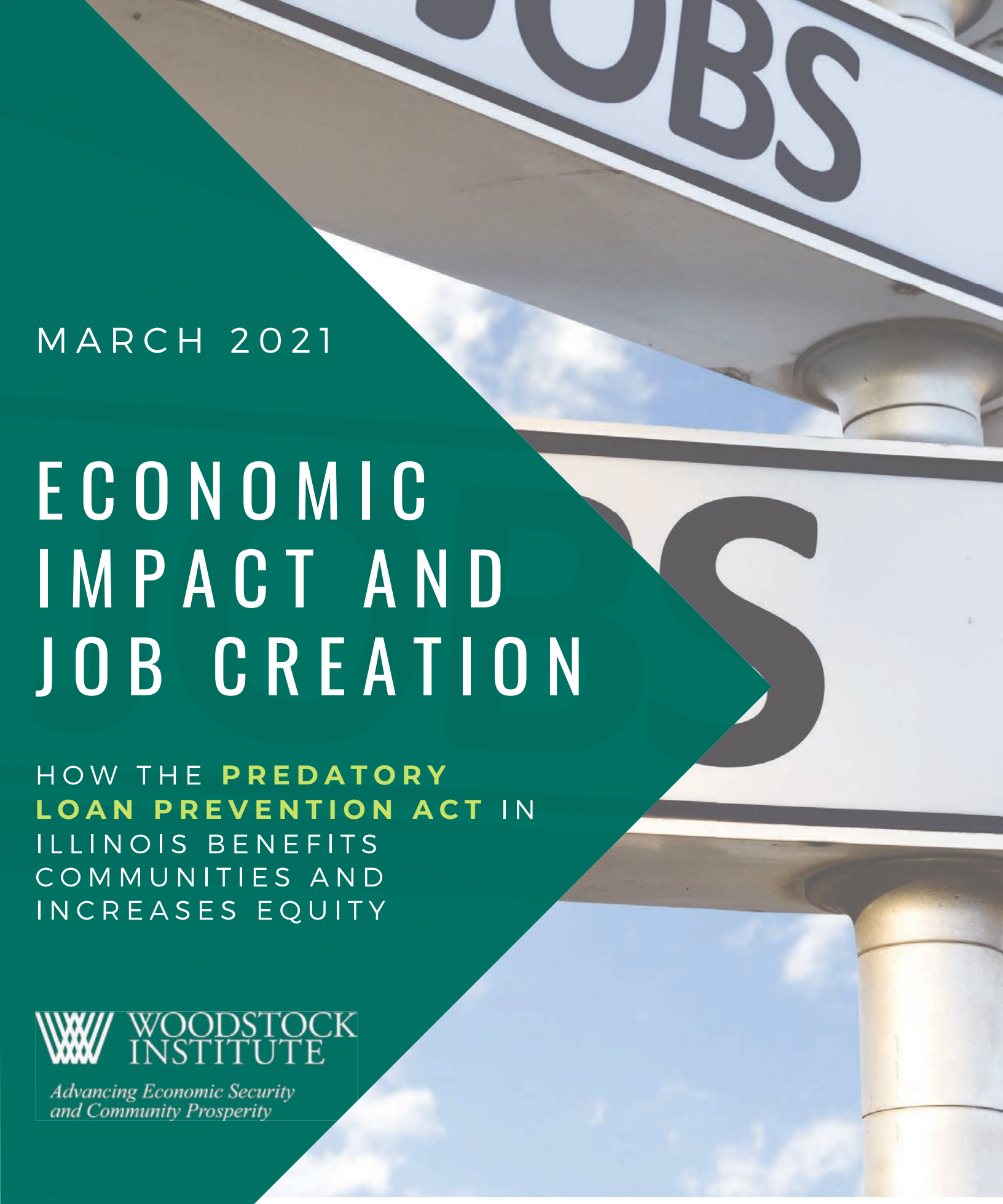

MARCH 2021

ECONOMIC IMPACT AND JOB CREATION

HOW THE **PREDATORY LOAN PREVENTION ACT** IN ILLINOIS BENEFITS COMMUNITIES AND INCREASES EQUITY

WOODSTOCK INSTITUTE

Advancing Economic Security and Community Prosperity

PREPARED BY THE WOODSTOCK INSTITUTE

ABOUT WOODSTOCK INSTITUTE

Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. Learn more at https://woodstockinst.org

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EXECUTIVE SUMMARY

- Based on data showing total fees paid in 2019 by Illinoisans on payday loans, installment payday loans, and auto title loans, Woodstock projects the law will create 5,673 jobs, a net gain over the 5,000 jobs opponents claim will be lost, which is, itself, debatable.

- Because people living in majority minority zip codes pay over 2.5 times as much per capita in fees as people living in majority White zip codes, the savings from the 36% rate cap should disproportionately benefit Black and Brown communities in terms of savings and jobs created.

- Based on just the estimated savings in fees paid to out-of-state lenders, the multiplier effect could add between $475 million and $634 million in local economic activity. Based on the savings for fees paid for payday loans, installment payday loans, and auto title loans to both in-state and out-of-state lenders, the impact could be between $638 million and over $835 million.

- Case-in-point: To pay her contractors, Kesha Warren took out a $1,250 auto title loan in December 2019 from a lender based in Georgia. The APR on her title loan was 197.64%, which equated to $4,211.10 in fees. If the interest and fees on the loan had been capped at 36%, she would have been required to pay only $570 for the same $1,250 loan, a savings of over $3,600.

OVERVIEW

During the pandemic, the federal government has issued several rounds of “stimulus payments” to taxpayers to provide assistance to families struggling due to COVID-19, to stimulate the economy, and to create and protect jobs. Congress has cut corporate and personal income taxes in recent years, arguing that the additional money left in the pockets of consumers will have a salutary effect on the economy. The Predatory Loan Prevention Act (SB 1792 - PLPA), which would establish a 36% APR cap on consumer loans in Illinois, will have the same effect. Borrowers will save money on interest and fees paid to lenders, leaving more money in borrowers’ pockets to spend in the local economy and create local jobs.

Data from the Illinois Department of Financial and Professional Regulation (IDFPR) on three types of high-cost loans – payday loans, installment payday loans, and auto title loans – show that consumers using those products paid over $476.6 million in fees to lenders in 2019, the last full year for which IDFPR data are available. Had the PLPA’s 36% rate cap been in effect in 2019, borrowers would have paid less than $57.9 million for their loans, a savings of $418.8 million.

The Illinois Small Loan Association (ISLA) misleadingly asserts that a 36% rate cap in the Predatory Loan Prevention Act could result in “as many as 5,000 jobs being lost."(i) The ISLA statement is misleading and incorrect. The assertion ignores the job creation impact of the $400 plus million in savings that borrowers will have to spend on goods and services other than predatory loan interest and fees. The hundreds of millions of dollars in new spending will create jobs, and the data suggest that it will create 5,673 jobs, a net gain over the 5,000 jobs opponents claim will be lost. Put simply, the 36% rate cap will not result in net job losses; it will shift the jobs from those that are supported by predatory lending to those that provide other goods and services to the community.

THE ACTUAL COST

Federal Truth-in-Lending Disclosures on Client's Contract for an Auto Title Loan

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments
The cost of my credit as a yearly rate.	The dollar amount the credit will cost me.	The amount of credit provided to me on my behalf.	The amount I will have paid after I have made all payments as scheduled.
197.64%	**$4,211.10**	**$1,250.00**	**$5,461.10**

Graphic 1

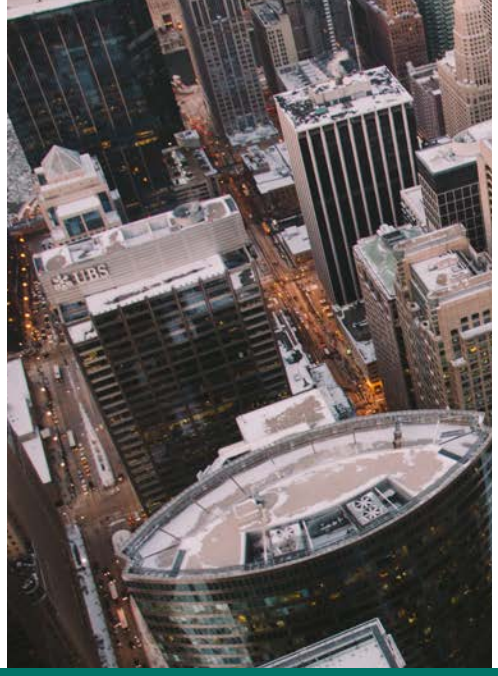
Kesha Warren, who resides in South Holland, Illinois, owns two small businesses: one is in IT and the other is in “property preservation,” which involves caring for unoccupied properties such as foreclosed homes.

Kesha Warren

To pay her contractors, Kesha took out a $1,250 auto title loan in December 2019 from a lender based in Georgia. The APR on her title loan was 197.64% , which equated to $4,211.10 in fees (Graphic 1).

If the interest and fees on the loan had been capped at 36%, she would have been required to pay only $570 for the same $1,250 loan, a savings of over $3,600. The interest and fees that Kesha had to pay for her title loan was money that she could have used instead to hire more workers or pay existing employees for additional hours, directly creating and expanding jobs. Those workers would have had more money to spend in the local economy, inducing local businesses to add jobs to serve those new customers.

Kesha could have used the money spent on loan fees to upgrade equipment and buy supplies, indirectly creating jobs at her suppliers.



ECONOMIC POLICY INSTITUTE ANALYSIS

Analysis by the Economic Policy Institute shows a change in spending has both direct and indirect impact on jobs.(ii)

The analysis discusses two types of impact. The first is direct job creation. As consumers spend more, businesses hire more workers to meet the increased consumer demand; this is especially important as we begin to recover from pandemic-induced shutdowns. The second impact is indirect job creation. As businesses increase sales as a result of the new spending, they need more supplies, so their suppliers also increase spending and hiring (supplier jobs). Also, the additional spending by the new workers at businesses and their suppliers creates a need for more workers at the businesses where the new workers spend their earnings (induced jobs).

Using the estimates for the jobs impact of spending in both general merchandise stores and other retail from the Economic Policy Institute, it is possible to develop an estimate of the jobs impact of the 36% rate cap. The calculations are as follows:

$268.1 MILLION SAVINGS

Most of the companies that offer predatory loans are based outside the state of Illinois, which means that fees that Illinois borrowers are paying to those companies leave the local economy. The savings from the 36% rate cap, therefore, returns those excess fees to local consumers and back into the local economy. An estimated 56.4% of Payday and Installment Payday lenders, and 74.4% of Auto Title lenders, are owned by out-of-state entities. If we assume the amount of fees returned to the local economy is limited to the amount of fees that had previously been exported to out-of-state companies, the total savings is $268.1 million.

CHANGE IN SPENDING

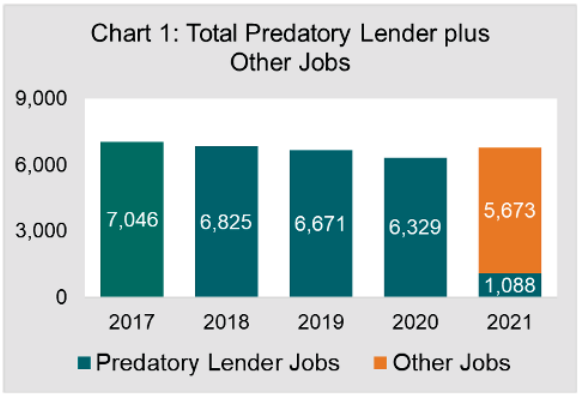
1/2 general merchandise

1/2 other retail

In general merchandise stores, an increase of $1 million in spending results in adding 13.77 direct jobs and 10.1 indirect jobs. In other retail stores, the estimates are an addition of 8.57 direct jobs and 9.89 indirect jobs per $1 million positive change in spending. The calculations will assume that half of the change in spending is at general merchandise stores and half at other retail stores.

5,673 NEW JOBS

The $268.1 million in additional spending from the savings that borrowers realize with the 36% rate cap would result in the creation of 2,994 direct jobs(iii) and 2,679 indirect jobs(iv), for a total of 5,673 new jobs created in one year. And that's just the savings associated with loans originated by non-Illinois lenders.



The number of jobs at predatory lenders has been declining since 2017.(v) With the 5,673 jobs created by the savings caused by the 36% rate cap, the total number of jobs overall will increase, even allowing for the reduction of jobs at predatory lenders, as shown in Chart 1. There is evidence suggesting that frontline employees at predatory loan stores make close to minimum wage.(vi)

MINIMUM 673 NET JOBS

In the media, the Illinois Small Loan Association has said the PLPA will cause the loss of up to 5,000 jobs. Even under ISLA's worst-case scenario the PLPA creates a net 673 new jobs based on only the savings from interest and fees being paid to companies outside of Illinois.

AS MANY AS 3,864 NET JOBS

If the estimate of the job creation impact of the 36% rate cap considers all of the savings to borrowers from the reduction in interest and fees they have to pay, not just those paid to out-of-state lenders, then the $418.8 million in additional spending from the savings that borrowers realize with the 36% rate cap would result in the creation of 4,678 direct jobs (vii) and 4,186 indirect jobs(viii), for a total of 8,864 new jobs created in one year, a net of 3,864 new jobs, still allowing for ISLA's worst-case scenario.

REDUCES RACIAL WEALTH GAP

Because people living in majority minority zip codes pay over 2.5 times as much per capita in fees as people living in majority White zip codes, the savings from the 36% rate cap should disproportionately benefit Black and Brown communities in terms of savings and jobs created. The PLPA is both a jobs bill and a racial equity bill.

MULTIPLIER EFFECT

Another way to look at the economic impact of the savings brought about by the PLPA's 36% rate cap is to consider the multiplier effect on local spending. According to analysis that the Resilient Families Task Force published in 2019, families that receive Earned Income Tax Credit (EITC) benefits tend to spend their benefits quickly. That spending results in between $1.50 and $2.00 in local economic activity for every $1.00 in EITC benefits received.

Families eligible for EITC benefits have incomes similar to the borrowers taking out predatory loans, so the multiplier effect should be similar. Based on just the estimated savings in fees paid for payday loans, installment payday loans, and auto title loans to out-of-state lenders, the multiplier effect could add between $475 million and $634 million in local economic activity. Based on the estimated savings in fees paid for these loans to both in-state and out-of-state lenders, the impact could be between $638 million and over $835 million. This estimate does not include savings in fees paid for small consumer loans, which are unsecured installment loans. Nearly 500,000 small consumer loans were made in 2019 at interest rates as high as 99% APR.

ENDNOTES

(i) Lenders criticize bill that puts an interest rate cap on smaller loans, by Kevin Bessler. https://www.thecentersquare.com/illinois/lenders-criticize-bill-that-puts-an-interest-cap-on-smaller-loans/article_1d44b2ae-6284-11eb-8ed2-1785f9009bb7.html

(ii) Bivens, Josh, 2019. Updated employment multipliers for the U.S. economy. Washington, DC: Economic Policy Institute.

(iii) $134.05 million x 13.77 per $1 million, plus $134.05 million x 8.57 per $1 million.

(iv) $134.05 million x 10.1 per $1 million, plus $134.05 million per 9.89 per $1 million.

(v) Data from IDFPR on the number of licensed payday and consumer installment lenders from 2017 to 2021 and the ISLA estimate of employees per location

(vi) In Arizona, payday lenders supported a constitutional amendment that would limit minimum wage increases. David Dayen, The American Prospect, “Payday Lenders Suffer Rare Attack of Honesty” (Nov. 11, 2019). https://prospect.org/power/payday-lenders-suffer-rare-attack-of-honesty/

(vii) $209.4 million x 13.77 per $1 million, plus $209.4 million x 8.57 per $1 million.

(viii) $209.4 million x 10.1 per $1 million, plus $209.4 million per 9.89 per $1 million.

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