Illinois’s Predatory Loan Prevention Act: The Impacts of the State’s 36% Rate Cap

The PLPA is Working!

First Edition

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Acknowledgments

Woodstock Institute thanks the authors of this report and contributors Jane Doyle, Calvin Bradford, and Rob Mayo, as well as the assistance of Horacio Mendez and Beverly Berryhill and the graphic design wizardry of Michael Garzel. Woodstock would also like to thank Capital Good Fund, the Division of Financial Institutions – Illinois Department of Financial and Professional Regulation, EarnIn and Lending Club – all of whom supplied data for this report. We are especially grateful to Kesha Warren and Alice Ramey for courageously sharing their stories with us.

This report would not have been possible without the generous support of Americans for Financial Reform Education Fund, the Chicago Community Trust, EarnIn, JP Morgan Chase Foundation, and Woods Fund Chicago.

Woodstock Institute

Woodstock Institute is a leading nonprofit research and policy organization working in the areas of fair lending, wealth creation, financial systems reform and safe, affordable financial products and services. Woodstock collaborates locally and nationally to create a financial system in which lower-income people and communities of color can safely borrow, save and build wealth to achieve economic security and community prosperity.

Woodstock Institute has been a recognized economic justice leader and bridge-builder between communities and policymakers in this field since its founding in Woodstock, Illinois, in 1973. Now based in Chicago, we collaborate with community and nonprofit groups, financial institutions and policymakers. Our key tools include applied research, policy development, coalition building and technical assistance. Woodstock conducts research on financial products and practices, promotes effective state and federal policies, builds coalitions of community investment stakeholders, and helps people use our work to understand economic issues so they can develop and implement solutions relevant to their community issues.

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Spencer received his Ph.D. in City and Regional Planning from the University of North Carolina, an M.A. in Urban and Regional Planning from the University of Florida, a J.D. from Boston University School of Law, and a A.B. in Political Science from Columbia University.

Brent Adams, J.D., M.A. has experience as a litigator, lobbyist, political organizer, teacher, debate coach, and policy advocate. As Policy Director at Citizen Action/Illinois, he drafted the Payday Loan Reform Act of 2005. In 2009, Illinois Governor Pat Quinn appointed Brent the Secretary of Financial & Professional Regulation. In that capacity, Brent served as the State’s top regulator. As Senior Vice President for Policy & Advocacy for Woodstock Institute, he worked with the Illinois Legislative Black Caucus in drafting the Predatory Loan Prevention Act and the state Community Reinvestment Act.

In 2021, he received a proclamation from the Illinois State Senate for “his exceptional career fighting on behalf of Illinoisans.” Brent received his B.S. and M.A. in Rhetoric from Northwestern University and his J.D. from New York University School of Law.
Executive Summary

1. The PLPA dramatically cut interest rates on nearly all types of consumer loans in Illinois.

<table>
<thead>
<tr>
<th>PRODUCT TYPE</th>
<th>AVERAGE APR, PRE-PLPA</th>
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<td>Pawn Loans</td>
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2. In 2019, consumers paid $607.4 million in interest and fees on payday loans, installment payday loans, auto title loans, and small consumer loans. In 2022, consumers paid $1,279 on these same loans – a savings of more than $600 million.

3. Black, Brown, and lower income borrowers paid a disproportionate share of interest and fees on high-cost loans before the PLPA. Accordingly, Black, Brown and lower income borrowers received a disproportionate share of the savings from the PLPA.

4. Prohibiting predatory payday loans has eliminated racial, ethnic, and economic disparities with respect to payday lending in Illinois.

5. After the PLPA, payday lenders, auto title lenders, and high-cost installment lenders closed while more affordable installment lenders expanded their business in Illinois. Since the PLPA, there are 172 new lender licenses/branches.

6. A for-profit lender and a not-for-profit lender reported that, after the PLPA, they saw an increase in applications. The increased number of applications did not negatively impact loan origination rates. The not-for-profit lender saw a dramatic increase (70%) in originations.

7. A scientific poll found that Illinoisans overwhelmingly support the PLPA rate cap: 86% support, 6% oppose.

8. In the same poll, more than three-quarters of respondents reported that they handled their need for cash after the PLPA without cutting back on essential expenditures.

9. Comparing a period before the PLPA to periods after the PLPA, bankruptcy filings decreased more in Illinois than in any other state in the region.

10. Access to credit can have a negative outcome when borrowers acquire more debt than they can afford. Data through the end of 2022 show that younger borrowers are increasingly unable to repay their auto loans and credit card bills, and that was before student loan repayment resumed at the end of the year.
The Predatory Loan Prevention Act (PLPA) took effect in March of 2021, limiting the maximum annual percentage rate (APR) on consumer loans to 36%, including all fees and other charges. The PLPA was developed by the Illinois Legislative Black Caucus as part of a package of bills aimed at eliminating structural racism.

The table below shows the average APRs on various types of consumer loans before the PLPA, and the maximum APR on those same loan types after the PLPA.

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The PLPA, unlike nearly all other state rate caps, requires all ancillary charges for services or add-on products, such as credit insurance, to be included in calculating the APR for the rate cap. The model for the PLPA rate cap is the federal Military Lending Act which took effect in 2006 and requires ancillary charges to be included in determining the maximum allowable 36% Military APR (MAPR).

This paper summarizes: 1) the data informing the debate over the PLPA; 2) the data concerning what happened after the PLPA took effect; and 3) comments on recently published reports on consumer debt and the effect of interest rate caps.

**WHAT WAS HAPPENING BEFORE THE PLPA WENT INTO EFFECT**

A. Predatory loans charged triple-digit interest rates that cost mostly lower-income and Black and Brown consumers hundreds of millions of dollars per year.6

Beginning with payday loans in 2005, the Illinois Department of Financial and Professional Regulation (IDFPR) has collected loan-level data through a statewide database on high-cost loans made by licensed

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1. The PLPA covers only consumer loans (not business loans), and exempts banks and credit unions; however, there are no exemptions based on consumer loan product type. This report focuses on the loan types for which we have the most data: payday, installment payday, small consumer, and auto title loans.


3. This figure is based on unofficial data supplied by the industry for 2020. The most recent official data on pawn loans show that the average monthly interest rate on interest and fees was 64%, which would equate to approximately 768% APR (2017 Disclosure Report Results). This amount far exceeds the cap in the Pawnbroker Regulation Act (205 ILCS 510), which is one-fifth of the loan amount per month (20%), which equates to approximately 240% APR.

4. Installment payday loans are payable in multiple installments and have terms between 112 and 180 days.

5. Payday loans are single-payment loans and have terms between 14 and 45 days.

6. Much of the information about the negative impacts of predatory lending, especially in Black and Latine communities, is contained in reports from WeProsperIL, a collaboration among Woodstock Institute, New America Chicago, and The Chicago Urban League. One of those reports, *Ill-gotten Gains: Predatory Lending and the Racial Wealth Gap in Chicago* (Mar. 12, 2022), summarizes the findings from analysis of data from IDFPR on the distribution and impact of predatory loans on Illinois borrowers.
lenders in Illinois. The pawn industry is the only major high-cost lender not required to report data to the database. The IDFPR data for 2019, the last pre-COVID year, showed that 78% of payday loan borrowers, 81% of installment payday borrowers, 89% of auto title borrowers, and 83% of small consumer loan borrowers had incomes of $50,000 or less.

In 2019, consumers paid $607.4 million in interest and fees on these loans, which include:

- **$9.6 million** in interest and fees on payday loans;
- **$266.0 million** in interest and fees on installment payday loans;
- **$211.9 million** in interest and fees on auto title loans; and
- **$119.9 million** in interest and fees on small consumer loans.

Data also show that areas with the highest percentages of Black residents had the highest incidence of payday and installment payday loans per capita, by far. Woodstock analyzed Chicago high-cost loan data for 2019 and 2020, including the ZIP Code of the borrowers. For ZIP Codes with populations over 10,000, the five with the lowest rate of payday and installment payday loans over those two years had combined populations that were just 3.5% Black and had taken a total of 3,176 payday and installment payday loans over those two years, an average of 15.6 loans per 1,000 population (Chart 1). Meanwhile, the five ZIP codes with the highest rate of payday and installment payday loans had combined populations that were 93.4% Black and had taken a total of 51,140 payday and installment payday loans over those two years, an average of 199.3 loans per 1,000 population, over 12 times the rate for the lowest per capita ZIP Codes.

Predatory lenders did not limit the targeting of minority neighborhoods to Chicago. An analysis of St. Clair County, home to East St. Louis, and an analysis of Springfield, the Illinois state capital, both showed similar disparities, although the concentrations of minority populations in those two areas are much less marked than in Chicago. In St. Clair County, 40% of the population live in census tracts that are more than 75% white, and they took out 25% of payday and installment

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7. The IDFPR reports are available on the department's website, [https://idfr.illinois.gov/about/brochures/annualreports.html](https://idfr.illinois.gov/about/brochures/annualreports.html).
8. State Senator Jacqueline Collins introduced a bill in 2022 that would have required pawnbrokers to enter their loans into the database (HB3968 STA1). That bill was not called for a vote. A bill passed the State Senate in November 2023 (HB 779 STA1, STA2) that would permit, but not require, IDFPR to collect loan level data for small dollar loans, including pawn loans.
9. Data obtained via Freedom of Information Act (FOIA) request to IDFPR.
10. Data obtained via FOIA requests to IDFPR. This type of analysis is unique in the predatory lending field of study because the borrowers’ ZIP Codes allow us to determine more accurately the geographic impact of predatory loans. Other studies have had to rely on the location of the lender, which is an insufficient proxy for this type of impact. This analysis was also featured in an article in the Chicago Sun-Times: Zimmerman, Stephanie, “High-interest loans in Chicago target Black neighborhoods” (Nov. 26, 2021).
payday loans; meanwhile 60% of the population live in tracts that are 25% or more minority population, and they took out 75% of those loans (Chart 2).

A similar pattern was evident in the state capital, Springfield. There, the 45% of the population that lived in census tracts that were more than 80% white took out only 16% of the area’s payday and installment payday loans, while the 55% who lived in tracts that were more than 20% minority took out 84% of those loans (Chart 3).

### An economic analysis of the PLPA predicted that it would create jobs.

One of the arguments that predatory lenders presented to oppose the PLPA was that the rate cap would force them to close, costing the state up to 5,000 jobs. A Woodstock Institute analysis showed that statement to be both false and misleading because it did not consider the economic impact of the savings to consumers that would result from the 36% rate cap.\(^{11}\) Factoring in those savings, our analysis predicted that the rate cap

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would result in a net gain of jobs, even allowing for the industry’s worst-case projection (Chart 4).

**CHART 4: PROJECTED PREDATORY LENDER AND OTHER JOBS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Predatory Lender Jobs</th>
<th>Other Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>7,046</td>
<td>1,088</td>
</tr>
<tr>
<td>2018</td>
<td>6,825</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>6,671</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>6,329</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>5,673</td>
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</tbody>
</table>

Based on IDFPR data, we estimated the net savings to consumers from the 36% rate cap would be nearly $419 million. Prior to the PLPA, an estimated 56.4% of Payday and Installment Payday lenders, and 74.4% of Auto Title lenders were owned by out-of-state entities, which suggests that a significant portion of loan interest and fees paid by consumers left the local economy. Adjusting the savings to consider the impact of only the interest and fees paid to out-of-state interests, roughly $268 million, the PLPA would still be projected to result in 5,673 jobs from the increase of that much in consumer spending in the local economy, a net gain of 673 new jobs over the industry’s estimate of 5,000 lost jobs. If all of the $419 million projected savings on interest and fees were included in our estimate, the additional consumer spending would help create 8,864 jobs, a net gain of over 3,800 new jobs. As you will see below, we underestimated the total savings, suggesting the PLPA created more jobs than projected in our report.

**WHAT HAPPENED AFTER THE PLPA TOOK EFFECT**

A. Most lenders stopped making predatory loans, saving consumers hundreds of millions of dollars in interest and fees.

In 2019, the last pre-COVID year, high-cost lenders reported making a total of 1.04 million loans\(^{12}\) with total fees of $607.4 million. During COVID, the number of loans dropped dramatically, to a total of 637,157 loans with total interest and fees of $383.5 million. In 2022, the first full year after the PLPA took effect, high-cost lenders reported making only 105 loans, with total interest and fees of $1,279 (Chart 5). Measured from either the pre-COVID or COVID numbers, it is clear that the PLPA has saved consumers hundreds of millions of dollars in interest and fees.\(^{13}\)

The one unknown variable in the computation above is how much of these savings, if any, were diverted to the pawnbrokers. While the PLPA only exempts banks, credit unions, and commercial loans, a Sangamon County judge ruled in September 2021 that the PLPA did not apply to

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\(^{12}\) 163,673 payday, 338,721 installment payday, 55,121 auto title, and 484,590 small consumer loans.

\(^{13}\) See also IDFPR, Division of Financial Ins. Director Francisco Menchaca, Press Release, IDFPR Releases Annual Consumer Lending Trends Report (Jan. 5, 2023) (“[The Trends Report] shows the PLPA is working as intended by drastically decreasing the number of predatory products used by the hard-working people of Illinois.”).
Research shows that tightening regulations on one segment of the market can cause the industry and its consumers to gravitate to the less regulated segment. After enacting a cap of 28% APR on payday loans, Ohio saw a 97% increase in pawn shops. Therefore, there is a high probability that some of the money saved by consumers on payday and auto title loans was spent on pawn loans.

A deeper analysis of loan prevalence data in the Metro East area before and after the PLPA supports this conclusion (Chart 6). Prior to the PLPA and the COVID pandemic shut-downs, the incidence of payday loans in majority-Black zip codes in Metro East was 2.8 times higher than in majority-white zip codes. During the pandemic but before the PLPA, the incidence of payday loans dropped, but the disparity held at 2.7. In the year after the PLPA went into effect, Black zip codes in Metro East had just 2 loans per 1,000 people and white zip codes had just 1 per 1,000 people. There were no payday loans after January 3, 2022. The PLPA, a central component of the Illinois Legislative Black Caucus’s Economic Equity Pillar, eliminated disparities in payday lending, which were disproportionately draining resources from Black neighborhoods in Metro East. We are confident the data would show the racial disparities eliminated throughout the State.

Since Black, Brown, and lower income communities were disproportionately harmed by predatory loans before the PLPA, they also disproportionately benefit from the hundreds of millions in savings on loan interest and fees. That trend continued after the PLPA took effect. According to IDFPR, from the time the PLPA took effect (March 23, 2021) until the end of 2023, IDFPR issued:

- 145 new licenses to make installment loans under the Consumer Installment Loan Act (CILA);
- 47 new licenses to make point-of-sale loans under the Sales Finance Agency Act (SFA); and
- 56 new Limited Purpose Branches (LPB) of CILA licensees. The sole purpose of an LPB is to make loans.

Of the new licenses/branches issued since the PLPA took effect until the end of 2023, the following number were still active as of the end of 2023:

- 105 new CILA licenses remained active;
- 42 new SFA licenses remained active; and
- 25 new LPBs remained active.

Capital Good Fund (Good Fund) is a nonprofit, U.S. Treasury-certified Community Development Financial Institution (CDFI) founded in 2009 as an alternative to predatory lenders. As of January 2024, the average interest rate for a Good Fund loan is 13%, and borrowers’ average credit score is around 580. Good Fund’s repayment rate is 96.7%. Within days of the PLPA going into effect, Good Fund saw an increase in daily application volume of about 70%, with a similar increase in loan closings. On the dramatic increase in loans, President & CEO Andy Posner stated:

“We expected this to happen. As predatory lenders close their doors, families will look to other options. At the same time, the cost of reaching those families, for instance through Google AdWords ads, has gone down because there are now fewer lenders bidding on certain keywords. In short, more families are coming to us for affordable loans, both because they are seeking out alternatives and because it
has become easier for us to market our products. Put another way, the marketplace has been leveled, benefiting consumers and equitable lenders alike.”

A leading for-profit fintech lender called LendingClub provided data analysis to Woodstock suggesting that, as a result of the PLPA, the segment of people in Illinois who previously turned to high-cost loans above 36% APR accessed lower-cost credit instead. LendingClub Personal Loan rates are below 36% APR, and LendingClub’s average loan costs significantly less than that. In an analysis of data through September 26, 2023, LendingClub saw an 11% increase in applications in Illinois as compared to the 49 other states, among people with credit scores below 660 who are seeking less than $4,000. The increased application rate in Illinois was even stronger at lower loan sizes more typical for high-cost lenders. Among consumers seeking less than $2,000, Lending Club saw a 23% increase in applications.

LendingClub has been able to serve former high-cost loan borrowers just as it serves its regular customer base. As former high-cost loan borrowers began applying to LendingClub instead, LendingClub’s approval rate in Illinois as compared to other states remained the same, which means the new applications consisted of credit-worthy borrowers and not just consumers who simply had no other place to turn. Indeed, it suggests that people who began applying for LendingClub loans were often creditworthy enough to get lower cost credit even before the PLPA.

Consumer surveys showed that access to cash and/or credit continued after the PLPA.

Other than Woodstock Institute, no one has commissioned a scientifically valid poll on the impacts of the PLPA. In July 2022, Woodstock commissioned such a poll from Lake Research Partners (LRP), a well-regarded national polling firm. LRP surveyed 400 low-income consumers in Illinois (those most likely to have taken a high-cost loan before the PLPA) and 200 other Illinois consumers. One of the goals of the LRP survey was to find out the impact of the PLPA rate cap on consumers’ ability to meet expenses. The LRP survey asked people about how they handled the need for extra cash in the months following the PLPA going into effect. More than three quarters of the respondents handled their need for cash in ways that did not involve cutting back on essential expenditures. People said that they borrowed from friends, tapped into personal savings, waited until the next paycheck, or used some other methods to get by. Unfortunately, we do not have comparable data from before the PLPA on the issue of access to cash/credit to fully understand the PLPA’s impact on consumers’ access to cash/credit.

The Earned Wage Access (EWA) provider EarnIn surveyed its customers in October 2023. Generally speaking, EWA is a type of financial product whereby workers can receive money they have earned but not yet been paid. A common type of EWA is one in which a consumer is given the option of paying a “tip” ranging from $1-$11 for an advance of $100. The consumer would also pay a fee – around $5 – for the advance to be deposited immediately. By not tipping and not requesting immediate deposit, the advance is free. The EWA provider is repaid through automatic deduction from the worker’s bank account on payday.

Of the 51,594 EarnIn customers given the opportunity to respond to the survey, 1,379 responded. The EarnIn survey is not a scientific poll. Rather, it is simply a snapshot of a particular group of people at a particular time. The survey showed that access to cash via EarnIn’s EWA reduced people’s use of high cost loans, such as pawn loans and payday loans by 62%: 26% of respondents said they used these loans before becoming EarnIn customers, and just 10% said they had used them since becoming EarnIn customers. This shows that viable alternatives to predatory loans exist and are being used.

19. The margin of error for the full adult sample was +/- 4.0% and for the low-income sample was +/-4.9%.
20. See also: Woodstock Institute & Consumer Federation of America, Alternatives to High-Cost Loans and Policy Solutions to Expand Affordable Options (Dec. 2022).
21. Not all EWA providers are created equal. Some make it difficult to opt out of tipping.
It is important to note that EWA usage is not reflected in credit bureau data.

Many safe and affordable alternatives are also highlighted in the WeProsperIL Resource Guide of Affordable Alternatives to Predatory Loans (Resource Guide), which was developed by Woodstock Institute and its partners to help guide folks who previously relied on high-cost loans to safe and affordable alternatives. The Resource Guide describes many options, such as ways to lower current bills, access additional cash or in-kind assistance without borrowing, and identify providers of lower-cost loans that comply with the PLPA’s 36% rate cap. For example, the Resource Guide has information about rental assistance programs, utility assistance programs, and other ways to lower expenses during periods of financial distress. The Resource Guide also points to cash and in-kind assistance, such as filing for the state and federal Earned Income Tax Credit and reaching out to nonprofits or religious organizations – some of which provide low-/no-cost loans to folks regardless of their religion.

Illinois consumers overwhelmingly support the 36% rate cap.

The LRP Survey found that 86% of respondents support the PLPA, with 71% strongly supporting the law and only 6% opposed (Chart 7). Support for the law was actually slightly higher among the low-income consumers surveyed, which is notable considering that low-income consumers disproportionately used high-cost loans before the PLPA. In addition, 62% of survey respondents said that they would be more likely to vote against a candidate who wanted to allow lenders to charge more than the 36% rate cap.

KESHA WARREN
CEO, Shade Tree & Woodstock Institute’s 2021 Advocate of the Year

Kesha Warren owns Shade Tree, which includes Shade Tree Janitorial, a janitorial and property preservation business in South Holland, Illinois and an IT business, which provides a wide spectrum of IT services. She also has a full-time job at a hotel, is married, and is the mother of two sons, ages 8 and 9. In December 2019, before the PLPA, she took out a $1,250 auto title loan to pay her contractors on time. At an APR of 197.64%, she owed $4,211.10 in interest and fees on the loan.

“I am absolutely a victim of predatory lending. It was a whoopin’!” says Kesha. “I have no problem with telling it like it is.” Kesha courageously shared her story publicly to build support for the PLPA.

Today, Kesha continues to face a variety of challenges common to entrepreneurs: access to business capital, inflation, and the lingering economic effects of COVID-19. Chicago’s unseasonably warm weather has also had a negative impact on her property preservation business. Kesha says, “Snow may make it harder to commute to work, but it’s good for business. Let it snow!”

Kesha is in the process of obtaining her Minority Business Enterprise/Women Business Enterprise (MBE/WBE) certification from the City of Chicago but that, too, costs money.

“Black women entrepreneurs often feel like we’re fighting an uphill battle, but I take comfort in knowing that the PLPA protects women like me from predatory auto title loans,” says Kesha.
Comparing the period April 2019–March 2020 to the corresponding periods in 2021–2022 and 2022–2023, bankruptcy filings decreased more in Illinois than in any of the other states in the region.

One clear measure of financial distress is nonbusiness bankruptcy filings, the number of people who are so overburdened by debt that they need to seek court protection from their creditors. The bankruptcy filing data suggest that the PLPA may have reduced the level of financial distress for Illinois residents.

Using the twelve-month period beginning in April 2019 as a baseline, to avoid the distortions in bankruptcy filings associated with the federal interventions in the economy at the height of the COVID pandemic, the data show that filings declined more in Illinois in both the first and second year following the PLPA than they did in any of the other states in the region (Chart 8).

Three recently published reports have addressed issues related to consumer debt and interest rate caps. One of the reports looks at the growth of consumer debt, specifically credit card and auto loans, and the troubles that younger borrowers are having with that debt. The other two look at the impact of interest rate caps on access to capital, with a focus on consumers with lower credit scores.

Younger Borrowers Are Struggling with Credit Card and Auto Loan Payments, “good” debt gone “bad.”

This report shows how loans that could be “good” for the borrower can become “bad.” Economic theory generally considers borrowing to be good because, in many cases, the borrowed money enables people to invest in homes, education, and businesses that can lead to increases in wealth and opportunity. Borrowing can also allow people to acquire goods now that they could not afford.

![Chart 8: Percent Change in Nonbusiness Bankruptcy Filings, Post-PLPA](chart8.png)

22. Nonbusiness bankruptcy filings in the seven states in the region (Illinois, Kentucky, Indiana, Iowa, Michigan, Missouri, and Wisconsin) fell by between 32% and 47% in those states in the period between April 2020 and March 2021.

and manage cash flow, improving the quality of their lives. Repaying loans helps build peoples’ credit scores, enabling them to access even more capital. Those elements can make debt “good” if:

- The money borrowed enables the borrowers to invest in things that lead to opportunity, build wealth, and improve quality of life;
- Borrowers are able to successfully repay the loans; and
- The loans and repayment are reported to mainstream credit bureaus to allow the information to be used to generate a credit score, providing access to additional mainstream credit.

Credit card debt and auto loans can meet all three of the good debt criteria, but, as the report shows, they can also turn bad. The borrowing in this report probably met the first criteria for good debt, but it lacks the other two elements. Data through the end of 2022 show that younger borrowers are increasingly unable to repay their auto loans and credit card bills, and so they are becoming delinquent, with delinquencies at or above pre-COVID levels. As the authors note, the trend is concerning because it was occurring during a period when economic conditions were relatively strong and when student loan payments were on hold. As student loan payments resume, the situation could get worse. The authors conclude by saying that “the delinquent marks [on borrowers’ credit reports] will impact their access to credit for years to come.”

**Credit for me but not for thee: The effects of the Illinois rate cap (the “Bolen paper”).**

One recent study examined the possible effects of the PLPA interest rate cap, looking at the impact of the law on peoples’ borrowing and a survey of online borrowers. The analysis in the Bolen paper is seriously flawed, so much so that its conclusions are not credible.

The first major flaw in the Bolen paper is what it uses to measure the impact of the PLPA on credit availability in Illinois. The authors use the change in “unsecured installment loans that are provided by banks, credit unions, and state licensed finance companies” (Bolen, p. 3) that were reported to the major credit bureaus (Bolen, p. 15). Banks and credit unions are specifically exempted from the PLPA rate cap, as the authors acknowledge. Finance company loans in the data would be affected only if they charged more than 36% APR before the PLPA. The authors provide no information about the percentage of finance company loans, if any, that may have exceeded the 36% APR rate cap, and so it is entirely possible that none of the finance company loans were affected. In addition, many of the loans impacted by the PLPA rate cap, such as payday and auto title loans, are usually not reported to mainstream credit bureaus, which means that they are unlikely to appear in the data the authors used.

The authors’ conclusions about the impact of the PLPA on credit availability are based on a dataset: 1) which definitely includes loans not affected by the PLPA; 2) which might include no loans that were affected by the PLPA, and 3) which almost certainly fails to include most of the loans, such as payday and auto title loans, that were affected by the PLPA. The analysis is thus based on a dataset which doesn’t adequately capture the loans subject to the PLPA rate cap. Consequently, the conclusions are irrelevant.

A second major flaw is in the authors’ reliance on an online survey to measure the impact of the PLPA on financial wellbeing. The Online Lenders Alliance (OLA) conducted an online survey, sending out emails with links to the survey to 38,860 former customers of four online lenders; 699, or less than 1.8%, responded (Bolen, p. 18). The extremely low response rate means the survey reveals nothing about the experiences or views of the 38,161 people, over 98%, of those surveyed who did not respond. The findings, at best, represent the opinion of only a very small, self-selected fraction of online borrowers – a problem known as selection bias. Generally accepted survey interpretation


25. In fact, the PLPA abolished installment payday and small consumer loans, the types of loans that finance companies might possibly have made that could have been affected by the rate cap. The data for the Bolen paper, however, do show that finance companies originated 103,813 unsecured installment loans to subprime and near-prime borrowers in Illinois in the six months after the PLPA went into effect (Bolen paper, Table 2, p. 48). Those loans had to comply with the PLPA and could not have exceeded the 36% rate cap.
methodology recognizes the issue of selection bias and indicates that the responses from a small, self-selected group of respondents should not be said to be those of the group as a whole. In addition, a group of online borrowers may not be representative of high-cost loan borrowers generally, let alone any broader group of consumers.

A third major flaw involves the authors’ assumptions. One assumption is that a decrease in the origination of unsecured personal loans means consumers are worse off. Consumers do not generally borrow money when their financial situation is great. One exception is for debt consolidation loans, but generally consumers borrow money when they are struggling to make ends meet. Thus, a decrease in originations could just as easily support the conclusion that consumers are doing better after the PLPA.

A second assumption is that decreased originations, standing alone, means consumers wanted, but could not obtain, unsecured consumer loans. That is, of course, the point of their whole report, namely, that consumers wanted something they couldn’t have. The number of originations, however, provides very little insight on loan demand. To fully assess demand, the authors could have, but did not, analyzed data with respect to applications and denials. Fewer originations could simply reflect decreased demand.

Finally, another assumption is that unsecured loans are the only way in which consumers with subprime credit scores can address their need for short-term, small-dollar credit. As described earlier in this report, the LRP and EarnIn surveys both show clearly that many people who may have taken predatory loans before the PLPA went into effect have found less predatory alternatives to meet their need for credit. Many of those alternatives would not appear in credit bureau data either. The Bolen paper’s results do not take alternatives to predatory loans into account and, therefore, overstate the potential impact on subprime and near-prime borrowers.

Those flaws make the analysis useless – or worse – for understanding the impact of the PLPA. The authors base their conclusions on irrelevant and unrepresentative data, and their assumptions are illogical. The loan data don’t show how the PLPA affected credit availability because they aren’t for loans that the PLPA affected. The survey results don’t show the impact on Illinois consumers’ financial well-being because they are, at best, the opinions of a small, and not-necessarily representative, fraction of the people who were surveyed.


Another recent study examined the impact of the PLPA rate cap by looking at consumer credit scores and debts in collection.26 Like the Bolen paper, the Urban Report has issues which call into question the validity of the authors’ findings.

The first issue is that the authors do not disclose the source of their data other than saying that they come from a source that compiles data from “online small-dollar lenders; online installment lenders; storefront small-dollar lenders; and single payment, line of credit, auto title, and rent-to-own lenders” (Urban Report, fn. 25, p. 44). This issue creates two problems because the authors refer simply to “alternative financial service [AFS] loans” in the report. First, the data do not identify or distinguish between loan products that are, or are not, subject to the PLPA rate cap. Second, the data also do not identify or distinguish between lenders who made loans currently subject to the PLPA rate cap, such as payday or installment payday lenders, and those who do not make such loans, such as pawn brokers and rent-to-own providers.27 The first issue means that it is not possible to tell how many of the loans in the data, if any, were of the type affected by the PLPA rate cap. The second issue means that it is not possible to tell how many of the lenders reporting the data, if any, made loans that the PLPA rate cap affected. Without knowing the extent to which the data includes lenders or loans affected by the

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27. The two preceding sentences have been edited to clarify that the Urban Report’s data, not the authors, omit this information.
PLPA rate cap, it is impossible to tell whether the findings have any relevance for assessing the impact of the PLPA.

The second flaw is that the study relies on mainstream credit scores as a measure of the PLPA’s impact. The PLPA was intended to address a very particular type of financial harm: being trapped in an unaffordable cycle of debt. Such harm relates to credit score, but does not determine it. The authors themselves seem to acknowledge this as an issue because they state that, among the limitations to their findings, are: 1) relying on mainstream credit scores will miss people who do not have a credit history, and 2) the people most likely to use the kinds of predatory loans that the PLPA rate cap affected are probably overrepresented among those without a credit history. In other words, the findings apply to a subset of AFS loan users (those with a credit score both before and after the PLPA’s enactment), who, in turn, a subset of the people who used the predatory loans the PLPA affected. But, even among that limited group, the study finds that the PLPA had no negative impact on credit scores!

Finally, the Urban Report’s findings with respect to debt in collections actually provide additional evidence to show that the PLPA is working. The Urban Report states that the PLPA is associated with a small, short-term increase in the share of consumers with debt in collections but that the increase dissipated 1 year and 1.5 years after the PLPA was implemented. This finding is consistent with the PLPA putting an end to a previously endless cycle of debt that ensnared many consumers who turned to high-cost loans. Because of the PLPA, high-cost lenders opted to discontinue operations, and thus, not to rollover their customers’ loans. A rollover would have to comply with the PLPA rate cap. Some of those loans then went to collections, which could explain why the debt in collections increased after the PLPA but dissipated in 2022. The PLPA put an end to the “debt trap” that made high-cost payday, auto-title, and installment loans easy to get but hard to get out of. For consumers with subprime credit scores, in particular, the data on debt in collections, if it shows anything, shows that the PLPA is working because the Urban Report found that “the PLPA is associated with a small decrease [emphasis added] in the share of consumers with debt in collections.”

Conclusion

A fairly consistent irony in the field of consumer financial protection is that our opponents in the industry claim to be doing what’s best for consumers despite the consumers’ strenuous disagreement with the industry’s position. Nowhere is this more true than in the predatory lending space. Time and time again, by large margins and across the political spectrum, consumers express their opposition to triple-digit interest rate loans and their support for caps on interest rates. The high-cost lenders, however, persist in arguing that they are trying to defend access to credit. The “prime directive” of a for-profit lender is to make money, which is entirely their right, but that is not the same as doing what’s best for consumers.

The best dataset to evaluate whether the PLPA is working are the consumers in Illinois. The findings from that dataset are irrefutable. The PLPA is wildly popular.

The PLPA did not, of course, solve all of consumers’ financial woes, and we should continue to pursue policies that further the financial security of consumers, particularly in Black, Brown, and lower income communities. The solution for consumers struggling to make ends meet is not more debt. Cash assistance, “baby bonds,” children’s savings accounts, tax credits, student loan forgiveness, free tuition to attend public universities, a living wage, and reparations are all programs that hold promise to improve families’ bottom line.

While Woodstock and our coalition partners will continue working to hold the line on predatory lending, we hope we can also work with state and federal policymakers on forward-looking policy solutions that promote economic security and community prosperity.