An Illinois Consumer Survey

Understanding the Impact of the 2021 Rate Cap on Consumers

Online Lenders Alliance

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OLA
Online Lenders Alliance

Executive Summary

Illinois Governor JB Pritzker signed into law a 36 percent interest rate cap on March 23, 2021. The law applied specifically to nonbank lenders, the primary financial institutions that provide personal loans to underserved consumers.

This survey had a singular goal: to better understand how the Illinois rate cap impacted underserved consumers who took out loans with APRs above 36 percent before the imposition of the rate cap. Proponents of rate caps 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 shed light on the impact of the rate cap by surveying actual borrowers.

Key findings include:

- Short-term, small-dollar loans help borrowers manage their financial situations, and those making under $50,000 per year are more likely than other groups to say that the loans helped them manage their financial situations.

- The rate cap has failed to improve the financial wellbeing of Illinoisans, specifically those who 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 in March 2021. At the same time, a majority of borrowers indicated they were unable to access credit at some point following the rate cap.

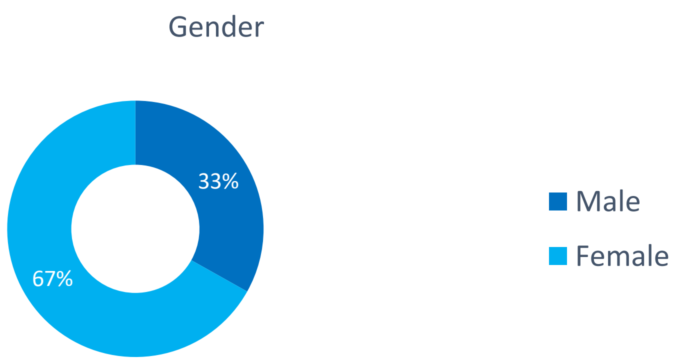
- When unable to obtain credit, consumers said they were left with poor alternatives, including late bill payments, skipping urgent appointments or vital expenses, or pawning valuables.

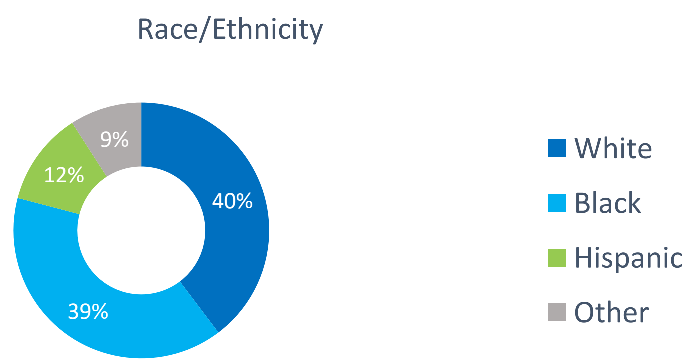
- The vast majority of borrowers want the option to return to their previous lender, demonstrating support for the loan options available before the rate cap.

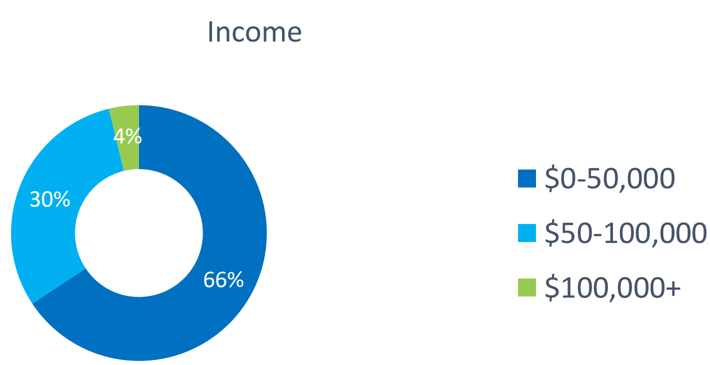
Survey Methodology

OLA surveyed Illinoisans who took out short-term, small-dollar loans from January 2019 to March 2021. The survey composed of 699 responses and was conducted from December 14-31, 2021.

In this survey, nearly two-thirds of respondents were female and about a third were male.[1] Forty percent were white, 39 percent were black, 12 percent were Hispanic, and 9 percent were "other."[2] In addition, two-thirds had personal incomes[3] under $50,000, 30 percent had between $50,000-100,000, and 4 percent had more than $100,000.[4]



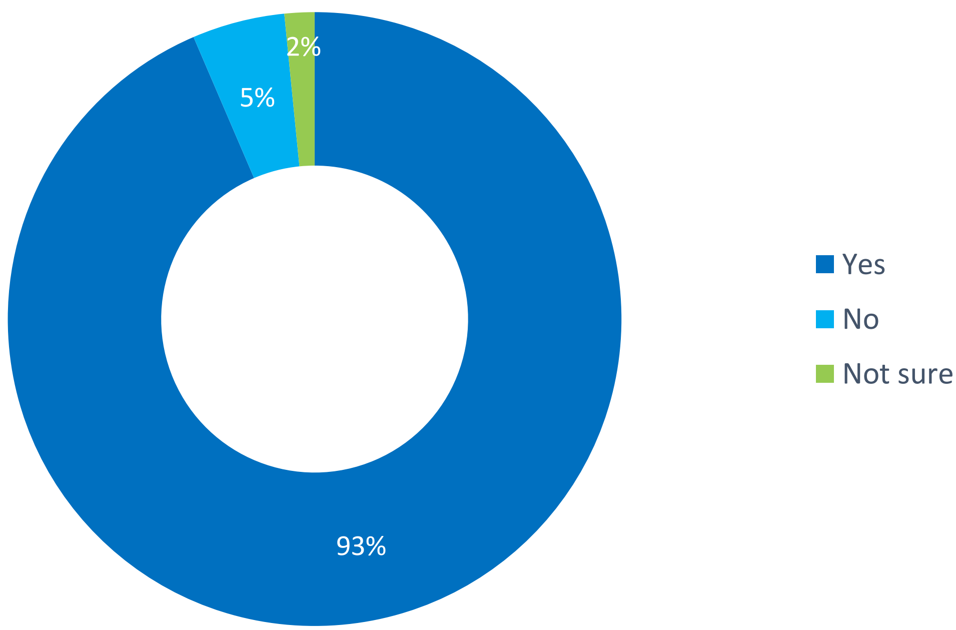




Loan Effectiveness

To better understand the impact of short-term, small-dollar loans, OLA asked whether the loan helped the consumer manage the financial situation that caused them to take out the loan in the first place. The vast majority answered in the affirmative.

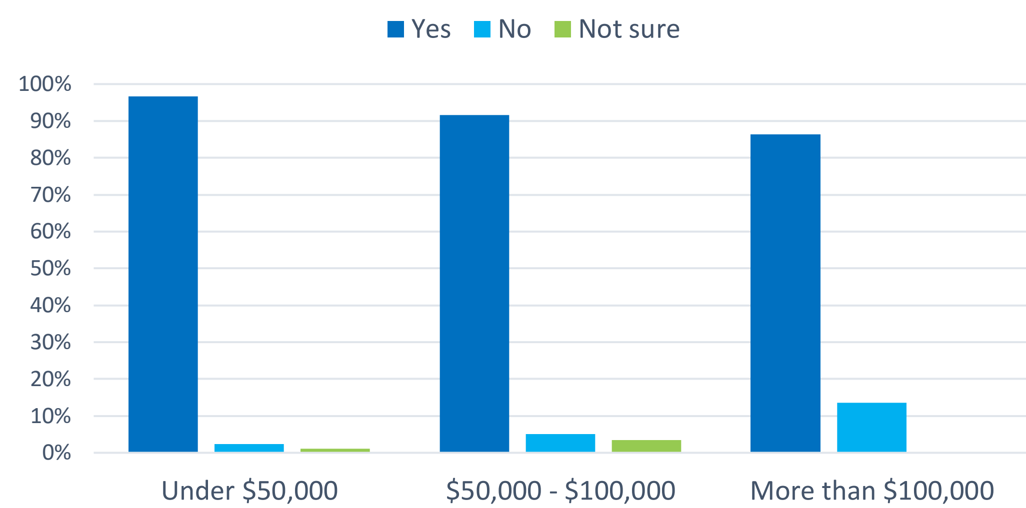
Question: "Did your loan help you manage your financial situation that you were facing at the time?"



Source: Online Lenders Alliance

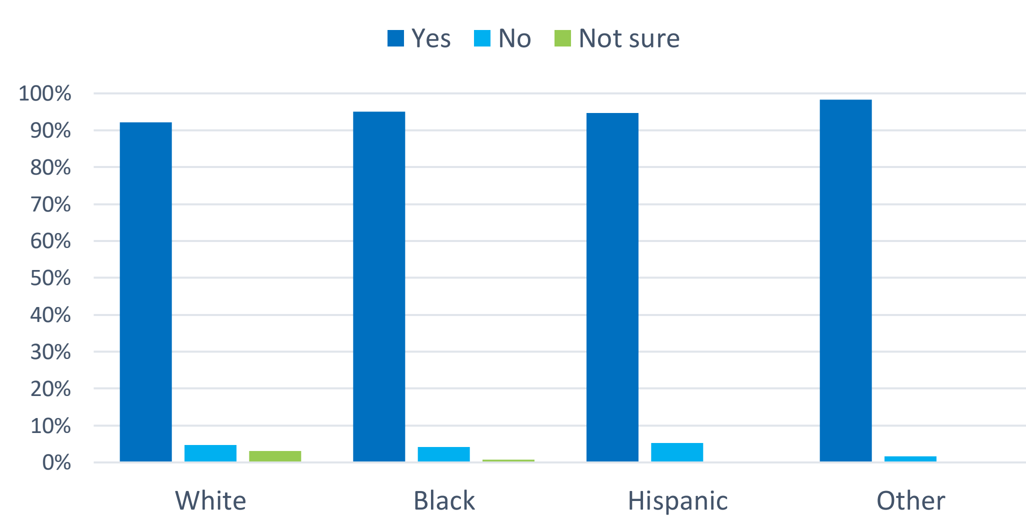
By Income

Respondents making less than $50,000 were more likely to say that the personal loan helped them manage the financial situation they were facing at the time than other income groups.



By Ethnicity/Race

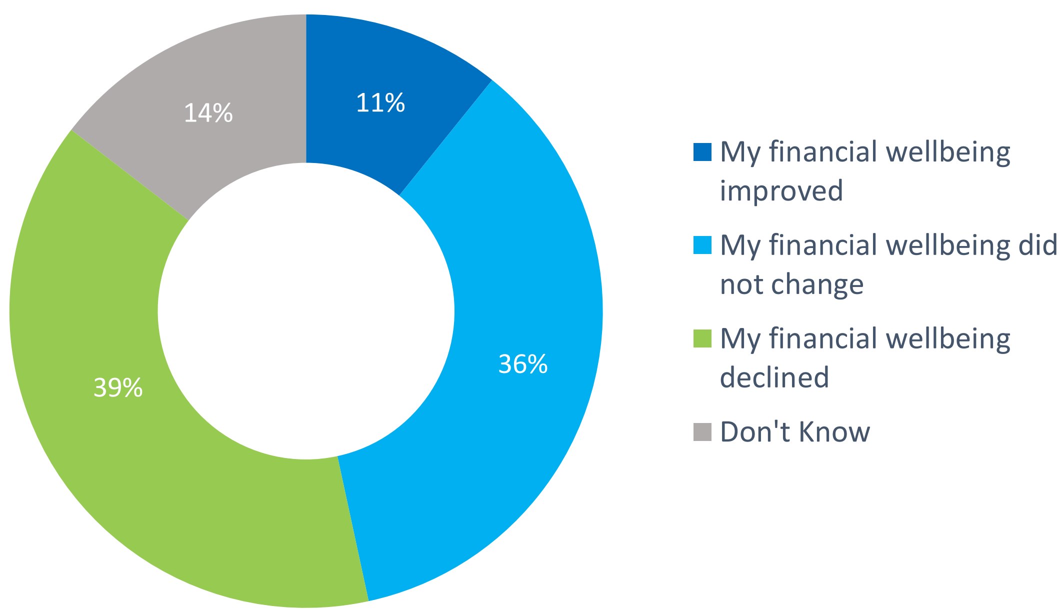
The vast majority of respondents – whether White, Black, Hispanic, or "other" – indicated that their loan helped them manage their financial situation.



Financial Wellbeing

When asked if they had seen improvements in their financial wellbeing since their preferred lender left Illinois following the rate cap, a plurality of consumers – 39 percent – indicated that their financial wellbeing had declined.[5]

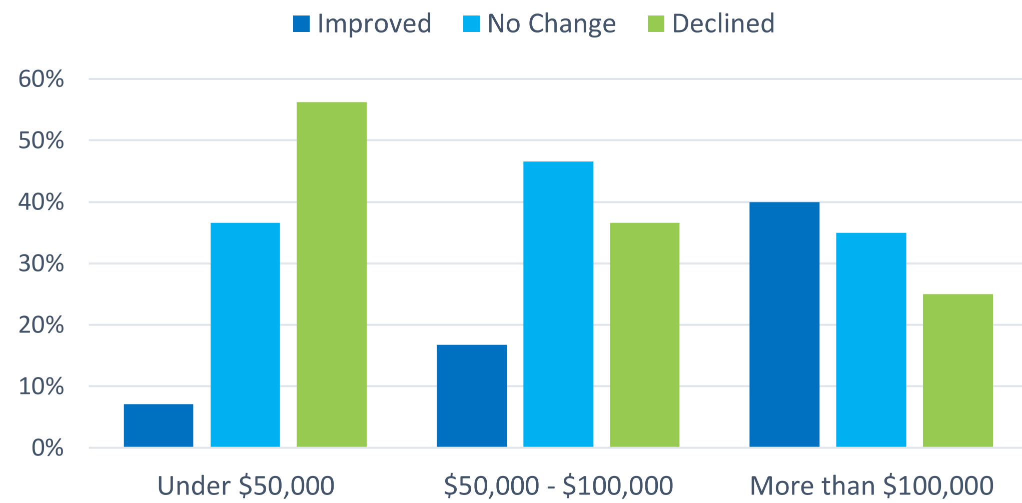
Question: "Since your previous lender stopped offering loans in Illinois, how has your overall financial wellbeing been impacted?"[6]



Source: Online Lenders Alliance

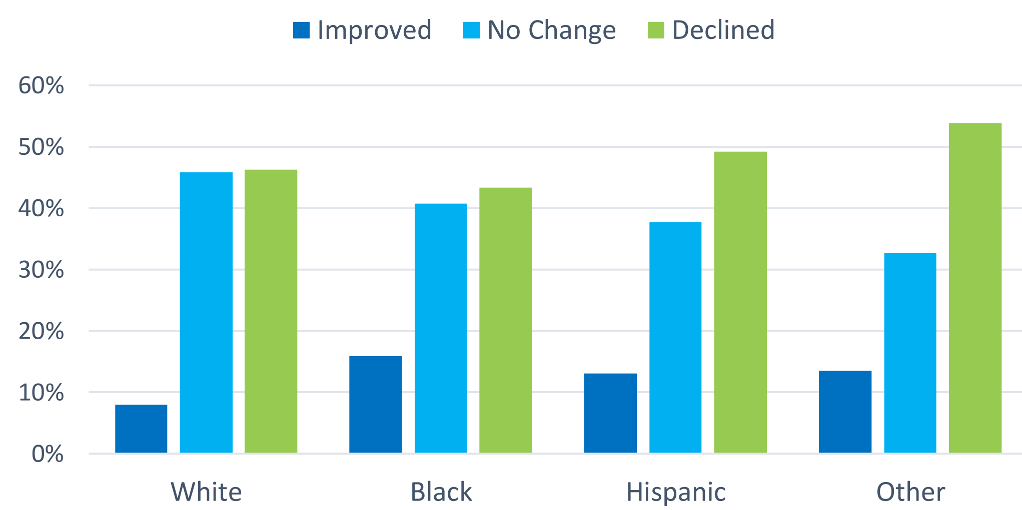
By Income

Respondents making less than $50,000 saw the largest declines in financial wellbeing after the rate cap took effect.



By Ethnicity/Race

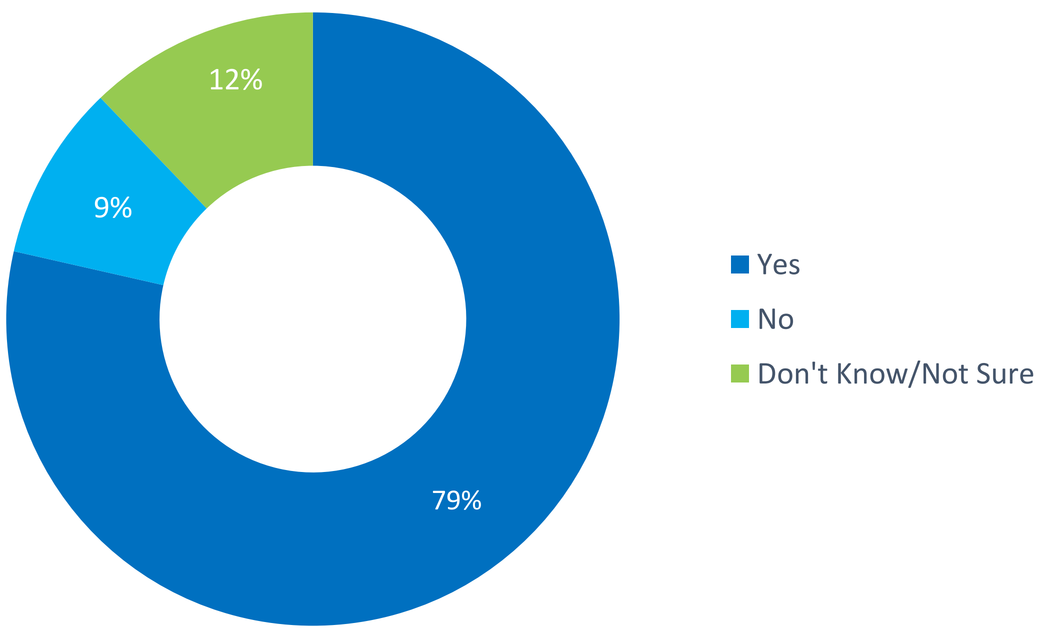
A plurality of consumers in each ethnic/racial group said their financial wellbeing had declined following the Illinois rate cap.



Consumer Preference

Illinois consumers who 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. Unfortunately, many lenders no longer operate in Illinois after the rate cap took effect.

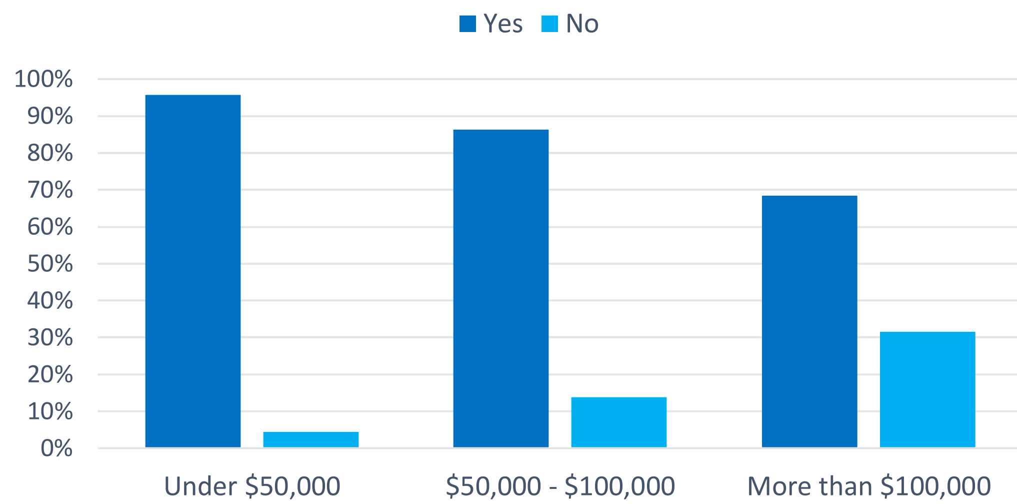
Question: "If you had a funding need, would you like the option to go back to your previous lender?"[7]



Source: Online Lenders Alliance

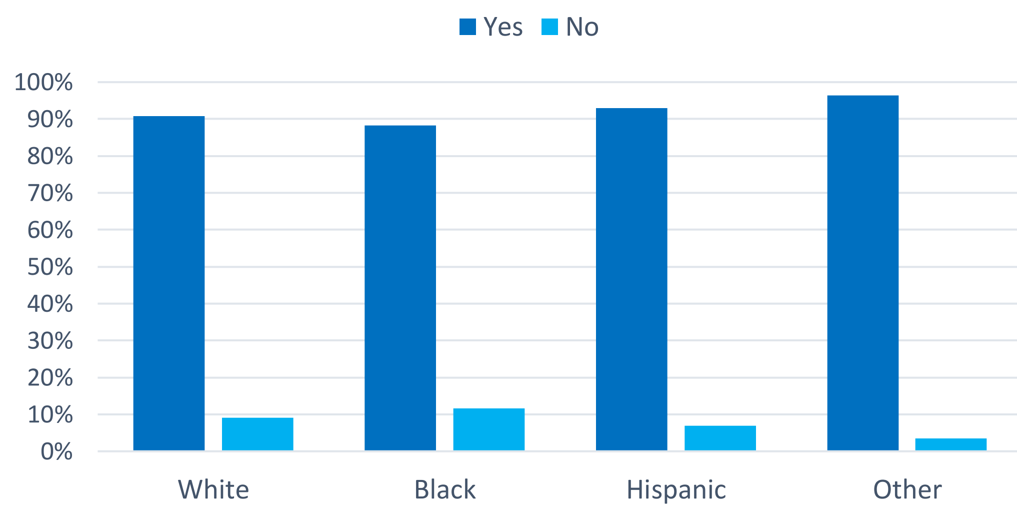
By Income

The vast majority of consumers, especially those under $50,000 in personal income woud like the option to return to their preferred lender if it were possible.



By Ethnicity/Race

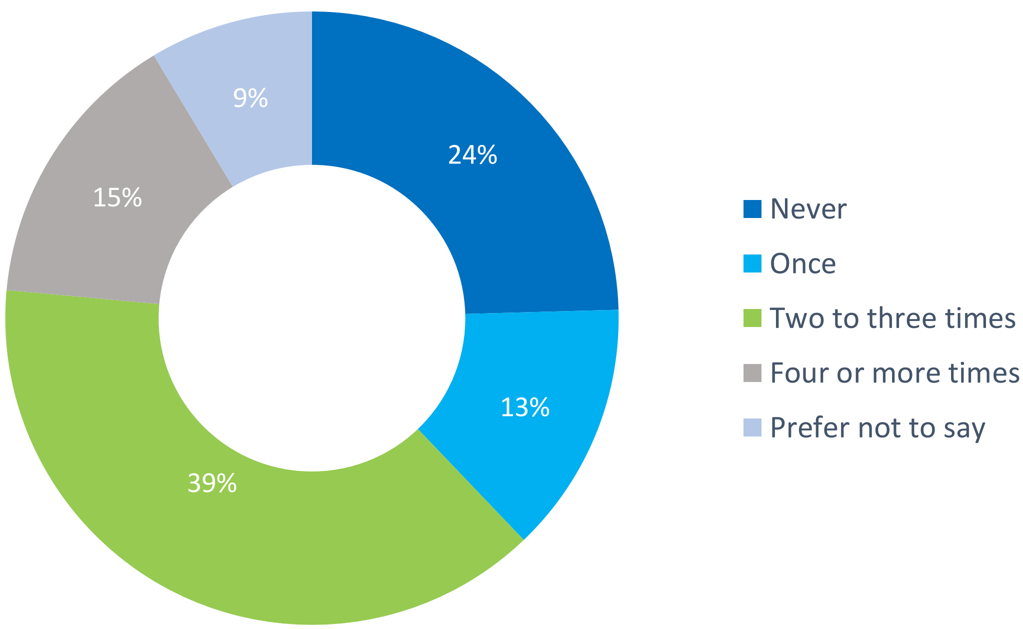
Among each ethnicity/race, the majority of all consumers would like to return to their previous lender.



Need for Credit

Since the Illinois rate cap took effect in March 2021, more than half of former users of short-term, small-dollar loans have said they have been unable to pay their bills more than once.

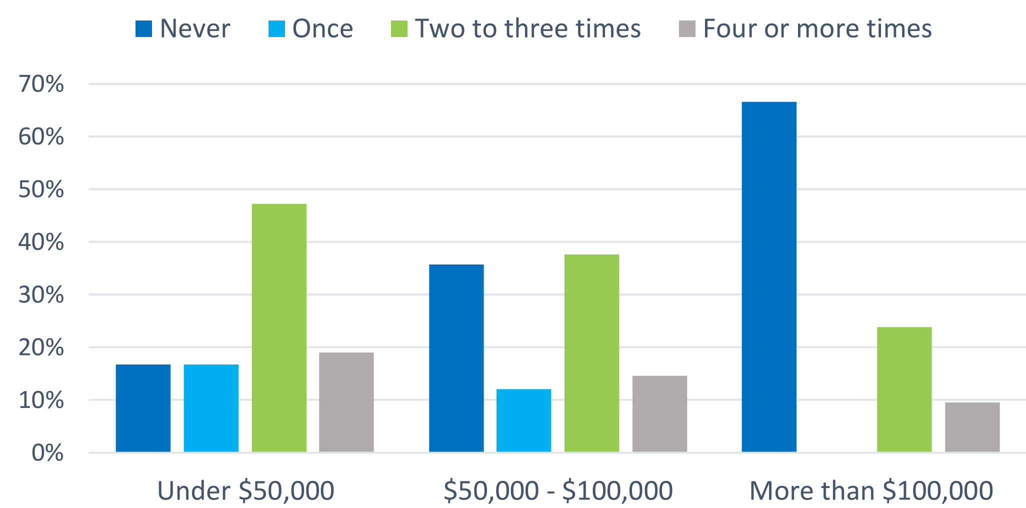
Question: “Since March 2021, how often were you unable to pay one or more bills?”



Source: Online Lenders Alliance

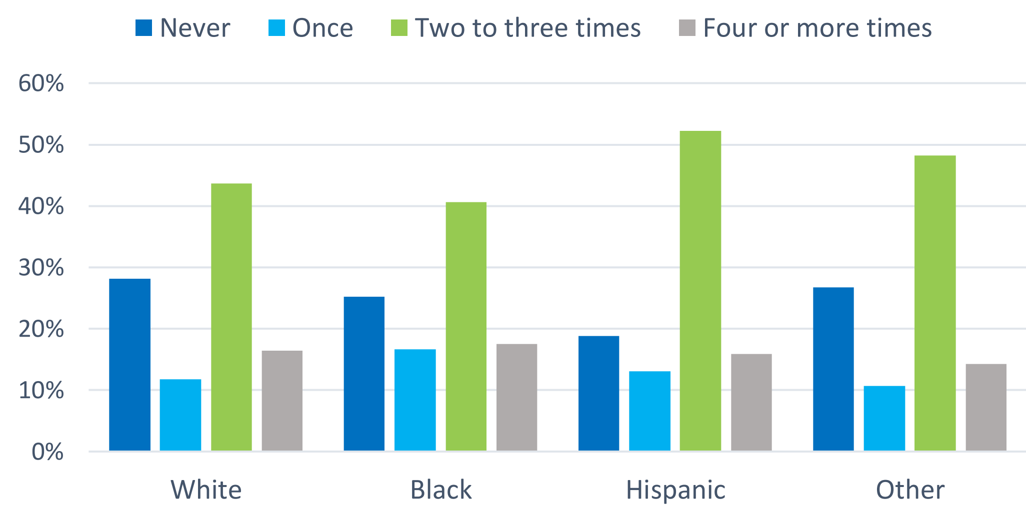
By Income

Most consumers making under $100,000 in annual income have struggled to pay all their bills since March 2021.



By Ethnicity/Race

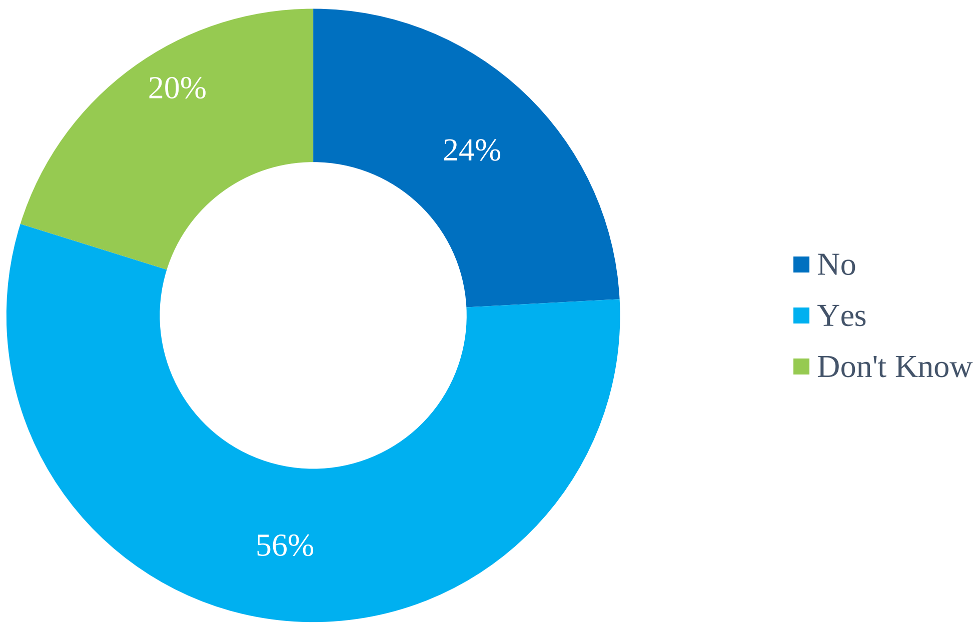
A majority of borrowers – irrespective of race or ethnicity – have struggled to cover their bills since the rate cap took effect.



Unavailability of Credit

Nearly three-quarters of Illinoisans who used short-term, small-dollar loans were unable to borrow money when they needed it after the rate cap took effect in March 2021.

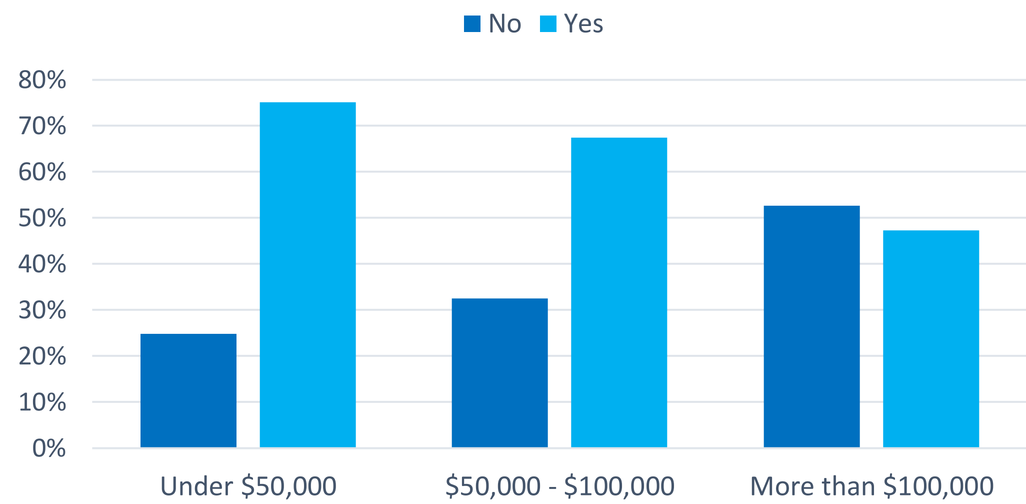
Question: “Since March 2021, have you been unable to borrow money from a lender when you needed it?”



Source: Online Lenders Alliance

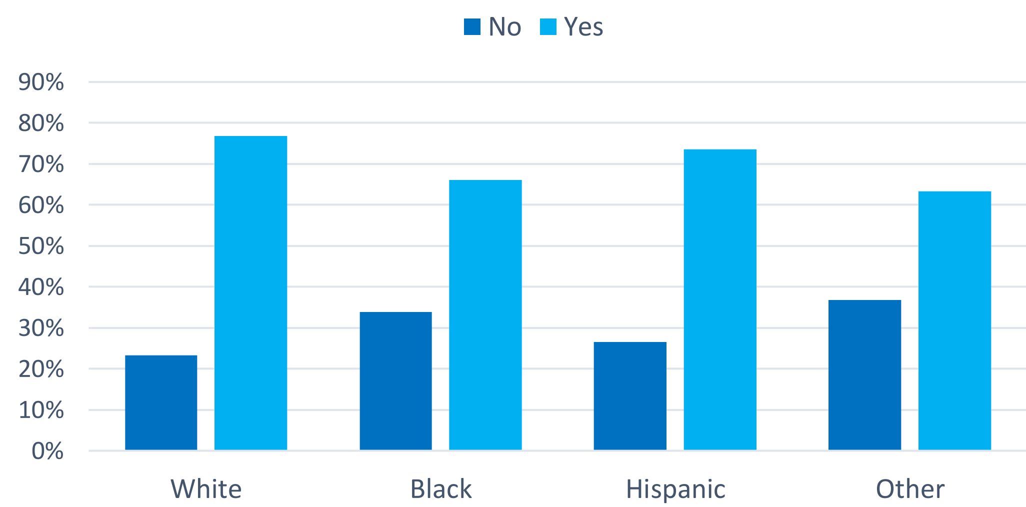
By Income

Those who make less than $50,000 in income per year are more likely to struggle accessing credit than higher income consumers.



By Ethnicity/Race

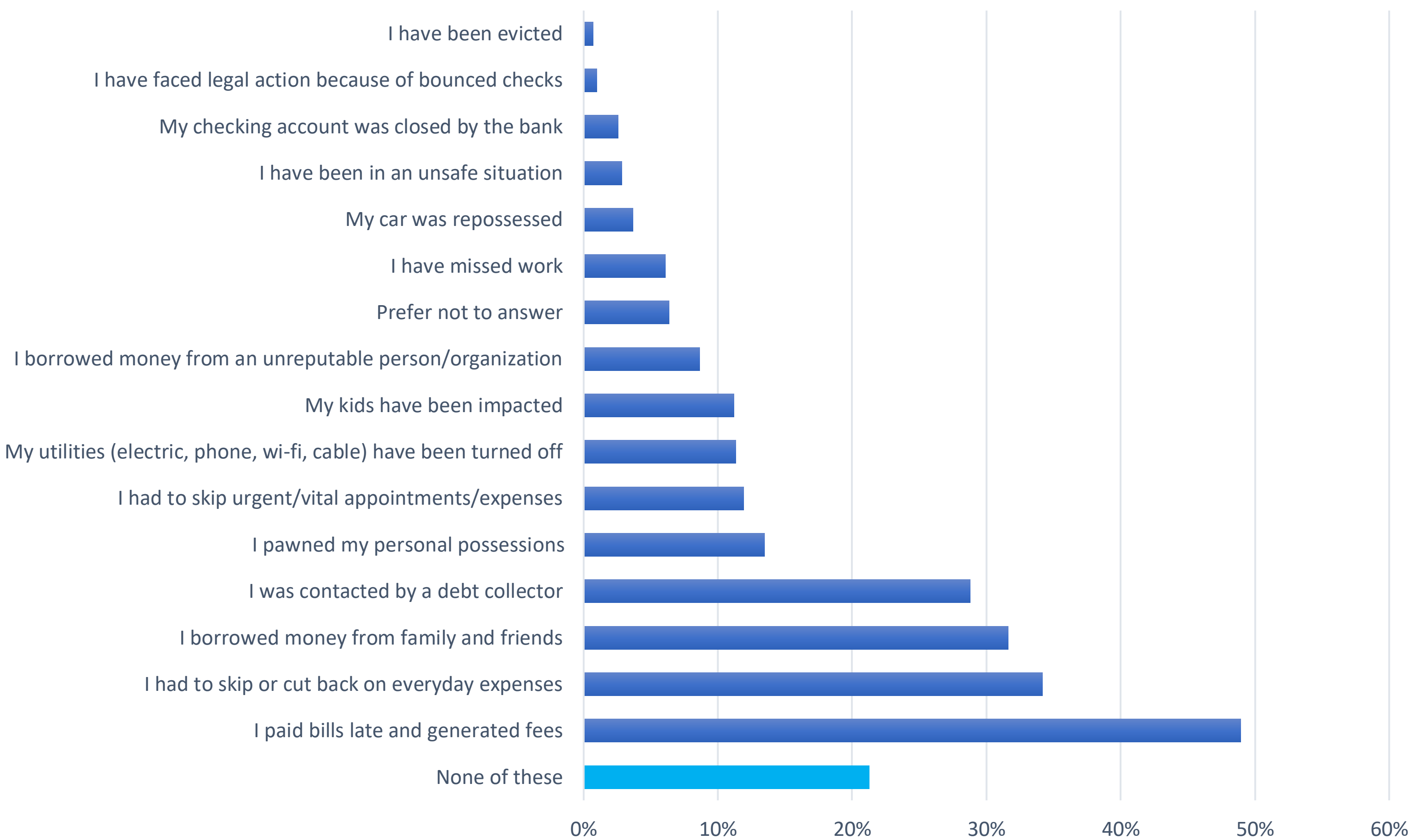
Most users of short-term, small-dollar loans have struggled to borrow money since the enactment of the rate cap when they need it, regardless of their ethnicity or race.



Impact of Fewer Credit Options

When Illinois imposed a 36 percent rate cap, many lenders ceased making loans in Illinois, leaving many consumers with few credit alternatives. In the survey, respondents were asked what happened when they were 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, some were left in unsafe situations, and others ended up borrowing from unreputable organizations.

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 Illinois in March 2021, and many former users suffered adverse consequences as a result of it. Many former borrowers say the loans 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) debt consolidation, (3) to cover a car payment or car repair, or (4) to cover rent or mortgage. Interest rate caps do not make these problems disappear; they only reduce the credit options available to consumers to help them 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 them.

Question: "What was the primary reason you needed to take out the loan?

"Hours were cut at work, so I needed some cash to complete bills."

"Gas, food, [and] help with medicine if our [insurance] coverage don't pay for the full amount."

"I had to live [and] needed money. Systemic racism caused [the] situation."

Appendix 1 (added July 25, 2023)

The Online Lenders Alliance launched a second survey on June 13-16, 2023. The second survey focused on open-ended questions to get a better understanding of consumers' experiences living in Illinois two years after PLPA.[8]

Many respondents to this survey – who were previous users of loans with APRs greater than 36% between January 2019 and March 2021 – lamented the fact that there were few credit options available in Illinois after PLPA, despite claims made by consumer groups that banks and credit unions would increase lending to Illinois residents after the State passed the 36% interest rate cap.

Moreover, some consumers found themselves in worse situations when unable to access alternative credit, with one respondent claiming that they lost their possessions in a storage unit when unable to take out a loan and another stating that they went without food and stopped paying their electric bill.

A few questions and selected responses can be found below:

"In a sentence or two, please describe what happened when you were unable to borrow money from a lender?"

1. *We go without food and probably have to not pay the electric bill in hopes we can get some financial assistance through the electric company or LIHEAP.*[9]
2. *I defaulted on student tuition/boarding payment due to paying 10 days late, which acquired large late fees. This stressed out my daughter unnecessarily which added even more stress to me.*
3. *I lost a storage unit with a bunch of my possessions because I was unable to pay.*
4. *Due to my credit score, the bank was unable to assist me with a loan.*
5. *It started a foreclosure hearing on our home.*

"In a sentence or two, please describe how it makes you feel that you cannot return to your previous lender because the Illinois legislature passed a law that restricted your lending options?"

1. *It is very disappointing. I actually tried calling once and was told they no longer had options for me.*
2. *That is upsetting because now you have to qualify with another lender and take a hit to your credit score for an inquiry.*
3. *This makes me sad and uncomfortable because I liked knowing that in an emergency, I had this as an option.*
4. *It is very frustrating to have fewer, more expensive options.*
5. *I feel like the state is controlling my finances and am not happy about it. I have emergencies, and a person who is fixing their credit can't find other options.*

"Please share any other thoughts or comments around access to credit that you may have."

1. *As of this moment my credit is going down. We experienced a decrease in income, so I have to prioritize what gets paid on time. I have medical debt on my credit, which causes me to get denied a lot.*
2. *Frustrating that big banks won't offer a loan due to credit scores. I need places like my previous lender to help me get through tough times.*
3. *Illinois should have asked the residents their opinion [before passing an interest rate cap].*
4. *It would be great if Illinoisans had easier access to these funds. There are people that need help, especially in this expensive state.*
5. *My credit score is not very good so it's hard to get a regular bank to give loans.*

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, American Indian or Alaska Native, or two or more races.
[3] Income is defined as “personal annual income.”
[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 less than 30 of these individuals in the survey.
[5] An earlier version of this report excluded those who “didn’t know.” This version includes that subsector of the survey responses.
[6] This question was altered from its original phrasing in order to maintain the confidentiality of the lenders or consumers participating in the survey.
[7] This question was altered from its original phrasing in order to maintain the confidentiality of the lenders or consumers participating in the survey.
[8] Quotes may have been modified for grammar or clarification.
[9] LIHEAP stands for Low Income Home Energy Assistance Program, which is an Illinois program designed to help eligible low-income households pay for home energy services.