

RESEARCH REPORT

How Do State-Level Policies on Alternative Financial Service Loan APRs Shape Consumer Credit Health?

Assessing the Effect of the Illinois Predatory Loan Prevention Act on Individuals' Credit Health

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How Do State-Level Policies on Alternative Financial Service APRs Shape Consumer Credit Health?

Access to affordable, high-quality, small-dollar credit can be a valuable lifeline for families to weather unexpected events or financial emergencies. However, small-dollar credit products¹ that allow consumers to borrow a few hundred or thousand dollars at a time can be risky for both financial service providers and consumers. Small-dollar credit can be more challenging and less desirable for providers to offer because this credit may be less profitable than larger loans and can come with both regulatory and reputational risks (McKernan, Ratcliffe, and Quakenbush 2014). For consumers, small-dollar loans offered by alternative financial services (AFS) providers, such as payday lenders, pawn shop brokers, and auto-title lenders, often have short repayment periods, large required payments, and high prices, making them difficult to repay and potentially damaging consumers' financial well-being.

In recent years, many states, including Illinois, have enacted or introduced legislation capping annual percentage rates (APRs) on small-dollar credit products offered by AFS lenders (see box 1 for definitions of key terms).² Some of these laws draw inspiration from prior legislation, including the Uniform Small Lending Law³ enacted by many states in the 1920s and the 2006 Military Lending Act, which implemented a comprehensive 36 percent APR cap on loans available to active-duty military members and their families (Braga and Oglesby-Neal 2023).⁴

Despite several states proposing and passing state-level APR cap policies in recent years, prior research shows conflicting evidence of APR caps' effects on consumer financial well-being (Bhutta, Goldin, and Homonoff 2016; Bolen, Elliehausen, and Miller 2023; Dasgupta and Mason 2020; Desai and Elliehausen 2017; Edmiston 2011; Galperin and Mauricio 2015; Silberman 2023).⁵ Financial well-being is expansive and includes measures of consumers' ability to repay loans, manage their finances, weather financial shocks, and make financial choices (CFPB 2015). Prior scholarship has focused on different dimensions of consumer financial well-being, exploring the relationship between APR caps and rate limits on consumers' access to credit, debt and delinquencies, and material hardship and distress (Bhutta, Goldin, and Homonoff 2016; Bolen, Elliehausen, and Miller 2023; Dasgupta and Mason 2020;

Desai and Elliehausen 2017; Edmiston 2011; Galperin and Mauricio 2015; Silberman 2023). Given the varied findings on how APR caps affect consumer-level outcomes, it is unclear what role such policies can play in supporting overall consumer financial well-being.

BOX 1

Key Terms and Definitions

Below are several important key terms and definitions to contextualize this report’s research findings.

- **Small-dollar loans.** Although no commonly accepted definition of small-dollar loans exists, these loans typically range from less than one-hundred dollars to, at most, a couple thousand dollars and can be provided by AFS and mainstream lenders.
- **Annual percentage rate (APR).** As opposed to an interest rate, which only measures the cost paid each year to borrow money, an APR includes all costs associated with repaying and originating the loan, including the interest rate, fees, and all other charges paid.
- **Installment loan.** This is a type of financial product where consumers repay the borrowed amount in planned chunks, often with interest.
- **Subprime credit.** Consumers with a VantageScore below 600 (or a FICO score below 620) are considered to have subprime credit and often incur greater costs to borrow or may not be approved for mainstream credit. In this study, we use VantageScore to measure credit scores.
- **Alternative financial services (AFS) providers or lenders.** These lenders are not traditional banks and credit unions and include payday lenders, pawn shop brokers, rent-to-own services, check cashers, and auto-title lenders, among others. Examples of financial services and products offered by AFS lenders include single-pay, cash advance, and installment loans.
- **Mainstream financial services providers or lenders.** Mainstream credit encompasses loans and financial services offered by commercial banks, savings and loan associations, credit unions, and credit card providers. Examples of such financial services and products offered by mainstream lenders include installment loans and credit cards.

Source: Authors’ analysis.

This study addresses an important gap in the existing research by empirically assessing the effects of the Illinois Predatory Loan Prevention Act (PLPA)⁶ on borrowers’ debt and credit outcomes. The PLPA instituted a 36 percent APR cap on certain types of consumer credit products in Illinois and was intended to “protect consumers from predatory loans” from AFS credit providers.⁷ Leveraging data from one of the major credit bureaus, together with linked administrative data to identify AFS borrowers, we examined policy impacts among consumers who previously used AFS loans, focusing on effects on their mainstream credit outcomes. We examined the PLPA’s effects on mainstream credit outcomes because mainstream credit products and services (such as credit cards, installment loans, and lines of credit) can

be one strategy, out of many, that consumers use to meet their financial needs (Board of Governors of the Federal Reserve System 2023). Specifically, this study focuses on consumers' credit scores and debt in collections for loans reported to one of the three major credit bureaus.

In this study, we found the following:

- **The PLPA is associated with a small, short-term increase in the share of consumers with debt in collections among past AFS loan users in Illinois. But that increase dissipated 1 year and 1.5 years after the policy was implemented,** relative to similar peers in states allowing AFS lenders to provide small-dollar loans at higher APRs.
- **For past AFS loan users with subprime credit scores (or VantageScores below 600), the PLPA is associated with a small decrease in the share of consumers with debt in collections,** relative to similar peers in states with high APR caps.⁸
- **The PLPA is not associated with a significant change in credit scores among Illinois consumers who previously used AFS loans,** relative to peers in states with high APR caps.
- Similarly, **Illinois consumers with subprime credit scores** who previously used AFS loans did not see a change in credit scores after the PLPA was implemented, relative to similar peers in states with high APR caps.

Drawing on prior research and evidence on consumers' financial coping strategies, the following are possible interpretations of our empirical findings:

- The share of past AFS loan users with debt in collections may have increased temporarily as these users struggled to repay their mainstream debt obligations after the PLPA. If consumers were using AFS loans to pay existing mainstream debts or meet basic needs, removing this source of liquidity through the PLPA may mean some consumers were less able to stay current on their debt obligations. Or consumers may have had to repay AFS loans more quickly than expected, as loans could no longer be rolled over, and consequently experienced challenges in repaying other debts. Similarly, consumers using AFS may have taken out more AFS and mainstream loans than they could repay effectively, making it more challenging to repay their mainstream loan debts on time. Despite these short-term challenges, over the long term, we suspect that past AFS loan users may have identified nonmainstream-credit financial coping strategies to meet their debt obligations and financial needs.

- Small changes in the share of past AFS loan users with debt in collections induced by the PLPA may not be significant enough to bring about changes in overall credit scores in the context of consumers' overall credit reports and debt.
- For past subprime AFS loan users, changes in the share of consumers with debt in collections may not have been significant enough to change their overall credit scores. At the same time, decreases in the share of subprime consumers with debt in collections could be interpreted in a few ways. One possibility is that, post-PLPA, past subprime AFS loan users may have taken on less debt from AFS lenders and faced fewer price pressures in repaying loans at high interest rates—and thus been better able to pay existing debt or bills (e.g., utility bills and child support payments) on time. Another possibility is that the decrease is counterintuitive, as some may expect consumers with subprime credit to experience more significant liquidity constraints. Further research is needed to fully understand heterogeneity in policy impacts across different groups of consumers.

Although this study measures the effects of Illinois's APR cap legislation on consumers' credit health outcomes in a complex policy implementation environment, it is not designed to determine if state-level APR caps in general leave consumers better or worse off. To better understand how state-level APR cap policies can better support financial well-being, further research is needed that explores (1) consumers' financial coping strategies after APR caps are implemented; (2) APR cap policies' effects on consumer financial well-being overall; (3) heterogeneity in effects across consumers with varying access to credit alternatives; and (4) the role of affordable and accessible small-dollar credit alternatives and public supports on consumer financial well-being.

Policy Background: What Did the PLPA Do?

In March 2021, Illinois Governor J. B. Pritzker signed into law the Predatory Loan Prevention Act (PLPA), which capped APRs at 36 percent for certain types of AFS consumer credit products under \$40,000, including payday loans, installment loans, and auto title loans.⁹ Although pawnbrokers were initially covered by the PLPA, they were exempted after the Sangamon County Circuit Court issued an injunction, allowing pawnbrokers to continue offering loans with APRs up to 243 percent.¹⁰ State and federally chartered banks, savings banks, savings and loan associations, credit unions, and insurance companies are also exempt from the law.¹¹ Federal and state laws establish that these institutions (banks, credit unions, savings and loan associations, etc.) are governed by their home state laws (Carter et al. 2020). Although

most states do not cap interest rates for these financial institutions, many of these institutions voluntarily refrain from issuing loans in excess of 36 percent APR (Carter et al. 2020).¹²

PLPA supporters have applauded the legislation as an important step toward protecting Illinois residents from potential drawbacks in using AFS loans. According to the Woodstock Institute, Illinois households pay more than an estimated \$500 million a year in payday and title loan fees—the fourth highest in the nation.¹³ Additionally, PLPA supporters have highlighted the role the PLPA could play in addressing racial and economic inequities among Illinois residents, as families who use AFS loans are more likely to have low incomes and live in communities of color.¹⁴

Critics of the law, however, have argued that the PLPA may reduce Illinois consumers' access to credit, estimating that nearly 3.5 million Illinois consumers could lose access to credit post-PLPA.¹⁵ The American Financial Services Association (AFSA) and the Illinois Financial Services Association have argued that the PLPA could cause confusion among borrowers and ultimately may not increase the supply of affordable credit from banks and credit unions.¹⁶ The AFSA also argued that the loss of credit options the PLPA could trigger could hurt consumers by forcing them to turn to pawn loans or illegal loan sharks, which are not covered by or would ignore the PLPA and offer credit at high APRs.¹⁷

Evidence of State-Level APR Caps' Effects on Financial Well-Being Is Mixed

Deepening our understanding of how state-level APR caps shape financial well-being is crucial, as prior research provides no clear explanation of the relationship between the two. Prior studies have found conflicting evidence.¹⁸ On one hand, some studies have found that APR cap policies harm consumers' financial well-being, while others have found APR cap policies can bolster it (Bhutta, Goldin, and Homonoff 2016; Bolen, Elliehausen, and Miller 2023; Braga and Oglesby-Neal 2023; Dasgupta and Mason 2020; Desai and Elliehausen 2017; Edmiston 2011; Galperin and Mauricio 2015; Melzer 2011; Skiba and Tobacman 2019; Silberman 2023).¹⁹ For example, some studies of the payday lending market suggested that access to AFS loans can increase consumers' challenges repaying mortgage, rent, and utility bills and can increase bankruptcy rates because of the higher debt burden—while other studies found that accessing payday loans has negligible effects on credit outcomes (Bhutta, Goldin, and Homonoff 2016; Melzer 2011; Skiba and Tobacman 2019). Additionally, multiple studies have examined diverse types of state-level APR caps in states such as Georgia, Arkansas, North Carolina, Colorado, and Oregon and found similarly mixed effects on consumer financial well-being (Bhutta, Goldin, and Homonoff 2016; Bolen, Elliehausen, and Miller 2023; Campbell, Martínez-Jerez, and Tufano 2012; Dasgupta and Mason 2020; Desai and Elliehausen 2017; Edmiston 2011; Silberman 2023). Some

of these studies found insignificant or negative impacts on consumer finances, and others demonstrated evidence of improvements in bank and credit access (Bhutta, Goldin, and Homonoff 2016; Bolen, Elliehausen, and Miller 2023; Campbell, Martínez-Jerez, and Tufano 2012; Dasgupta and Mason 2020; Desai and Elliehausen 2017; Edmiston 2011; Silberman 2023). In synthesizing across such conflicting evidence, a review of recent scholarship conducted by the CFPB²⁰ suggests that AFS loans can support consumers in specific, discrete circumstances to address unexpected financial emergencies but finds that intensive use likely undermines consumers' financial well-being. Overall, a landscape of conflicting evidence around state-level APR caps makes it challenging to understand what actions would be supportive of consumer outcomes.

Further, the PLPA is a relatively new policy, and current research on its effects on consumers' financial well-being is limited. Recent research on the PLPA specifically suggests that the number of loans made to borrowers with subprime credit in Illinois decreased by an estimated 44 percent in the six months after PLPA went into effect (Bolen, Elliehausen, and Miller 2023). At the same time, Illinois consumers who previously relied on AFS loans reported in a convenience-sample survey that they may have found other ways to access capital during financial emergencies and reported asking friends and family for money or drawing down personal savings post-PLPA instead of turning to mainstream credit.²¹ Our study addresses a key gap in our understanding of the PLPA's effect on consumer financial well-being by examining the policy's effects on individual consumers' debt in collections and credit scores among a group of consumers who used AFS loans *before* the PLPA went into effect.

Understanding the PLPA's Impact on Consumer Credit Outcomes

We used the PLPA as a case study of a state-level APR cap's effects on individual-level financial well-being indicators, focusing on two core questions:

- What was the Illinois PLPA's effect on past AFS loan users' credit health (as measured by the share of consumers with debt in collections and average credit scores)?
- Did the PLPA's effect on consumer credit health vary for past subprime AFS loan users?

We designed our study to understand the PLPA's effects on consumer credit health among consumers who have used the types of AFS loans covered by the PLPA. Examining mainstream credit outcomes (e.g., debt in collections and credit scores) gives us insight into consumers' experiences with challenges in debt repayment and their ability to access affordable credit. While mainstream credit is

often offered at a lower cost than AFS loans, in certain circumstances, it can also be challenging to repay and can induce financial distress among consumers. Despite their relative affordability, not all consumers have equal access to mainstream credit products and loans (Baradaran 2017). Further, the approval process for AFS loans is often faster and does not require credit checks, which may be an important feature for consumers who use them (Servon 2017). Because both AFS loans and mainstream credit are resources consumers turn to when responding to financial emergencies, the PLPA could plausibly affect how consumers use mainstream credit to meet their financial needs, including their ability to repay existing debts, as the resources consumers have access to may have shifted post-PLPA. Below, we describe how we investigated the PLPA's effects on consumer credit health.

Research Design

We used three types of analyses to understand the PLPA's effect on past AFS loan users' credit health, as measured by their credit scores and the share of consumers with debt in collections: (1) descriptive analysis of trends; (2) matched event study design to measure the impact of the PLPA among past AFS loan users; and (3) matched difference-in-difference design to measure impacts among a subgroup of past AFS loan users with subprime credit scores before the PLPA was implemented.

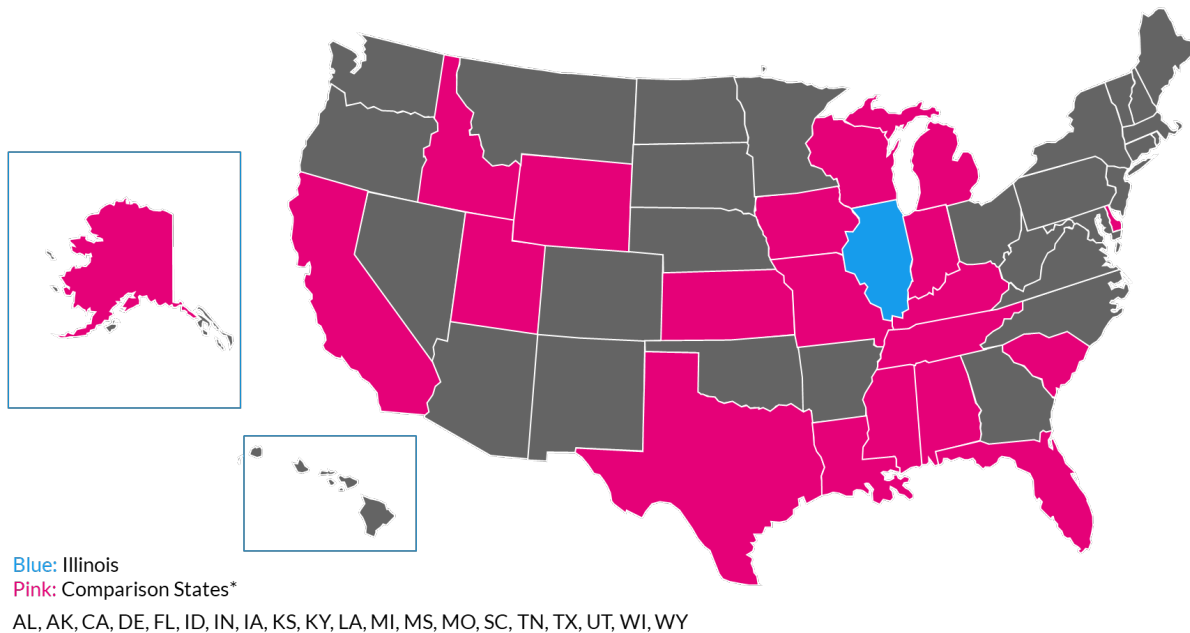
Descriptive Plots to Visualize Credit Health Trends over Time

We first provide descriptive trends to see how consumer credit health evolved over the period before and after the PLPA's implementation for past AFS loan users in Illinois and past AFS loan users in states allowing high-cost, short-term loans (hereafter referred to as "states with high APR caps"; see figure 1 for a map of states allowing these products).²² These descriptive trend plots provide insight into how credit health trends evolved over the study period, but they do not control for important factors that change over time, nor provide an estimate of the PLPA's impact—this is done in our matched event study and matched difference-in-difference designs.

FIGURE 1

Twenty Comparison States with High APRs

Map of states used in the comparison group for matched event study and difference-in-difference analyses



Sources: These states were identified using a scan of consumer APR policies at the state level and refined in collaboration with expert advisors experienced in state-level consumer financial protection legislation.

Notes: States in pink reflect high-APR states, or states that allow high-cost, short-term loans for small-dollar credit. States in grey were not included in our matched event study or matched difference-in-difference analysis; many, though not all of them, do not have single-payment payday lending.

Matched Event Study Design to Estimate Policy Impact

We used a matched event study design with state-level policy and contextual controls to estimate the PLPA's impact on consumer credit scores and the share of consumers with debt in collections 6 months (August 2021), 1 year (February 2022), and 1.5 years (August 2022) after the PLPA was implemented in March 2021 (see a full description of methodology, including propensity score matching methodology, in the appendix). Using an event study enabled us to attempt to identify the policy's unique impacts on credit health at different times postimplementation to gain deeper insight into how possible policy effects may evolve over time. Further, in our event study estimates, we accounted for differences in state policies and economic contexts that change over time and could shape consumer credit health, which we did not do in the descriptive plots.

Matched Difference-in-Difference Design to Estimate Policy Impacts for Consumers with Subprime Credit Scores

Finally, we estimated the PLPA's effect on consumer credit health among past AFS loan users with subprime credit scores. We used a matched difference-in-difference study design with state-level policy and contextual controls to examine how the PLPA impacted consumer credit scores and the share of consumers with debt in collections over the 18 months after the policy was implemented (see a full description of methodology in the appendix). In contrast with the matched event study estimates, our difference-in-difference estimates (1) reflect outcomes for consumers with subprime credit scores before the PLPA was implemented (referred to hereafter as “past subprime AFS loan users”) and (2) do not disaggregate policy impacts over specific periods but present pooled estimates of policy impact across all postpolicy periods.

Data Sources

We drew on several data sources to construct our outcome variables and consumer sample, and we controlled for policies and factors that could shape consumer mainstream credit outcomes, which we describe in further detail below.

Outcomes

For our outcome variables—credit scores and the share of consumers with debt in collections—we used administrative data from a 2 percent nationally representative sample of consumer credit records provided by one of the three major credit bureaus. We focused on consumer credit scores and mainstream debt in collections as our core outcomes because they allowed us to capture policy impacts on overall credit health as well as people's experiences of past financial distress. Below, we describe how we measured credit scores and debt in collections:

- Credit scores capture consumers' ability to repay loans, and subprime scores indicate that consumers may face barriers accessing credit and may pay more when they do (Elliott and Lowitz 2018). Credit scores are impacted by consumers' payment histories (whether payments for existing obligations are made on time), the share of available credit used, length of credit history, the mix of credit products consumers have, and recent credit inquiries. We used the average VantageScore (from 300 to 850) of consumers with a credit bureau record as an outcome in this study.

- Debt in collections suggests that consumers have experienced challenges making ends meet, as this captures consumers' past unpaid debts. We measured the share of consumers who had any debt in collections—defined as when a consumer has past-due credit lines that have been closed or charged-off on the creditor's books, as well as unpaid bills, including nonmainstream credit, reported to the credit bureaus that the creditor is attempting to collect.²³ While the timing of when tradelines—or accounts on credit reports—go into collections and are reported to the credit bureau varies by collector and product type, in our data, accounts typically enter collections status once they are 180 days past due. In this report, we use the shorthand “mainstream debt in collections” to refer to this outcome.

Although credit scores and mainstream debt in collections provide a window into consumers' credit health and financial distress, credit and debt are only part of a person's balance sheet and have limitations. These study limitations are discussed in-depth in the appendix.

Sample Construction

To construct our sample, we identified consumers who used AFS loans in February 2021 using information on AFS financial service loans among consumers with a credit record. As AFS loan use data are not recorded in our longitudinal consumer credit record data, we linked data on AFS loan use with our representative sample of consumer credit records. Data on AFS loan use are derived from a Fair Credit Reporting Act²⁴ regulated agency whose unique data source is derived from various financial service providers who offer AFS loans.²⁵ After linking the AFS loan data with consumer credit records, we restricted the linked administrative data to consumers with a credit record who used AFS loans in February 2021. We focused on past AFS loan users because they were more likely to be impacted by the PLPA because they previously used the types of products the PLPA regulates, which only approximately 5 percent of consumers nationwide use.²⁶

Among these consumers, we estimated subgroup effects for those with subprime credit scores because they represent some of the most vulnerable consumers and face constrained alternatives to meet their financial needs, as they are often unable to access affordable mainstream credit (Elliott and Lowitz 2018). Roughly 56 percent of our overall sample of past AFS loan users had subprime credit scores (as measured in February 2021, before the PLPA was implemented; authors' calculations).

Although AFS are often considered a lender of last resort, many consumers with access to mainstream credit products also use AFS loan products (Bhutta, Goldin, and Homonoff 2016; Servon 2017).²⁷ For example, in our sample, the majority of consumers (61.7 percent) had access to mainstream

credit cards, and many had some credit available on their credit cards, (see further details on sample characteristics in the appendix; authors' calculations). This aligns with prior research that has found most consumers have an open credit card with revolving debt in the quarter before acquiring their AFS loan.²⁸

Policy and Contextual Controls

At the same time the PLPA was implemented, states, including Illinois, were implementing other policies and practices that target consumer financial well-being, including state-level financial assistance, consumer protections against utility shutoffs, garnishments, and repossessions, alongside federal interventions such as stimulus checks, enhanced unemployment benefits, and emergency increased allotments for safety net programs. Such large and multifaceted policy innovations being implemented alongside the PLPA during volatile economic conditions may have had effects on consumer credit health that swamped the PLPA's impact. Consequently, in our estimation, we accounted for policies and factors that differed between states over time. Specifically, we used data on states' COVID-19 cases and deaths from the *New York Times*, data on vaccination rates from the Centers on Disease Control and Prevention, data on state-level unemployment and home price changes from the Urban Institute, and data on state-level consumer protection policies (including garnishment suspensions, repossession suspensions, eviction moratoria, and utility shutoff moratoria) from the National Consumer Law Center to control for state-level time-varying policies that could affect consumer credit health over the study period.²⁹

Findings: How Did the PLPA Impact Consumer Credit Outcomes for Past AFS Small-Dollar Loan Users?

Debt in Collections

We found that the PLPA is associated with a small, short-term increase in mainstream debt in collections among past AFS loan users in Illinois, which dissipated 1 year and 1.5 years after the policy was implemented, relative to consumers in states with high APR caps.

For past subprime AFS loan users, the PLPA is associated with a small decrease in debt in collections relative to similar peers in states with high APR caps after the policy was implemented.

Main Findings: All Past AFS Loan Users

DESCRIPTIVE TRENDS IN DEBT IN COLLECTIONS

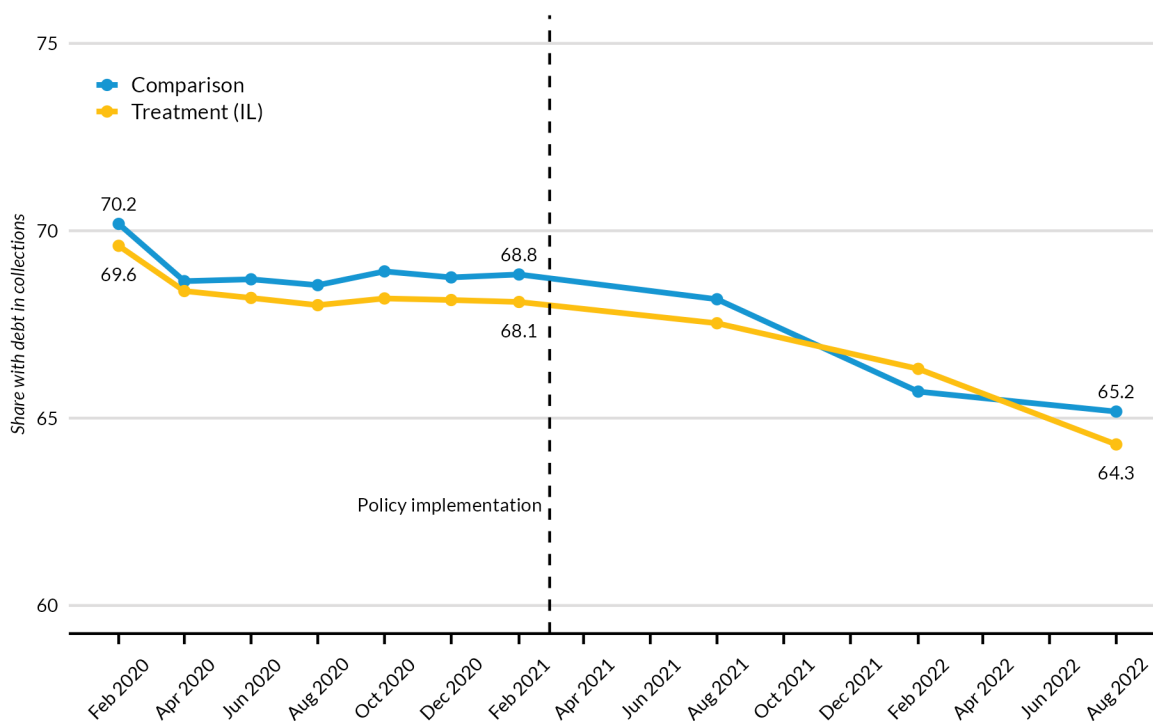
Examining descriptive trends in the share of past AFS loan users with debt in collections in Illinois and states with high APR caps from 2020 to 2022, we found the following:

- Past AFS loan users in Illinois and peers in states with high APR caps shared similar trends in mainstream debt in collections before the PLPA was implemented, suggesting that past AFS loan users in peer states were a valid comparison group for impact estimates (figure 2);³⁰
- After the PLPA was implemented, the share of consumers with debt in collections declined for both past AFS loan users in Illinois and similar consumers in states with high APR caps but did so at a lower rate for past AFS loan users in Illinois at the six-month mark (figure 2).

FIGURE 2

Shares of Consumers with Debt in Collections Were Similar between Illinois and Comparison States before and after PLPA Was Implemented

Share of consumers with debt in collections between treatment and comparison groups over time



Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This figure displays the share of past AFS loan users with a credit bureau record with any debt in collections. The vertical, black, dashed line indicates when the PLPA went into effect. This plot is descriptive and does not control for state-level differences in COVID-19, economic volatility, or consumer protection policies but provides a good visual for the change in debt in collections over the study period. This visualization does not show a statistical test of the policy effect, which is done in the matched event study (see table A.6 in the appendix and figure 3).

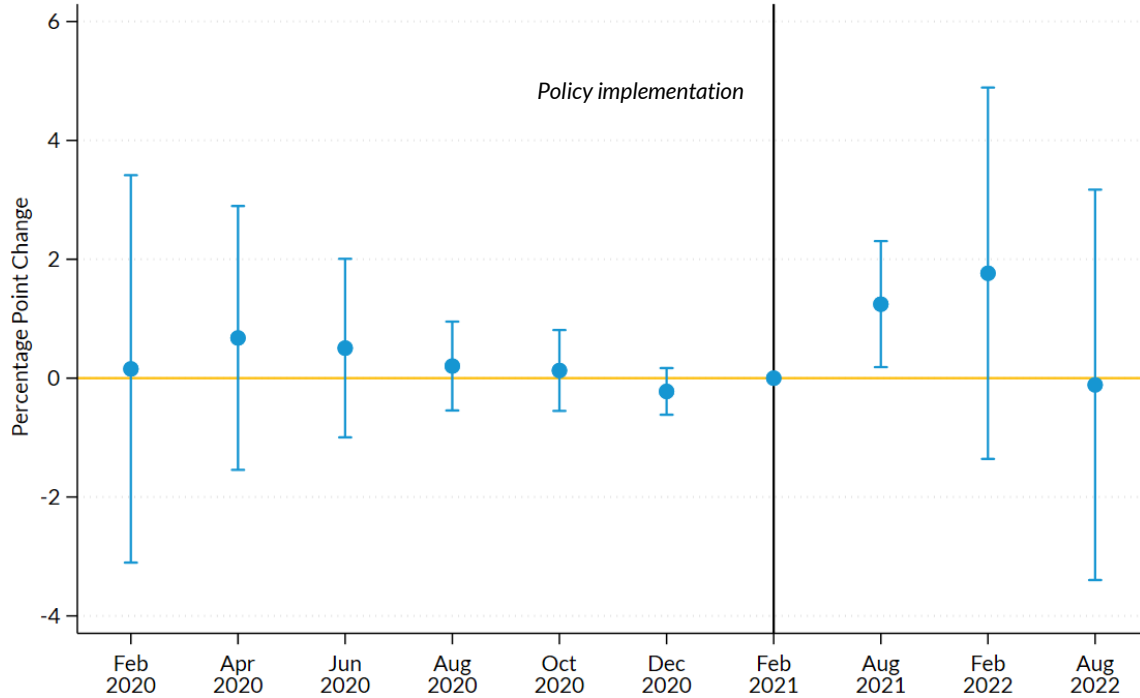
EVENT STUDY ESTIMATES OF POLICY IMPACT

Our descriptive evidence is supported by our matched event study findings. We find that six months postimplementation, the PLPA is associated with a small increase in the share of consumers with debt in collections among past AFS loan users in Illinois relative to similar peers in states with high APR caps. Although the increase is significant at the $p < 0.05$ level, it is small in magnitude, approximating a 1.2 percentage point change in the share of consumers with debt in collections (see table A.6 in the appendix and figure 3 below). This effect also dissipated over longer time horizons: 1 and 1.5 years after the PLPA was implemented; there was no statistically significant change in the share of past AFS loan users in Illinois with debt in collections relative to similar peers in states with high APR caps (at the $p < 0.10$ level; see figure 3 and table A.6 in the appendix).

FIGURE 3

Relative to Peers, a Greater Share of Past AFS Loan Users in Illinois Had Debt in Collections Six Months after the PLPA Was Implemented

Event study estimates for changes in the share of Illinois consumers with debt in collections, relative to peers



Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This figure shows the change in percentage points of the share of past AFS loan users with a credit bureau record with any debt in collections, relative to peers in high-APR states. The dots represent the estimated change in the share of consumers with debt in collections measured in percentage points, with 95 percent confidence intervals. Periods to the left of the black line reflect the months before the PLPA was implemented. Periods to the right of the black vertical line show the estimated effects of the PLPA on the share of past AFS loan users with debt in collections at 6 months (Aug 2021), 1 year (Feb 2022), and 1.5 years (Aug 2022) after policy implementation.

Subgroup Findings: Past Subprime AFS Loan Users

We also examined changes in debt in collections after the PLPA was implemented for a subset of past subprime AFS loan users who may have been differentially impacted by the PLPA.

DESCRIPTIVE TRENDS IN DEBT IN COLLECTIONS

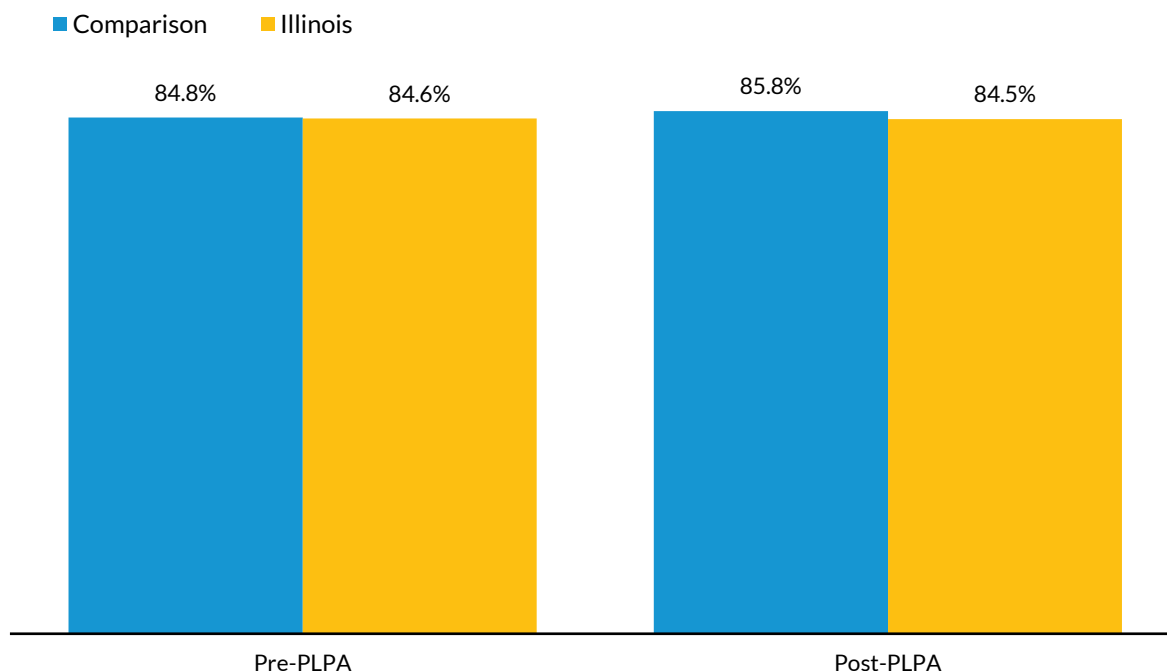
Examining descriptive trends, we found that the share of past subprime AFS loan users with debt in collections was similar in Illinois and states with high APR caps before the PLPA was implemented. However, after the PLPA was implemented, past subprime AFS loan users in Illinois had a lower rate of debt

in collections relative to similar peers, as the share of consumers with debt in collections increased marginally postimplementation among consumers living in states with high APR caps (figure 4).

FIGURE 4

Shares of Past Subprime AFS Loan Users with Debt in Collections Were Similar between Illinois and Comparison States before and after PLPA Was Implemented

Share of past subprime AFS loan users with debt in collections before and after the PLPA was implemented



Source: Author's calculations using Urban Institute credit bureau data.

Notes: This figure shows the share of people with a credit bureau record with any debt in collections who had a subprime credit score (a VantageScore below 600) and used AFS loans in February 2021. This plot is descriptive and does not control for state-level differences in COVID-19, economic volatility, or consumer protection policies but provides a good visual for the change in debt in collections over the study period. This visualization does not show a statistical test of the policy effect, which is done in the matched difference-in-difference analysis (table 1).

DIFFERENCE-IN-DIFFERENCE ESTIMATES OF POLICY IMPACT

In our matched difference-in-difference analysis, we found similar results. We found that the PLPA is associated with a decrease in the share of consumers with debt in collections among past subprime AFS loan users in Illinois in the first 18 months after the PLPA took effect, relative to similar peers (table 1). Although this decrease is statistically significant, it is small in magnitude and amounts to a 2.2 percentage point change in the share of consumers with debt in collections (statistically significant at the $p < 0.01$ level; see table 1).

TABLE 1

Relative to Peers, the Share of Past AFS Loan Users with Debt in Collections in Illinois Decreased after the PLPA Was Implemented

Change in the share of past subprime AFS loan users with debt in collections after the PLPA was implemented

	Share of past subprime AFS users with debt in collections
Postpolicy impact (percentage point change in the share of consumers with debt in collections)	-2.21***
	(0.72)
Constant	86.67***
	(1.11)
Observations	94,093
R-squared	0.004
Mean of dependent variable	83.06

Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This table shows the change in percentage points of the share of past AFS loan users with a credit bureau record and a subprime credit score and with any debt in collections relative to peers in high-APR states. Robust standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Credit Scores

We found that the PLPA is not associated with a significant change in consumer credit scores among past AFS loan users after the PLPA was implemented. Similarly, we found no significant changes in credit scores of past subprime AFS loan users during the study period.

Main Findings: All Past AFS Loan Users

DESCRIPTIVE TRENDS IN CREDIT SCORES

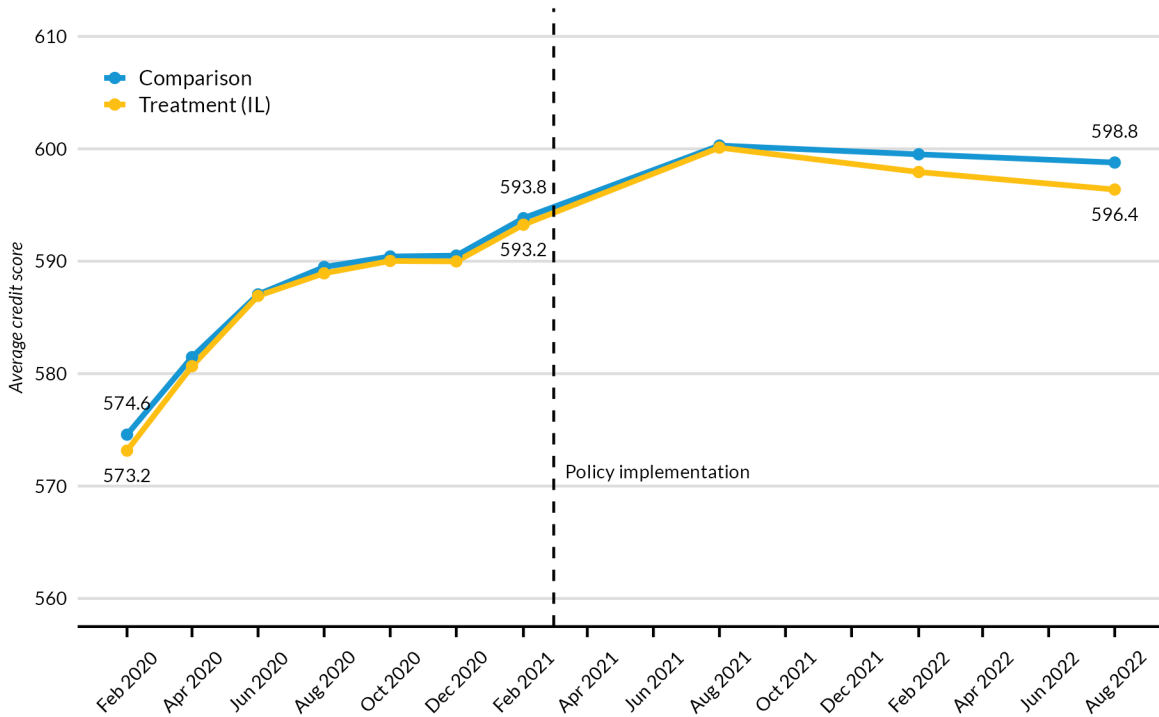
Examining descriptive trends in average credit scores for past AFS loan users in Illinois and similar users in states with high APR caps from 2020 to 2022, we found the following:

- Past AFS loan users in Illinois and peers in states with high APR caps shared similar trends in average credit scores before the PLPA was implemented, suggesting that the past AFS loan users in peer states were a valid comparison group (figure 5).³¹
- After the PLPA was implemented in March 2021, credit scores improved but then flattened at similar degrees for both past AFS loan users in Illinois and those in states with high APR caps.

FIGURE 5

Credit Scores between Illinois and Comparison State Consumers Were Similar before and after the PLPA Was Implemented

Average credit score trends between treatment and comparison groups



Source: Authors' calculations using Urban Institute credit bureau data.

Notes: The figure displays average VantageScores (300 to 850) of people with a credit bureau record who used AFS loans. The vertical, black, dashed line indicates when the PLPA went into effect. This plot is descriptive and does not control for state-level differences in COVID-19, economic volatility, or consumer protection policies but provides a good visual for the change in credit scores over the study period. This visualization does not show a statistical test of the policy effect, which is done in the matched event study (see table A.5 in the appendix and figure 6).

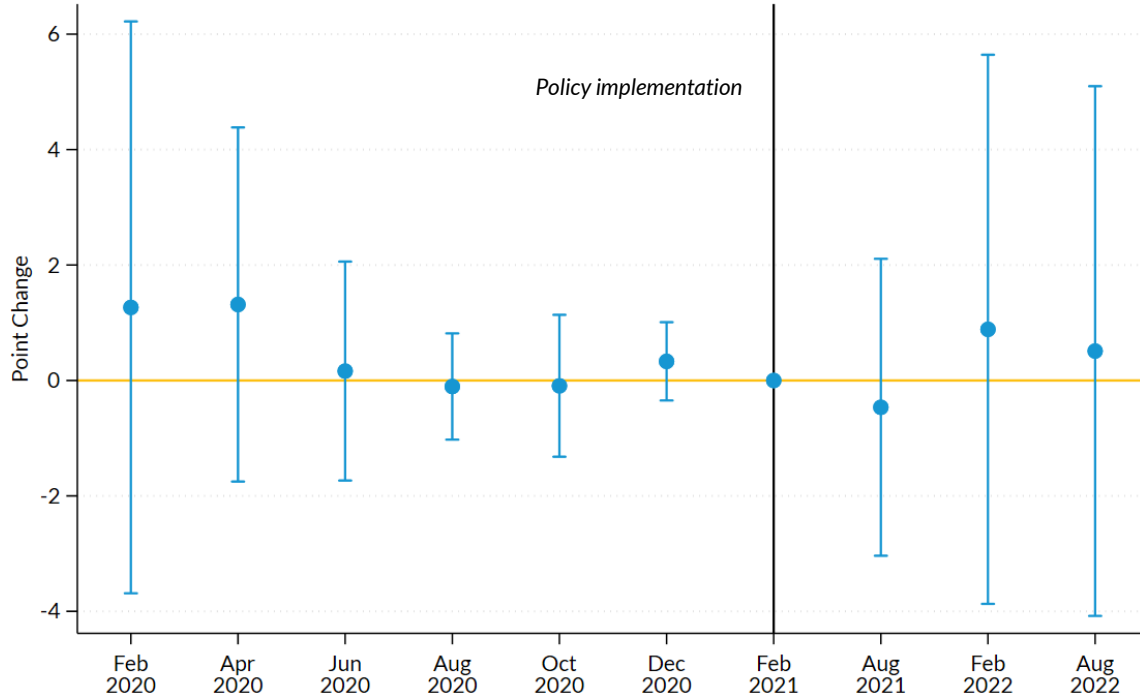
EVENT STUDY ESTIMATES OF POLICY IMPACT

The matched event study estimates align with our descriptive evidence above. When examining changes in the credit scores of past AFS loan users in Illinois 6 months, 1 year, and 1.5 years after the PLPA was implemented in 2021, we found that their credit scores did not change relative to peer borrowers in states with high APR caps, based on our event study findings (see figure 6 and table A.5 in the appendix).

FIGURE 6

Relative to Peers, Past AFS Loan Users in Illinois Saw No Change in Credit Scores after the PLPA Was Implemented

Event study estimates for changes in Illinois consumers' credit scores, relative to peers



Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This figure shows the change in average VantageScores (300 to 850) for people with a credit bureau record who used AFS loans, relative to peers in high-APR states. The dots represent the estimated change in average credit scores measured in points, with 95 percent confidence intervals. Periods to the left of the vertical black line reflect the months before the PLPA was implemented. The periods to the right of the black vertical line show the estimated effects of the PLPA on past AFS loan users' credit scores at 6 months (Aug 2021), 1 year (Feb 2022), and 1.5 years (Aug 2022) after policy implementation.

Subgroup Findings: Past Subprime AFS Loan Users

We also examined changes in consumer credit scores post-PLPA for a subset of past subprime AFS loan users who may have been differentially impacted by the PLPA. In our matched difference-in-difference analysis, we found no evidence that the PLPA is associated with a change in credit scores among this group, relative to similar peers in states with high APR caps (see table 2).

DESCRIPTIVE TRENDS IN CREDIT SCORES

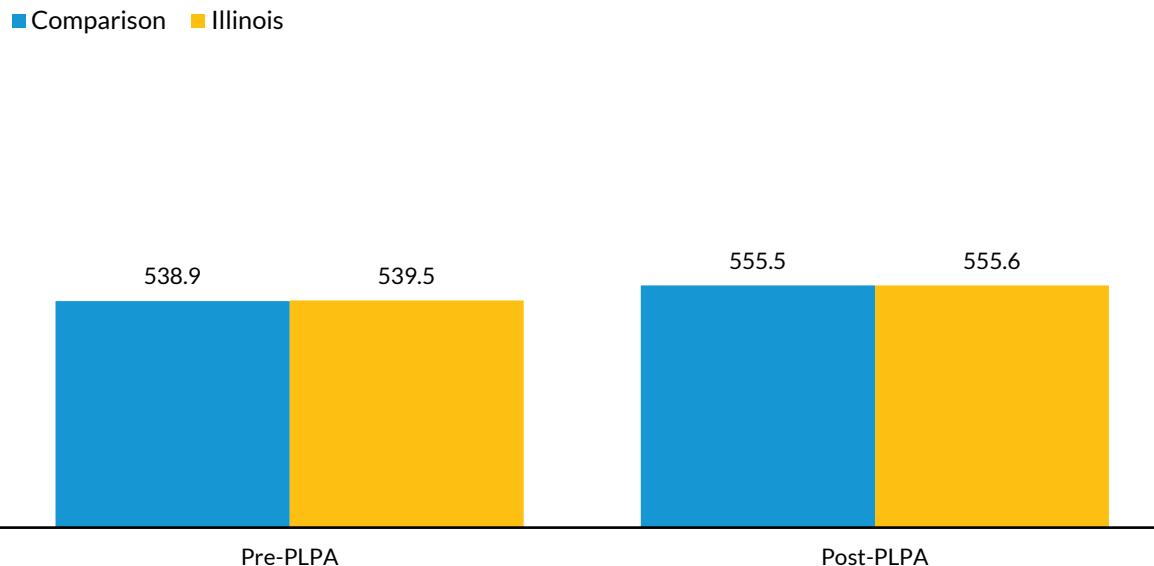
To illustrate this, we demonstrate how the average credit scores among past subprime AFS loan users in Illinois and comparable past AFS loan users in states with high APR caps were similar before and after the PLPA was implemented (figure 7). Although this evidence is simply descriptive and does not

statistically test for differences in credit scores between each group, it affirms the matched difference-in-difference impact estimates (see table 2 below).

FIGURE 7

Credit Scores Did Not Change Significantly among Past Subprime AFS Loan Users after the PLPA Was Implemented

Average credit scores of past subprime AFS loan users before and after the PLPA was implemented



Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This figure displays the average VantageScores (300 to 850) of past AFS loan users with a credit bureau record who have a subprime credit score (a VantageScore below 600). This plot is descriptive and does not control for state-level differences in COVID-19, economic volatility, or consumer protection policies but provides a good visual for the change in credit scores over the study period. This visualization does not show a statistical test of the policy effect, which is done in the matched difference-in-difference analysis (see table 2).

DIFFERENCE-IN-DIFFERENCE ESTIMATES OF POLICY IMPACT

The matched difference-in-difference estimates align with our descriptive evidence above. When examining changes in the credit scores of past subprime AFS loan users in Illinois over the 18 months after the PLPA was implemented in 2021, we found that their credit scores did not change relative to peer borrowers in states with high APR caps (table 2).

TABLE 2

Credit Scores Did Not Change Significantly among Past Subprime AFS Loan Users after the PLPA Was Implemented

Change in average credit scores of past subprime AFS loan users before and after the PLPA was implemented

	Average credit scores of past subprime AFS users
Postpolicy impact (point change in average credit scores)	0.49 (1.23)
Constant	535.38*** (2.25)
Observations	93,874
R-squared	0.05
Mean of dependent variable	533.10

Source: Authors' calculations using Urban Institute credit bureau data.

Notes: This table shows the change in points in average credit scores for past AFS loan users with a credit bureau record and a subprime credit score relative to peers in high-APR states. Robust standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Discussion and Interpretation of Findings

To contextualize our empirical findings, we drew from existing literature, prior research, and descriptive statistics. Although data limitations prevent us from confirming our proposed explanations in the scope of this study, we draw on these sources to develop plausible explanations of consumer behavior that align with our empirical findings.

We hypothesize the following:

- Past AFS loan users in Illinois with and without subprime credit scores may not have significantly fallen behind on debt obligations or made other changes in their behavior that would impact their overall credit scores. To meet their financial needs in the wake of the PLPA, they may have turned to nonmainstream-credit financial coping strategies (such as borrowing from friends and family, selling belongings, reducing consumption, claiming public benefits or using charitable supports, or drawing down savings).
- Additionally, a small, short-term increase in the share of past AFS loan users with debt in collections (relative to similar peers) after the PLPA may have stemmed from consumers' challenges simultaneously repaying mainstream and AFS debt obligations, having lost a source of liquidity, or pressure to quickly repay AFS loans that could not be rolled over. We suspect that after a short adjustment period, many consumers may have been able to identify and use nonmainstream-credit financial coping strategies to meet their financial needs over the long term.

- Finally, past subprime AFS loan users may have taken on less debt post-PLPA and remained on time repaying existing debt obligations, but more research is needed to fully understand why the share of past subprime AFS loan users with debt in collections declined.

From these evidence-based hypotheses, we would expect past AFS loan users' average credit scores to remain similar after the PLPA was implemented and only small, short-term changes in debt in collections that ultimately dissipate over time relative to peers. For past subprime AFS loan users, we anticipate that reductions in the share of consumers with debt in collections were too small in magnitude to shift their overall credit scores. Below, we delve deeper into these possible interpretations.

Debt in Collections

MAIN FINDINGS: ALL PAST AFS LOAN USERS

The share of past AFS loan users with debt in collections may have increased temporarily as these users struggled to repay their mainstream debt obligations after the PLPA for several reasons:

- On one hand, consumers seeking AFS loans may be experiencing financial distress and may take on more loans from both mainstream and AFS lenders than they can easily repay at the same time (McKernan, Ratcliffe, and Quakenbush 2014). In these circumstances, past AFS loan users may have struggled to repay their current AFS and mainstream debt obligations simultaneously, resulting in a temporary uptick in the share of consumers with debt in collections in the short term.
- Additionally, removing a source of liquidity for consumers post-PLPA may have meant some consumers were less able to stay current on mainstream debt obligations. This may be in part because consumers may use AFS loans to either repay existing debt obligations or meet basic needs (Servon 2017). As such, constrained access to AFS loans after the PLPA may have meant that consumers could no longer stay current on mainstream debt payments (because they had less liquidity) or may have had to forgo these payments to pay for food, rent, or other essential goods that AFS loans could have been used to cover (Servon 2017).
- Another possibility is that past AFS loan users in Illinois may have had to repay their AFS loan obligations more quickly post-PLPA as loans could no longer be rolled over or these services may have increased collections activities. In both cases, consumers may have prioritized repayment of AFS loan obligations and experienced increasing challenges in staying current on

mainstream debt payments. In this study, we were unable to observe lender collection practices or loan terms to fully assess the feasibility of this hypothesis.

Although there was a short-term, small increase in the share of past AFS loan users with debt in collections after the PLPA took effect, consumers may have identified other nonmainstream-credit financial coping strategies when financial emergencies emerged over the long term (1 year and 1.5 years postimplementation)—though we cannot confirm what these strategies may have been with our current data. Although our study does not directly investigate this, recent evidence suggests that Illinois consumers have developed a range of strategies, including borrowing from family and friends, drawing down personal savings, planning around expected benefits or COVID-19 supports, or turning to charitable resources like food pantries to meet their financial needs in the wake of the PLPA.³² Given this evidence, we may expect that small increases in the share of consumers with debt in collections would subside as consumers adjusted to the new policy, matching our empirical findings.

SUBGROUP FINDINGS: PAST SUBPRIME AFS LOAN USERS

The share of past subprime AFS loan users with debt in collections may have declined in the 18 months following the PLPA for several reasons that warrant further exploration in future scholarship:

- On one hand, past subprime AFS loan users may have been better able to repay their debt obligations in the wake of the PLPA because they may have no longer taken on more debt than they could manage or had to pay high levels of interest on AFS loans (McKernan, Ratcliffe, and Quakenbush 2014). Without debt repayment obligations for such loans, consumers could possibly remain on time with existing mainstream debt payments.
- On another hand, this decrease in the share of past subprime AFS loan users with debt in collections may be seen as unexpected, as some may expect subprime consumers to experience more significant liquidity constraints.³³ As consumers with subprime credit often pay more to access mainstream credit or may not be approved because of their poor credit compared with consumers with prime credit scores, they often have fewer sources of credit liquidity available to them (Elliott and Lowitz 2018). Given this result may be counterintuitive, it may warrant further investigation to explore why past subprime AFS loan users specifically fared well post-PLPA, as the overall results suggest that there was an uptick in the share of past AFS loan users with debt in collections six months after the PLPA was implemented.

Credit Scores

We found that credit scores for past AFS loan users with and without subprime credit in Illinois remained unchanged after the PLPA was implemented, relative to similar peers. Although this outcome may be a true zero effect, because of unmeasured variables, unique policy and economic contexts in 2021 and 2022, and policy enforcement (discussed in depth under “Study Limitations” in the appendix), we also provide several plausible interpretations of our findings.

MAIN FINDINGS: ALL PAST AFS LOAN USERS

Credit scores capture consumers’ ability to repay loans and shape consumers’ access to mainstream credit products and the borrowing costs they face (Elliott and Lowitz 2018). Credit scores are holistic measures and are impacted by consumers’ payment histories (whether payments for existing obligations are made on time), the share of available credit used, length of credit history, the mix of credit products consumers have, and recent credit inquiries (Elliott and Lowitz 2018). It is possible that the changes induced by the PLPA on consumers’ credit and debt were not significant enough to change their overall credit scores in context of their overall credit reports. For example, in this study, we found evidence of a short-term uptick in the share of consumers with debt in collections, but the magnitude of this change was quite small. Such a small change in the share of past AFS loan users with debt in collections may not shift overall credit scores, especially if consumers’ share of available credit used, credit mix, and credit inquiries do not change or change in countervailing directions. Future research could explore how different factors that shape credit scores changed in the wake of the PLPA or other similar policies to further decompose this effect.³⁴ Additionally, past AFS loan users may have had prior delinquencies remaining on their credit reports or substantial debt obligations from other loans that may have swamped any potential changes in credit scores induced by the PLPA.

SUBGROUP FINDINGS: PAST SUBPRIME AFS LOAN USERS

Similar to the interpretations above for all past AFS loan users, past subprime AFS loan users may have experienced no statistically significant changes in their average credit scores in the 18 months following the PLPA because small changes in the factors that contribute to credit scores induced by the PLPA may not have been significant enough in the context of their overall credit reports to shift their overall credit scores.

Bringing Things Together: Debt in Collections and Credit Scores

Overall, our empirical evidence suggests that the PLPA may not worsen or improve past AFS loan users’ credit health (as measured by average credit scores and the share of consumers with debt in collections)

over the long term, as consumers may have identified and deployed nonmainstream-credit coping strategies to meet their financial needs. Although some evidence exists of a temporary uptick in the share of consumers with debt in collections six months after the PLPA was implemented, this change did not appear significant enough in the context of their overall credit profiles to change average credit scores post-PLPA.

Although we found some evidence that the PLPA may modestly decrease the share of past subprime AFS loan users with debt in collections, such a change was not significant enough in the context of their full credit profile to shift their overall credit score—but reductions in debt in collections could have positive spillover effects into other dimensions of financial well-being, although we did not explore these in this study (Turunen and Hiilamo 2014). Ultimately, further research may be needed to understand heterogeneity in debt in collections findings between all past AFS loan users and past subprime AFS loan users. Although a decline in the share of past subprime AFS loan users with debt in collections may be unexpected by some because of higher liquidity constraints for consumers with subprime scores, it is possible that such consumers were no longer taking on more debt than they could manage or having to pay high interest rates on AFS loans—and thus remained on time with existing mainstream debt payments.

As mentioned previously, the interpretations in this section align with current research and evidence on consumer financial coping and are merely suggestive to contextualize our core findings. We conducted no direct tests of the mechanisms underpinning our empirical findings under the scope of this study, although this is an area and opportunity for future research.

Conclusion and Areas for Future Research

In this study, we examined the effects of the PLPA—a state-level APR cap on AFS loans—on consumer credit health to better understand the role of APR cap policies in supporting consumer financial well-being. We found

- some evidence that although the PLPA is associated with a small increase in the share of past AFS loan users with debt in collections over the short term (6 months) relative to similar peers, this effect dissipated 1 and 1.5 years after policy implementation;
- for past subprime AFS loan users, the PLPA is associated with a small decrease in the share of consumers with debt in collections in the 18 months following policy implementation relative to similar peers, although this change was small in magnitude; and

- no evidence that the PLPA is associated with a significant change in consumer credit scores among populations who turned to AFS loans to meet their financial needs pre-PLPA, even for those with subprime credit scores, relative to similar peers.

Drawing on prior research and evidence on consumers' financial coping strategies, these results collectively suggest the following:

- The share of past AFS loan users with debt in collections increased slightly in the short term, possibly because past AFS loan users may have either struggled to repay both their AFS and mainstream debt obligations simultaneously, lost a source of liquidity used to repay debt or meet basic needs, or experienced faster repayment of AFS loans that limited their ability to pay other debt obligations. Over the long term, past AFS loan users may have identified nonmainstream-credit financial coping strategies (such as borrowing from friends and family or drawing down on their savings) to meet their debt obligations and financial needs in the long term.
- Small, short-term changes in the share of past AFS loan users with debt in collections may not have been significant enough in the context of consumers' overall credit report to change average credit scores.
- Among past subprime AFS loan users, declines in the share of consumers with debt in collections may have been too small in magnitude to shift overall credit scores. Despite this, such declines in the share of past subprime AFS loan users with debt in collections could have been due to limited debt burdens or interest costs to borrow post-PLPA, leaving consumers more capable to repay existing mainstream loans. However, the liquidity constraints of consumers with subprime credit suggest such findings could be counterintuitive and require further research to fully understand.

Overall, our empirical evidence suggests that implementing a state-level APR cap like Illinois's for AFS loan products may not worsen or improve credit health for consumers who use these products over the long term but may alleviate the financial pressures on consumers with subprime credit by modestly decreasing the share of consumers with debt in collections.

This finding comes with the following caveats (with further details available in the appendix):

1. Credit health only represents one facet of overall consumer well-being, and using mainstream credit is only one way consumers respond to financial emergencies. Credit indicators provide insight into whether consumers struggle to meet their financial obligations and whether they

have the capacity to borrow to meet their financial needs, but these indicators do not reflect overall financial well-being.

2. In our study, we can only observe credit scores and debt in collections outcomes of past AFS loan users *with a credit record*. Credit indicators (like credit scores and debt in collections) only capture outcomes for a subset of the population with a credit record and may underrepresent populations more likely to use AFS loans, including people with looser ties to mainstream financial services and Black and Latinx consumers (CFPB 2015; Faber 2019).
3. Policy enforcement delays, if they occurred, and exclusions in the application of the PLPA could mean that some Illinois consumers may have accessed AFS loans after the PLPA was implemented.
4. Unmeasured variables and policies implemented at the same time as the PLPA may have swamped policy impacts.
5. State-level APR policies that differ from the PLPA may not show similar effects on consumers, especially in different populations and periods.
6. 2020 to 2022 was a unique period where consumers may have had access to additional resources and greater flexibilities to repay debt that likely enabled them to remain financially stable and current on even high debt obligations (Coibion, Gorodnichenko, and Weber 2020). Ultimately, state-level APR cap policies may not show similar effects when studying other periods that have different levels of supports and policy protections for consumers.

Given these limitations, future research and policy innovation can build on this study's insights by understanding the variability and range of financial coping strategies that consumers use in the wake of a state-level APR cap, assessing noncredit outcomes after implementation of an APR cap, and developing and assessing alternatives to AFS loans and understanding how consumers use them to address their financial needs (see the "Further Research" section below).

This Study's Contribution to Understanding State-Level APR Caps' Effects

Despite these limitations, this study meaningfully contributes to literature on state-level APR caps and their effects on individual consumers. Specifically, this report makes several key contributions that advance our understanding:

1. We were able to identify a subset of consumers who used AFS loans before implementation of the PLPA using administrative data on AFS loan use that have not been used in prior studies—a

unique data innovation and approach in this study. Using these data enabled us to estimate policy effects for consumers who were most sensitive to the policy change, rather than using less accurate proxies, such as subprime credit status.

2. We investigated effects on consumer credit health outcomes, giving insight into how credit scores and debt in collections change in the wake of a state-level APR cap.

Overall, this study provides some evidence that Illinois's state-level APR cap on AFS loans may not have had a net impact on consumer credit health over the long term but may have alleviated debt pressures among a subgroup of past subprime AFS loan users. Further evidence is needed to understand how these policies shape consumers' overall well-being and how to support proliferation of low-cost, high-quality credit options for consumers in times of financial distress.

Directions for Future Research and Policy Innovation to Better Understand How Policies Can Support Consumer Financial Well-Being

This research provides a better understanding of the PLPA's effect on consumer credit outcomes and generates new questions for further research. Although consumers use a range of financial coping strategies to meet their financial needs, this study focused narrowly on the PLPA's impact on the share of consumers with debt in collections and average credit scores. While this is an important contribution to understanding the impact of state-level APR caps, mainstream credit is only one way consumers can meet their financial needs, and it may not be the best option for all consumers or be accessible at low costs (Elliott and Lowitz 2018). Research suggests that consumers draw on other resources beyond mainstream credit, including borrowing from family and friends, selling belongings, reducing consumption, seeking public benefits, or drawing down savings to manage their finances (Board of Governors of the Federal Reserve System 2023), so future research could explore these two questions:

- What financial coping strategies and public supports are consumers using to meet their financial needs? How do consumers respond to state-level APR caps using these strategies and supports?
- Do consumers' overall financial well-being, savings and assets, mental health, physical health, and material hardship increase or decrease following implementation of a state-level APR cap?

Additionally, this study examined credit health outcomes among a specific subset of consumers. Among past AFS loan users, some may have had consistent access to affordable mainstream credit or sufficient available credit to weather financial emergencies, while others may have maxed out current

lines of credit or not been able to open a new line of credit. Variance in the alternatives and resources that consumers have to weather financial emergencies may mean policies like state-level APR caps could have varying effects across different types of consumers.³⁵ As such, state-level APR caps could possibly limit access to a source of liquidity that enables consumers to meet their obligations and expenses or, on the other hand, eliminate an additional cost for consumers and make it easier for consumers to meet their financial needs.³⁶ It could be interesting to explore the following questions in future scholarship:

- Do past AFS loan users who do and do not have access to credit cards experience different outcomes following a state-level APR cap?
- How do state-level APR caps shift sources of liquidity available to different subgroups of consumers, and how does this impact their financial well-being, including debts, delinquencies, bill repayment, and material hardship?

Further, a state-level APR cap is only one policy designed to support consumers' financial health. State-level APRs, by design, try to eliminate downsides of borrowing for consumers by regulating the cost of accessing AFS credit.³⁷ However, consumers turn to AFS credit for myriad reasons, including to manage small financial emergencies or meet regular budget shortfalls (Board of Governors of the Federal Reserve System 2023; Servon 2017).³⁸ As such, other policies may be needed to complement state-level APR caps and better enable consumers to meet their financial needs with credit or other resources as they experience financial emergencies or consistent income shortfalls.

Possible complementary policies that some localities have implemented and that may have potential for expansion and scaling include, but are not limited to, (1) small-dollar loans provided by employers; (2) small-dollar loans offered by mainstream financial providers, such as banks and credit unions; (3) government-supported savings and asset-building initiatives; and (4) guaranteed income initiatives and emergency grants (Bogle et al. 2022; Hahn et al. 2020; see further details in box 2).³⁹ Additionally, programs like utility arrearage management plans, credit counseling, and debt management programs can help consumers manage their financial obligations and establish financial stability (Elliott, Heffernan, and Okoli 2019).

BOX 2

Opportunities for Policy Innovation to Support Consumers' Financial Well-Being

In addition to advancing the research frontier, this report inspires possible pathways for shaping policy and practice in ways that support consumer financial well-being.

Federal and state policymakers could consider pairing APR cap policy legislation with other efforts to both expand access to high-quality, affordable, and accessible credit savings options and provide greater levels of public support. Combining these strategies could enable policymakers to (1) eliminate potential downsides of borrowing related to AFS financial services; (2) give consumers high-quality and affordable options and resources to weather financial emergencies; and (3) invest in a social safety net for consumers to fall back on during tough times. Testing such bundled efforts could enable policymakers to identify, invest in, and expand efforts that holistically support consumer financial well-being.

To advance these efforts, financial institutions and policymakers can explore piloting and implementing AFS loan alternatives to connect people in financial distress with credit and economic resources to meet their needs:

- **Financial service providers** could consider partnering with employers to develop employer-sponsored small-dollar loan programs; implement affordable small-dollar loan programs; and partner with state, local, and federal government partners to support savings, asset-building, and guaranteed income initiatives.^a
- **Government partners** could develop, fund, and support savings and asset-building initiatives and guaranteed income initiatives so consumers have savings to turn to when financial emergencies arise. Or they could partner with financial institutions to develop their own low-cost, high-quality loan programs for residents.^b Similarly, governments could assess the adequacy of benefits and safety net programs and develop strategies to expand access to and levels of such programs^c to better meet households' needs.

Although many of these interventions are new and yet to be fully tested, policy innovation paired with careful evaluations can help policymakers and practitioners identify and invest in high-impact opportunities to support consumer financial well-being.

^a Bogle et al. (2022); Hahn et al. (2020).

^b Bogle et al. 2022; Stacia West and Amy Castro, "Impact of Guaranteed Income on Health, Finances, and Agency: Findings from the Stockton Randomized Controlled Trial," *Journal of Urban Health* 100 (2023):1–18.

^c Elaine Waxman, Poonam Gupta, and Craig Gundersen, "Does SNAP Cover the Cost of a Meal in Your County?," Urban Institute, July 13, 2023, <https://www.urban.org/data-tools/does-snap-cover-cost-meal-your-county-2022>.

Prior scholarship has demonstrated that past AFS loan users appreciate quick application and approval processes, underwriting without credit scores, and convenience in applying for and accessing loans (Servon 2017).⁴⁰ So alternatives to AFS loans could consider how such products can meet past AFS loan users' unique needs while simultaneously offering affordable credit (Hahn et al. 2020). Overall,

future research is needed to better understand the slate of AFS loan alternatives and their role in bolstering consumer financial well-being. Research questions for further examination could include the following:

- Would consumers' financial well-being and material hardship outcomes change if they had access to other forms of affordable and quality credit, repayment plans, emergency savings, or grants?
- What are alternatives to high-cost loans, and how might we increase the supply of affordable and accessible small-dollar credit to consumers with poor credit?
- What policies and public supports help consumers build personal and public resources to respond to financial emergencies?

Overall, future research and policy innovation can build on insights from this report and other studies in the field to deepen our understanding of state-level APR caps' effects on outcomes beyond credit indicators and explore how policies intended to expand access to affordable credit to consumers with poor credit can impact consumer financial well-being.

Appendix. Technical Details on Methodology

Technical Details on Methodology

To estimate the PLPA's effect on consumer credit health outcomes for past AFS loan users, we used a matched event study design that enabled us to uniquely examine the effects of a state-level APR cap at specific time intervals and more deeply understand the policy's effects on consumers who are similar to each other. Similarly, we used a matched difference-in-difference design to estimate the policy impact of the PLPA on past subprime AFS loan users' credit health outcomes in the 18 months following policy implementation. Below, we provide detailed descriptions of our (1) sample development and characteristics; (2) propensity score matching approach to identify similar consumers for impact estimates; and (3) formal estimation equations for the matched event study and matched difference-in-difference analyses.

Sample Creation

First, we developed a dataset for analysis. To develop this dataset, we did the following:

- **Linked consumer credit bureau records with administrative data on AFS loan use among those consumers.** The credit bureau data used in this analysis are derived from a 2 percent nationally representative panel of deidentified, consumer-level records from a major credit bureau, which includes data on more than 5 million consumers for this period that we followed over time. The sample of credit bureau records is representative at the national and state levels. We linked this sample of administrative credit records at the consumer level to use administrative data on AFS loan use. These data are from a Fair Credit Reporting Act⁴¹ regulated agency whose unique data source is derived from various providers of these types of financial services. These providers include online small-dollar lenders; online installment lenders; storefront small-dollar lenders; and single payment, line of credit, auto title, and rent-to-own lenders. Given this approach, we observe only consumers *with a credit record* who used AFS loans, not all AFS loan users.
- **Constrained the sample to consumers who used AFS loans in February 2021.** Using data on AFS loan use, we observed consumers who used short-term unsecured loans (such as payday loans), loans where personal property was used as collateral (such as auto title loans), or

transactions under which property was leased in exchange for a weekly or monthly payment with the option to purchase (rent-to-own) in February 2021 and constrained our analytic sample to include only these consumers. We selected this population for two reasons: (1) as AFS loan users directly preceding the policy, they were likely to be more affected by the PLPA; and (2) as only 5 percent of consumers nationwide use AFS loans, it was important to measure policy effects for these consumers, rather than the overall population.

Propensity Score Matching Methodology and Matched Sample Characteristics

After developing the sample, we used propensity score matching (PSM) to construct a group of consumers living in states with high APR caps who used AFS loans and were comparable with Illinois consumers based on observable characteristics. In our study, we used PSM to match past AFS loan users based on three characteristics observed in in August 2018, August 2019, February 2020, April 2020, June 2020, August 2020, October 2020, December 2020, and February 2021: (1) whether they had a credit record; (2) their credit score; and (3) whether they held debt in collections. We used logistic regression with a 0.2 caliper to develop propensity scores to match one consumer in Illinois to one similar consumer living in a state with a high APR cap (e.g., 1 to 1 matching with replacement up to three times). We matched on credit scores and mainstream debt in collections because these were the study’s main outcomes of interest.

After matching, we identified 8,862 past AFS loan users in Illinois in February 2021 who were matched to similar consumers from other states with high APR caps (total unweighted sample of 17,374; table A.1).

We used the same PSM methodology described above to generate a comparison group for past subprime AFS loan users, except, before matching, we constrained the sample to the past AFS loan users with subprime credit scores in February 2021, before the PLPA was implemented. For the subprime sample, we identified 4,947 consumers in Illinois and a total unweighted sample of 9,686 consumers (table A.1).

TABLE A.1
Distribution of Consumers by State in the Matched Sample

Overall Matched Sample Distribution		Subprime Matched Sample Distribution	
State	Count (weighted)	State	Count (weighted)
IL	8,862	IL	4,947

Overall Matched Sample Distribution		Subprime Matched Sample Distribution	
State	Count (weighted)	State	Count (weighted)
CA	1,731	TX	988
TX	1,620	CA	869
FL	1,152	FL	618
AL	413	SC	226
MI	400	MI	224
TN	385	MO	214
WA	371	WA	211
MO	360	AL	206
IN	353	TN	204
SC	343	IN	188
LA	286	LA	169
WI	248	NV	145
NV	232	MS	129
KY	220	WI	128
MS	213	KY	122
UT	123	ID	79
KS	115	UT	68
ID	120	KS	60
IA	74	DE	37
DE	57	IA	37
WY	26	AK	13
AK	20	WY	12

Source: Authors' calculations using Urban Institute credit bureau data.

In our matched sample, the majority of consumers had access to mainstream credit cards—61.7 percent of past AFS loan users in the matched sample had an open credit card account in February 2021, which aligns with prior research that has found most consumers have an open credit card with revolving debt in the quarter before acquiring their AFS loan.⁴² Within our sample, the median amount of credit consumers had access to was \$5,200 (with a range from \$0 to more than \$200,000; table A.2). Consumers in our sample tended to have some credit available to them on their credit cards (roughly 36.4 percent), meaning they had not maxed out all of their existing lines of credit (for credit card products; table A.2). The median amount of available credit on credit cards for consumers in our sample was \$1,446. Table A.2 has more details on the matched sample's access to and use of mainstream credit cards.

TABLE A.2

Many Past AFS Loan Users in Our Sample Also Had Access to Mainstream Credit Cards

Descriptive statistics on access to and use of available credit card credit among the matched sample of past AFS loan users in Illinois and states with high APRs

	Mean	Standard deviation	Min.	Median	Max.
Total credit	11,743.03	17,844.93	0	5,200	272,600
Available credit	6,241.46	13,239.25	-4,175	1,446	270,660
Per available credit	0.39	0.35	-1.72	0.36	1

Source: Authors' calculations using Urban Institute credit bureau data.

In the matched sample of past AFS loan users with a subprime credit score, 52.1 percent had an open credit card account in February 2021. Within this sample, the median amount of credit consumers had access to on their open credit cards was \$2,300 (with a range from \$0 to more than \$200,000; table A.3). Consumers in the subprime sample tended to have some credit available to them on their credit cards (roughly 15.4 percent, or \$314; table A.3). Table A.3 has more details on the matched subprime sample's access to and use of mainstream credit cards.

TABLE A.3

Many Past Subprime AFS Loan Users in Our Sample Also Had Access to Mainstream Credit Cards

Descriptive statistics on access to and use of available credit card credit among the matched sample of past AFS loan users in Illinois and states with high APRs who also had subprime credit scores

	Mean	Standard deviation	Min.	Median	Max.
Total credit	6,561.31	11,466.39	0	2,300.50	22,9084
Available credit	1,871.28	4,792.68	-3034	313.50	65,616
Per available credit	0.21	0.33	-1.72	0.15	1

Source: Authors' calculations using Urban Institute credit bureau data.

Before conducting our impact estimates in the event study, we tested the quality of matches between consumers in Illinois and those living in states with high APR caps to ensure that Illinois consumers and their matched peers shared similar trends in credit health before the PLPA was implemented (table A.4). We confirmed that the mean of the matched treatment and comparison groups (past AFS loan users in Illinois and past AFS loan users in states with high APR caps) were similar, the effect size of the difference in means was low (low defined as less than the absolute value of 0.2), and the difference in means was not statistically significant at the $p > 0.10$ level. We also performed this check for the matched sample of past subprime AFS loan users and confirmed that the difference in means between the treatment and comparison groups is small in magnitude and effect size and not statistically significant (tables not shown).

TABLE A.4

Balance between Treatment and Comparison Groups on Matching Covariates for All Past AFS Loan Users

Difference in means, effect size of difference in means, and statistical test of difference in means between consumers in the matched sample for the three matching covariates (credit scores, debt in collections, and presence of a credit record) from 2018 to 2021

Variable	Mean treated (Illinois)	Mean comparison	Effect size	P-value
Credit score (August 2018)	544.67	545.76	0.01	0.62
Credit score (August 2019)	547.72	547.12	-0.004	0.78
Credit score (February 2020)	548.64	548.90	0.002	0.90
Credit score (April 2020)	558.45	558.70	0.002	0.90
Credit score (June 2020)	567.38	568.37	0.01	0.61
Credit score (August 2020)	572.45	574.45	0.02	0.27
Credit score (October 2020)	577.36	578.56	0.01	0.46
Credit score (December 2020)	581.93	583.17	0.01	0.42
Credit score (February 2021)	590.97	591.28	0.004	0.81
Collections (August 2018)	64.81	65.01	0.004	0.78
Collections (August 2019)	65.56	65.58	0.00	0.99
Collections (February 2020)	66.88	67.41	0.01	0.45
Collections (April 2020)	66.07	66.36	0.01	0.68
Collections (June 2020)	66.28	66.84	0.01	0.44
Collections (August 2020)	66.44	67.14	0.02	0.32
Collections (October 2020)	67.04	67.90	0.02	0.22
Collections (December 2020)	67.49	68.24	0.02	0.29
Collections (February 2021)	68.10	68.83	0.02	0.29
Missing (August 2018)	0.04	0.04	-0.007	0.65
Missing (August 2019)	0.04	0.04	0.01	0.47
Missing (February 2020)	0.04	0.04	0.002	0.88
Missing (April 2020)	0.03	0.03	-0.003	0.84
Missing (June 2020)	0.03	0.03	-0.01	0.68
Missing (August 2020)	0.02	0.02	-0.02	0.24
Missing (October 2020)	0.02	0.02	-0.02	0.25
Missing (December 2020)	0.01	0.01	-0.02	0.12

Source: Authors' calculations using Urban Institute credit bureau data.

Causal Impact Estimation Using Event Study and Difference-in-Difference Designs

Finally, we implemented a matched event study to estimate the PLPA's effect on past AFS loan users' credit scores and debt in collections over time, specifically 6 months (August 2021), 1 year (February 2022), and 1.5 years (August 2022) after policy implementation, controlling for differences that vary between states over time that could affect consumer credit health (equation A.1). Specifically, we controlled for consumer protection policies (state-level eviction moratoria, utility moratoria, garnishment suspensions, and repossessions suspensions), COVID-19 strength (cases per capita, deaths per capita, and vaccination rates), and economic volatility (home price changes and unemployment rates).⁴³ This analysis was conducted for consumers in the matched sample of past AFS loan users.

EQUATION A.1

Estimation Strategy for Main Study Results (Event Study)

$$Y_{it} = \beta_0 + \beta_1 \textit{Treatment} + \beta_2 \textit{Period} + \beta_3 \textit{Treatment} * \textit{Period} + \delta_i + \theta_{st} + \tau_t + \epsilon_{is}$$

where Y_{it} is the credit health outcome (credit scores or mainstream debt in collections) for consumer i in period t , $\textit{treatment}$ is an indicator (coded 0,1) for whether a consumer resides in Illinois, \textit{period} is an indicator for the month and year, δ_i are fixed effects at the consumer level, τ_t are time fixed effects, θ_{st} is a vector of state-level controls for state-level eviction moratoria, utility moratoria, garnishment suspensions, repossessions suspensions, COVID-19 cases per capita, COVID-19 deaths per capita, COVID-19 vaccination rates, home price changes, and unemployment rates. Standard errors are heteroskedastic robust errors clustered at the state level. Weights are used to estimate coefficients, based on PSM replacement factors.

We also assessed the PLPA's effect on past AFS subprime loan users using a matched differences-in-difference design (equation A.2). We use the same controls for consumer protection policies, COVID-19 strength, and economic volatility as we use in the event study specification above and assess past subprime AFS loan users' average credit scores and debt in collections over the 18 months following the PLPA. This analysis was conducted for consumers in the matched sample of past subprime AFS loan users.

EQUATION A.2

Estimation Strategy for Subgroup Results (Difference-in-Difference)

$$Y_{it} = \beta_0 + \beta_1 \textit{Treatment} + \beta_2 \textit{Post} + \beta_3 \textit{Treatment} * \textit{Post} + \delta_i + \theta_{st} + \epsilon_{is}$$

where Y_{it} is the credit health outcome (credit scores or mainstream debt in collections) for consumer i in period t , $\textit{treatment}$ is an indicator (coded 0,1) for whether a consumer resides in Illinois, \textit{post} is an indicator (coded 0,1) for whether the period is after the policy, δ_i are fixed effects at the consumer level, θ_{st} is a vector of state-level controls for state-level eviction moratoria, utility moratoria, garnishment suspensions, repossessions suspensions, COVID-19 cases per capita, COVID-19 deaths per capita, COVID-19 vaccination rates, home price changes, and unemployment rates. Standard errors are heteroskedastic robust errors clustered at the state level. Weights are used to estimate coefficients, based on PSM replacement factors.

Full Event Study Regression Tables

Credit Scores

Below, we show the matched event study results for credit scores (table A.5). Each coefficient reflects the average estimated change in credit scores for past AFS loan users in Illinois relative to past AFS loan users in states with high APR caps, by period and measured in points.

TABLE A.5
Full Event Study Regression Table for Credit Scores (All Past AFS Loan Users)

Variables	Event study
April 2020	1.62 (1.79)
June 2020	-0.008 (1.10)
August 2020	-0.88 (0.64)
October 2020	-0.64 (0.68)
December 2020	0.41 (0.33)
August 2021 (6 months post-PLPA)	0.72 (1.45)
February 2022 (1 year post-PLPA)	3.93 (2.98)
August 2022 (1.5 years post-PLPA)	2.22 (2.95)
R-squared	0.03
Mean of dependent variable	602.60

Source: Authors' calculations using Urban Institute credit bureau data. N = 14, 746 consumers.

Notes: Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

DEBT IN COLLECTIONS

Below, we show the event study results for the share of past AFS loan users with debt in collections (table A.6). Each coefficient reflects the average estimated change in the share of past AFS loan users with debt in collections in Illinois relative to those in states with high APR caps, by period and measured in percentage points.

TABLE A.6

Full Event Study Regression Table for Debt in Collections (All Past AFS Loan Users)

Variables	Event study
April 2020	0.63 (1.10)
June 2020	0.49 (0.75)
August 2020	0.17 (0.36)
October 2020	0.13 (0.33)
December 2020	-0.25 (0.20)
August 2021 (6 months post-PLPA)	1.22** (0.54)
February 2022 (1 year post-PLPA)	1.67 (1.53)
August 2022 (1.5 years post-PLPA)	-0.24 (1.62)
R-squared	0.00491
Mean of dependent variable	68.44

Source: Authors' calculations using Urban Institute credit bureau data.

Notes: $N = 17,374$ consumers. Robust standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Study Limitations and Implications for Transferability

This study provides key insights into the effects of state-level APR cap policies on consumer financial well-being but has several limitations that are important to keep in mind when assessing how applicable these insights are to other states, financial well-being outcomes, populations, and periods.

Credit Health Is Only One Component of Consumer Well-Being

First, this study is not designed to determine if consumers are better or worse off following a state-level APR cap, but rather to understand the PLPA's effect on consumer credit health (as measured by credit scores and debt in collections), among consumers who have used some of the types of AFS loans covered by the PLPA. Credit health represents only one facet of consumers' overall financial well-being

and while credit indicators provide insight into whether consumers struggle to meet their financial obligations and whether they have the capacity to borrow to meet their financial needs, they do not reflect other dimensions of consumers' financial well-being that may be impacted by APR caps, including but not limited to, mental distress, savings and assets, and material hardship. It is also important to note that people respond to financial emergencies in different ways and using different financial coping strategies, based on what resources and opportunities they have access to—and mainstream credit is only one of these options.

Credit Indicators Likely Underrepresent Past AFS Loan Users

Further, credit indicators only capture a subset of overall consumers, as roughly 11 percent of adults do not have a credit record (CFPB 2015). The Consumer Financial Protection Bureau (2015) found that historically marginalized consumers (such as Black and Latinx consumers) as well as consumers with looser ties to the mainstream credit system are less likely to have credit records. As consumers living in communities of color are also more likely to live in communities with a higher concentration of AFS lenders, our estimates may not fully capture the PLPA's impact on consumers who are less connected to mainstream credit and have greater access to high-cost loan options (Faber 2019). Consequently, this study's findings demonstrate the PLPA's credit health effects on a specific population who has a credit record, but the findings do not provide a holistic, overall picture of the impact on all consumers.

Policy Exclusions and Lagged Implementation Could Dilute the PLPA's Effects

Third, policy implementation trends may shape interpretation of this study's effects in several ways:

- Exclusions in the PLPA's application (e.g., pawnbrokers or other products not covered, including Buy Now, Pay Later and Earned Wage Access loans) may mean that consumers continue to have access to certain types of AFS loans after policy implementation, which shifts the options and financial coping strategies available to consumers.
- Additionally, consumers may continue to access AFS loans by traveling to nearby states that do not have similar restrictions on AFS loans or by accessing AFS loans online, and the extent to which consumers in Illinois have done this post-PLPA has not yet been comprehensively evaluated.

- Finally, although the PLPA was signed in March 2021, enforcement of the legislation may not have been immediate or may have been uneven across communities, so policy impacts may not fully affect some consumers until several months or years postimplementation.

Changing Policies and Economic Contexts May Make It Harder to Detect Effects

Further, the PLPA was implemented in a highly economically volatile period with high levels of inflation, economic volatility, and an active policy context. Recent research has found that consumers increased their savings and paid down debt during the pandemic, in association with federal policies that provided higher levels of economic assistance to families (Coibion, Gorodnichenko, and Weber 2020). Although our study includes controls for economic volatility and COVID-19 strength to account for differences in economic volatility between states over time, it is hard to be certain that the effects identified in this study are fully attributable to the PLPA if there are policies or other factors that impact the credit health of past AFS loan users in Illinois and users in states with high APR caps differentially, especially those we cannot model because they are not measured. If such omitted variables shape consumer credit health, estimates of the PLPA's impact on past AFS loan users' credit health could incorrectly attribute these effects to the PLPA rather than the omitted variable or policy.

Additionally, it is plausible that the effects of state-level APR caps on measures of consumer credit health may be necessarily small in the context of large and diverse policy investments and economic circumstances in 2021 and 2022, and different effects may be observable in more stable economic and policy contexts. Consumers may have had access to additional resources to repay debt, as COVID-19 supports and public benefits were bolstered during this time, and multiple studies suggest that consumers used additional windfalls to not only meet immediate, emergent financial needs, but also repay debt (Coibion, Gorodnichenko, and Weber 2020). Additionally, there were greater flexibilities in debt repayment, both initiated by lenders who offered more flexible repayment plans and state-level and federal policies that curtailed repossessions, collections, and shutoffs that improved consumers' credit health (Andre et al. 2023). Together, greater flexibilities and protections for consumers in debt repayment and greater public supports may have enabled consumers to have more resources during this time to repay even high debt levels. This policy context may have made it easier for consumers to stay current on debt obligations post-PLPA and may make it more challenging to detect the PLPA's effect on consumer credit health outcomes.

The PLPA Differs from Other State-Level APR Cap Policies

Finally, this study focuses on estimating the policy effect of the PLPA specifically, so findings may not apply to all states and populations. State-level legislation on APR caps is diverse—applying to different products and services, establishing different APR limits, and incorporating other policy choices that shape the characteristics of AFS financial services that can be offered in the state. This diversity of policy choices within state-level APR caps means that this study’s findings may not be applicable to states whose policies differ substantially from the PLPA or that are applied to different populations in different periods.

Notes

- ¹ Although no commonly accepted definition of small-dollar loans exists, these loans typically range from a less than a hundred dollars to, at most, a couple thousand dollars (Hahn et al. 2020).
- ² For example, on May 18, 2023, the Minnesota state government enacted an APR cap of 50 percent with penalties for exceeding 36 percent. New Mexico enacted a 36 percent APR cap for consumer loans up to \$10,000 that took effect on January 1, 2023. Although these policies may appear similar to the PLPA it is important to note that Minnesota already capped interest rates for installment loans in the 20s before their 2023 legislation, and neither Minnesota nor New Mexico's caps mirror that of Illinois because they do not use a "Military APR" or MAPRs, which means that fees not covered by the Truth in Lending Act and fees for ancillary products are not required to be included in the 36 percent calculation. See the following sources:

Capurso et al., "Minnesota Enacts Bill Capping All-In APR and Codifying Predominant Economic Interest Test for Short-Term and Small Consumer Loans," Troutman Pepper, Consumer Financial Services Law Monitor, June 1, 2023, <https://www.consumerfinancialserviceslawmonitor.com/2023/06/minnesota-enacts-bill-capping-all-in-apr-and-codifying-predominant-economic-interest-test-for-short-term-and-small-consumer-loans>.

Minnesota Legislature, S. F. 2744, 4th Engross., 93rd Leg. (2023–24), https://www.revisor.mn.gov/bills/text.php?number=sf2744&version=latest&session=ls93&session_year=2023&session_number=0.

Caroline Waters, "New Mexico Governor Signs Bill to Impose 36% Rate Cap and Tough Anti-Evasion Provisions," Bradley, Financial Services Perspectives, March 10, 2022, <https://www.financialservicesperspectives.com/2022/03/new-mexico-governor-signs-bill-to-impose-36-rate-cap-and-tough-anti-evasion-provisions/>.

Nash Jones, "New Mexico Becomes Latest State to Cap Small Loan Interest Rates at 36%," KUNM, January 5, 2023, <https://www.kunm.org/local-news/2023-01-05/new-mexico-becomes-latest-state-to-cap-small-loan-interest-rates-at-36>.
- ³ "A Short History of Payday Lending Law," Pew Charitable Trusts, July 18, 2012, <https://www.pewtrusts.org/en/research-and-analysis/articles/2012/07/a-short-history-of-payday-lending-law#:~:text=The%201916%20publication%20of%20the,percent%2C%20depending%20on%20the%20state>.
- ⁴ "What Is the Military Lending Act and What Are My Rights?," Consumer Financial Protection Bureau, accessed July 3, 2023, <https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/military-lending-act-mla/>.

"Military Lending Act Consumer Compliance Handbook," Federal Reserve Board, accessed July 3, 2023, <https://www.federalreserve.gov/boarddocs/supmanual/cch/mla.pdf>.
- ⁵ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB–2016–0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
- ⁶ Illinois Predatory Loan Prevention Act, Predatory Loan Prevention Act, 815 ILCS 123 (2021), <https://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=4088&ChapterID=67>.
- ⁷ "Predatory Loan Prevention Act Signed into Law," Woodstock Institute, March 23, 2021, <https://woodstockinst.org/media/press-release/plpa-signed-into-law/>.
- ⁸ Subprime credit scores are defined as VantageScores below 600 and are often associated with higher borrowing costs for consumers and lower levels of access to mainstream credit (Elliott and Lowitz 2018).

- ⁹ “Illinois Predatory Loan Prevention Act Signed into Law and Now Effective,” Ballard Consumer Financial Services Group, March 25, 2021, <https://www.consumerfinance.com/2021/03/25/illinois-predatory-loan-prevention-act-signed-into-law-and-now-effective/>.
- ¹⁰ “Making Loans at 240% APR and Higher, Pawn Brokers Preying on Illinois Military Families,” Woodstock Institute, November 3, 2022, <https://woodstockinst.org/media/press-release/pawn-brokers-preying-on-illinois-military-families/>; Cowan (2023).
- ¹¹ The PLPA was effective immediately, although full implementation may have taken longer. In September 2021, the Sangamon County Circuit Court issued an injunction exempting pawnshops from the PLPA. Illinois State Senator Jacqueline Y. Collins introduced Senate Bill 4241 in November 2022, which would have removed the exemption, but the bill did not pass. See the following sources:
- “Pawnbrokers to Continue Charging 240% APR or more to Illinois Veterans and Consumers” (press release), Woodstock Institute, January 11, 2023, <https://woodstockinst.org/media/press-release/pawnbrokers-240-apr/>.
- Predatory Loans-Pawnbrokers, S. B. 4241, IL 102nd Gen. Assem., <https://www.ilga.gov/legislation/BillStatus.asp?DocNum=4241&GAID=16&DocTypeID=SB&SessionID=110&A=102>.
- ¹² There is no federal rate limit for banks other than for loans to servicemembers, as established by the 2006 Military Lending Act. Federally chartered credit unions are subject to a federal rate cap.
- ¹³ “PLPA Coalition Fact Sheet,” Woodstock Institute, February 22, 2022, <https://woodstockinst.org/advocacy/predatory-lending/plpa-coalition-fact-sheet/>.
- ¹⁴ Nearly half of payday loan borrowers in Illinois have household incomes less than \$30,000. Communities of color represent 47 percent of Chicago’s overall population but represent 72 percent of the city’s payday loan originations. Also see “PLPA Coalition Fact Sheet,” Woodstock Institute.”
- ¹⁵ Danielle Arlowe, Mark Dapier, Brett Ashton, and Pete Sander, “Re: Senate Bill 1792 – the Predatory Loan Prevention Act,” letter to Illinois Governor J. B. Pritzker, January 22, 2021, <https://afsaonline.org/wp-content/uploads/2021/01/Joint-comment-letter-IL-SB-1792-veto-request.pdf>.
- ¹⁶ Arlowe et al., “Re: Senate Bill 1792 – the Predatory Loan Prevention Act.”
- ¹⁷ Arlowe et al., “Re: Senate Bill 1792 – the Predatory Loan Prevention Act.”
- ¹⁸ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB–2016–0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
- ¹⁹ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB–2016–0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
- ²⁰ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB–2016–0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>. Specifically, see pp. 54,817–18.
- ²¹ “Illinois Consumers Find Affordable Alternatives to Predatory Loans: Survey,” Woodstock Institute, February 26, 2022, <https://woodstockinst.org/media/press-release/plpa-saves-consumers-survey-shows/>.
- ²² The states highlighted pink on the map in figure 1 include states that allow high-cost, short-term loans and single-pay payday loans, although some have lower APR caps for other products such as installment loans.
- ²³ We measured debt in collections at the consumer level. If consumers experienced changes in the number of accounts in collection, or the dollar value of debt that was in collections, these changes are not reflected if the

consumer has continually had at least one account or tradeline in collections. Our measure of debt in collections includes debt reported as in collections to one of the three major credit bureaus.

²⁴ Fair Credit Reporting Act, 15 U.S.C. §§ 1681-1681x (revised May 2023), <https://www.ftc.gov/legal-library/browse/statutes/fair-credit-reporting-act>.

²⁵ Although debt in collections can indicate consumers faced challenges in the past making ends meet, debts reported in collections can be for amounts that were due at some remote time in the past, and consumers may be disputing the debt, may not recognize the debt, or may not be aware of it.

Because of data availability, we primarily were only able to observe consumers' mainstream credit outcomes (credit scores and debt in collections) after the PLPA was implemented; payday loan, pawnshop loan, and auto title loans are not typically reported to credit bureaus unless they are charged off, and borrowing from friends and family is not reported at all. We use our measure of AFS loan use to define our sample in February 2021, but do not observe AFS loan use after the PLPA is implemented due to data availability constraints.

²⁵ These providers include online small-dollar lenders; online installment lenders; storefront small-dollar lenders; and single payment, line of credit, auto title, and rent-to-own lenders. The data on AFS loan use are from one agency, which may not have full coverage and visibility into all AFS loans made to consumers, especially as reporting on AFS loans may be more fragmented.

Other measures of AFS use have been captured in survey data, such as the Survey of Household and Economic Decision-making (SHED) conducted by the Federal Reserve. The SHED defines AFS products more broadly than we do in our dataset (and thus their data are not directly comparable), releasing estimates for consumers' use of purchase of a money order from a nonbank lender, check cashing at a nonbank lender, payday loans, payday advances, auto title loans, pawn shops, and tax refund advances. In the 2021 SHED, 13.6 percent of Illinois residents used AFS products according to this definition. In our data, we identify consumers who used short-term unsecured loans (such as payday loans), loans where personal property is used as collateral (such as auto title loans), or transactions under which property is leased in exchange for a weekly or monthly payment with the option to purchase (rent-to-own) in February 2021, as reported by online small-dollar lenders; online installment lenders; storefront small-dollar lenders; and single payment, line of credit, auto title, and rent-to-own lenders to a Fair Credit Reporting Act regulated agency. We found that 4.5 percent of Illinois consumers used AFS in February 2021, using this data definition. We benchmark this against a restricted definition of AFS using the SHED data, where AFS is defined to include payday loans, payday advances, auto title loans, pawn shops, and tax refund advances. Using this restricted definition and SHED data, an estimated 2.3 percent of Illinois consumers used AFS in 2021.

²⁶ Breno Braga and Signe-Mary McKernan, "How Do Borrowers Use Alternative Forms of Credit to Fill in the Gaps?," Urban Institute, May 27, 2021, <https://www.urban.org/research/publication/how-do-borrowers-use-alternative-forms-credit-fill-gaps>.

²⁷ Braga and McKernan, "How Do Borrowers Use Alternative Forms of Credit to Fill in the Gaps?"

²⁸ Braga and McKernan, "How Do Borrowers Use Alternative Forms of Credit to Fill in the Gaps?"

²⁹ "NY Times COVID-19 Data," *New York Times*, accessed October 1, 2022, <https://github.com/nytimes/covid-19-data>.
"COVID Data Tracker," Center for Disease Control and Prevention, accessed October 1, 2022, <https://covid.cdc.gov/covid-data-tracker/#datatracker-home>.

Richard Auxier, Aravind Boddupalli, Erin Huffer, and Kim Rueben, "State Economic Monitor," Urban Institute, August 2023, <https://apps.urban.org/features/state-economic-monitor/>.

"Major Consumer Protection Announced in Response to COVID-19," National Consumer Law Center, accessed October 1, 2022, <https://library.nclc.org/article/major-consumer-protections-announced-response-covid-19#:~:text=These%20actions%20include%20suspensions%20on,on%20debt%20collection%2C%20and%20more>.

- ³⁰ We did a formal test of this in the matched event study and found that there were no statistically significant differences in consumer credit health (debt in collections) before the PLPA was implemented.
- ³¹ We did a formal test of this in the matched event study and found that there were no statistically significant differences in consumer credit health (credit scores) before the PLPA was implemented.
- ³² “Illinois Consumers Find Affordable Alternatives to Predatory Loans: Survey,” Woodstock Institute, February 26, 2022, <https://woodstockinst.org/media/press-release/plpa-saves-consumers-survey-shows/>.
- ³³ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB-2016-0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
- ³⁴ In this study, we tested other credit health indicators that impact overall credit scores, such as credit card utilization, but were unable to present estimates because of internal validity concerns, where some indicators showed evidence of significant pretrends prepolicy.
- ³⁵ Braga and McKernan, “How Do Borrowers Use Alternative Forms of Credit to Fill in the Gaps?”
- ³⁶ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB-2016-0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
- ³⁷ Consumer Financial Protection Bureau (CFPB), 12 CFR 1041, Docket No. CFPB-2016-0025, Payday, Vehicle Title, and Certain High-Cost Installment Loans, 82 Fed. Reg. 221 (Nov. 17, 2017), <https://www.govinfo.gov/content/pkg/FR-2017-11-17/pdf/2017-21808.pdf>.
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