What are the real effects of excessively low caps in other states?

AFSA
AMERICAN FINANCIAL SERVICES ASSOCIATION

ABOUT AFSA

- Founded in 1916, AFSA is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA provides the consumer credit industry and the consumers it serves with a voice in Washington, DC.
- Current membership includes approximately 400 member companies (companies providing direct and indirect consumer credit and commercial finance with over 7,000 branch offices nationwide), industry suppliers, and affiliate state associations.
- AFSA members provide consumers with many kinds of credit, including traditional installment loans, direct and indirect vehicle financing, mortgages, payment cards, and retail sales finance. AFSA members do not provide payday or vehicle title loans.
- Through its foundation, AFSA is committed to consumer credit education. The AFSA Education Foundation's mission is to educate consumers of all ages on personal finance concepts and to help them realize the benefits of responsible money management and to understand the credit process. AFSAEF's MoneySKILL program has provided free online financial education to over 810,000 students.
- Consumer credit is a crucial resource that helps drive the U.S. economy. 41% of adults applied for some type of credit in 2019.

In states where overly-aggressive APR limits have been imposed on small dollar loans, the consequences are unequivocal: A rapid and catastrophic reduction in the availability of safe and affordable credit for people who rely on it, and an increased reliance on unsafe or illegal forms of credit, with an allied effect on poverty levels, well-being, and financial mobility.

Several states have over-regulated lenders. In most if not all cases this has acted as an effective ban on small dollar consumer lending, with disastrous consequences for those affected:

Georgia and North Carolina

After the imposition of APR caps in Georgia and North Carolina effectively banned small-dollar loans, a Federal Reserve Bank of New York study[1] reported that people **"bounced more checks, complained more about lenders and debt collectors** and have filed for Chapter 7 ('no asset') **bankruptcy** at a higher rate".

Montana

Press reports[2] detail that, after Montana passed a 36 percent APR cap, the levels at which state-regulated installment loans were made fell from 98,000 per month to zero. At the same time, Tribal Lenders and out-of-state banks, exempt from the law, stepped in to meet demand by **offering payday loans at APR rates way above the rates allowed in the state** (one lender offered a $200, six month loan at 800% APR). A year after the cap was imposed, a report by the commissioner of banking noted that "**Complaints** of Illegal **Tribal Lenders increased significantly** with APR'S of 1,000% +."[3]

Oregon

According to an article in *Governing* magazine,[4] one year after implementing a 36 percent interest rate cap, 75 percent of Oregon's 360 small-dollar lending offices closed. Consumer **complaints against unregulated Internet lenders doubled**, representing nearly 70 percent of all complaints about lenders. Furthermore, *The Portland Business Journal*[5] reported that after the law passed, Oregon became "…**a hotbed for illegal Internet payday loans**."

South Dakota

A year after South Dakotans passed a ballot initiative in 2016 that imposed a 36% "all-in" APR cap, local media[6] reported that at least 162 small-dollar lenders did not renew their licenses, with regulators estimating relatively **few licensed lenders remain**.
It also reported that credit counselors in the state suspect borrowers simply **migrated to online lenders** who charge triple and quadruple digit rates, while **pawn shops reported a sharp rise in business.**

1. https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr309.pdf
2. https://www.governing.com/archive/gov-payday-lending-online.html
3. https://www.governing.com/archive/gov-payday-lending-online.html
4. https://www.governing.com/archive/gov-payday-lending-online.html
5. https://www.bizjournals.com/portland/print-edition/2011/02/11/borrowers-flock-to-shady-payday-lenders.html
6. https://www.argusleader.com/story/news/politics/2017/01/06/payday-lenders-flee-sd-after-rate-cap/96103624/