Discussion of:

Consumer Protection? Predatory Loan Laws and their Impact on Household Credit and Spending

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April 5, 2024

System Equitable Growth Conference

Federal Reserve Bank of New York

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Premise

- Probably the oldest form of credit market regulation
- Goal of preventing "predatory" lenders from taking advantage of vulnerable households
- Household don't make the "right" financial/consumption decisions
  - In that spirit, predatory loan limits are similar to retirement saving incentives
  - Are these policies distortionary? What are their effects on different types of households?

This paper $\rightarrow$ Predatory loan laws did not benefit households

Predatory loan laws constrain credit and spending by low-income household

Recent usury limits in the U.S.

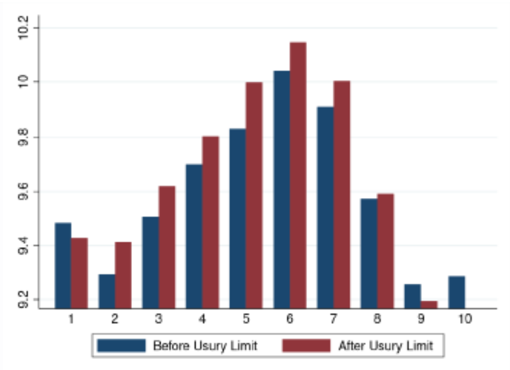
- **Five states introduced usury limits between 2015 and 2022**
  - South Dakota (2016:Q4)
  - New Mexico (2018:Q1)
  - Ohio (2019:Q2)
  - Illinois (2021:Q1)
  - North Dakota (2021:Q3)
- Compared with...
  - Alabama, Delaware, Idaho, Missouri, South Carolina, Utah, Wisconsin (never treated)
  - Observations from treatment states 5 quarters before vs. 5 after the policy introduction

Data

- **New York Fed Consumer Credit Panel**
  - Anonymized data from Equifax
  - Tracks households' credit profile by quarter, including credit scores
- **Spending data from Commerce Signals**
  - Tracks credit/debit cards spending at individual level (coverage up to 60% of U.S. transactions)
  - Spending broken down by category and by card holder income at the state level

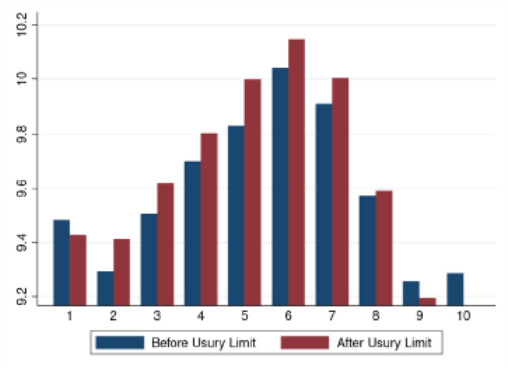
- Very interesting data sets → more descriptive figures and tables
  - Report and discuss summary stats in USD, in addition to log
  - Show more descriptives, break down the bottom decile and geographic variation

Credit balances decline for high-risk borrowers

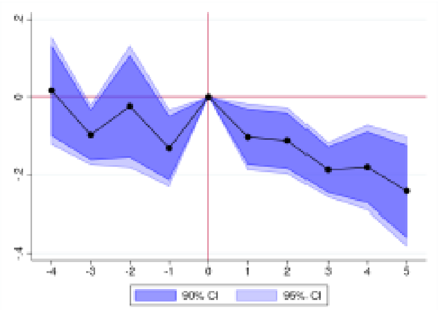


- Balances decrease in the first decile *but increase* in deciles 2-8 (credit supply reshuffling?)
- Consistent with banks losing a very profitable segment of the market (Agarwal et al., 2024)

Reconcile parametric estimates with raw data



(a) Log Total Debt Balance



- Is this different driven by state FE or individual FE?
- Controls for zip code population or age? (Discuss rationale for including each control)

Interpretation

- **Delinquency rates $\uparrow$ inquiries $\downarrow$ spending decrease $\downarrow$**
  - The loan limits are binding, making some borrowers credit constrained
  - Isn't this the goal? Are policy-induced credit constraints effectively a second best?
- **But low-income constrained households might be forced to cut essential spending**
  - Spending on essentials by low-income households declines by 1.8% of a st.dev.
  - Hard to identify what is really "essential"
  - Efforts to identify essential items would be very valuable

Overall

- Fascinating data and a provocative interpretation of results
- More descriptive analysis
- Understand equilibrium response of lenders
- More effort to substantiate the interpretation