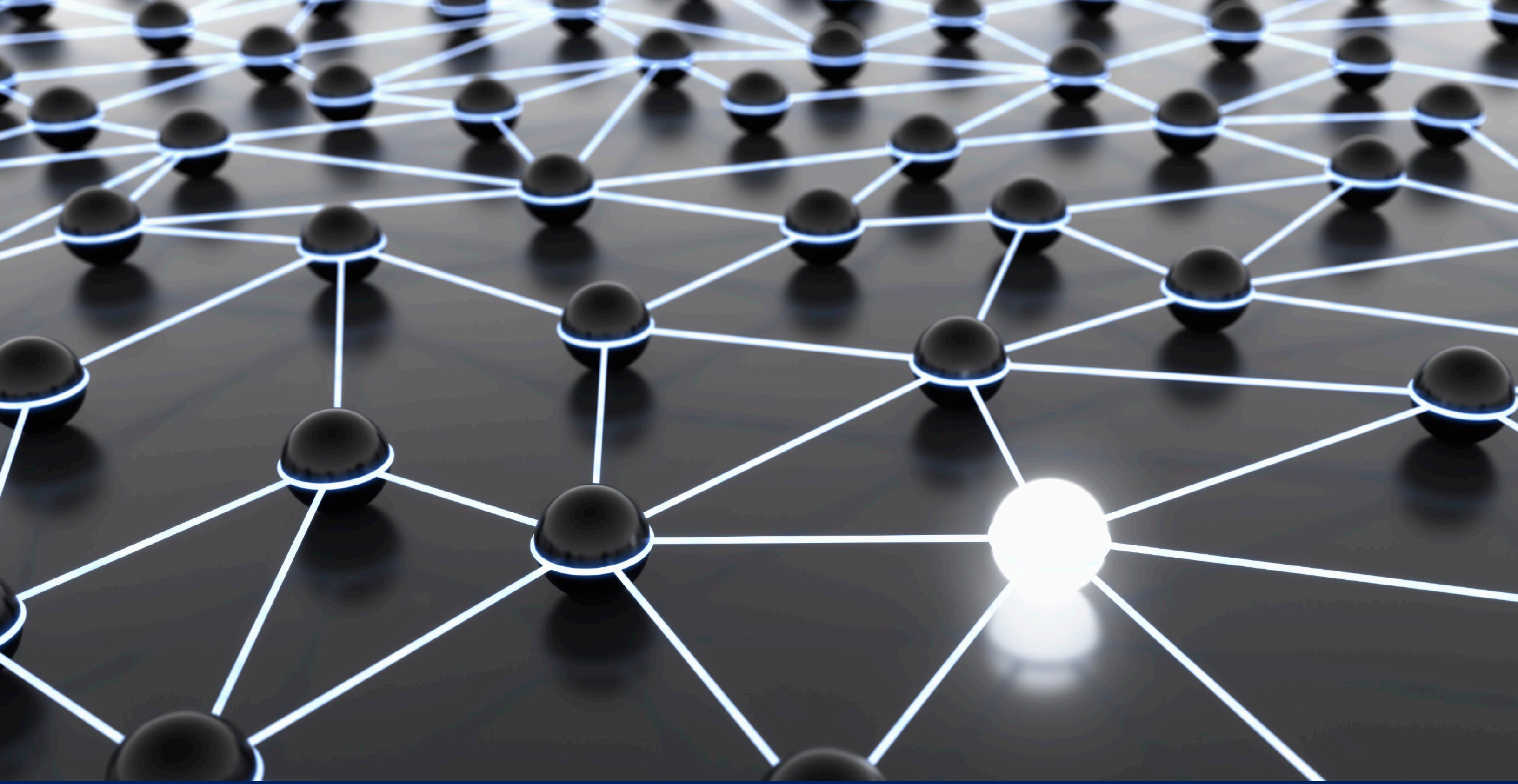

Capping Short-Term Interest Rates: A Recipe for a Long-Term Disaster

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Introduction and Summary

Short-term loans have become the perennial bogeyman of America's financial system. Routinely decrying these loans as predatory toward low-income Americans, state legislatures, federal agencies, and the U.S. Congress have proposed gratuitous regulatory reforms and legislation that would cap interest rates at 36%, effectively outlawing the practice. While these new proposals enjoy some support, few have considered the unintended consequences of such efforts.

This paper will examine the role that short-term loans have in today's financial system and the extent to which these loans offer American consumers access to capital not available through other sources. In particular, we find that interest rate caps could deny low-income and unbanked Americans access to credit while also forcing them into equally pernicious debt traps.

This paper should serve as a clear warning for legislators and regulators about the dangers of imposing arbitrary caps on short-term loans, particularly for low-income and unbanked Americans who depend on access to short-term loans to make ends meet.

Literature Review

The academic literature surrounding short-term loans has routinely highlighted the dangers of imposing interest rate caps.

In a 2010 article for the *Journal of Banking and Finance*, Jonathan Zinman of Dartmouth College found that after Oregon implemented its cap on interest rates, "the proportion of Oregon respondents reporting that it was harder to get a short-term loan recently rose by 17–21 percentage points."[1]

The journal article also noted that the number of outlets willing to provide short-term financing options fell from 346 in December 2006 to just 82 by September 2008. The result of interest rate caps, according to Zinman, was Oregonians losing access to lines of credit and being forced into alternative methods of borrowing such as bank overdrafts and auto title loans.

In exploring the consequences of short-term loan bans, Chintal Desai and Gregory Elliehausen also highlighted the hazards of

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[1] Johnathan Zinman, "Restricting Consumer Credit Access: Household Survey Evidence on Effects Around the Oregon Rate Cap," *Journal of Banking & Finance,* Volume 34, Issue 4, March 2010, pp. 551 and 547.

interest rate caps. Their research found that such prohibitions did little to resolve debt traps, and alternative funding sources were an "imperfect substitute for payday loans."[2] In concluding their study, Desai and Elliehausen warned that lawmakers should be cautious about imposing additional regulations "on a product that may provide benefits."[3]

Kabir Dasgupta and Brenden Mason have also highlighted the perils of prohibiting short-term loans. In their 2010 study, Dasgupta and Mason found that reduced access to short-term loans pushed "borrowers into alternative forms of finance," such as auto loans and pawnshop loans while increasing "credit card late payments."[4]

The Policy Landscape

Over the past decade, state legislatures have regulated short-term loans by capping the interest rate lenders can charge borrowers. Nineteen states and the District of Columbia now impose an interest rate cap of 36% or less on small-dollar loans. Last year, several more states joined the fray. In March 2022, New Mexico Governor Michelle Lujan Grisham (D-NM) signed HB 132 into law, which took effect on January 1, 2023.[5] Rhode Island also recently adopted an interest rate cap of 36%."[6]

Efforts to rein in short-term lenders are also occurring at the federal level. For instance, there have been several attempts in Congress to introduce the Veterans and Consumers Fair Credit Act. If passed, this bill would "establish a national 36% annual percentage rate (APR) cap for consumer loans while ensuring that it would not interfere with state rate limits lower than that."[7] The legislation is designed to build upon the 2006 Military Lending Act (MLA), which, among other things, imposed a 36% cap on military borrowers in the name of consumer protection.[8]

Unfortunately, the MLA has harmed the ability of military families to obtain lines of credit. A poll of active military service members and their partners conducted in 2019 by Harris found that 51% of respondents were denied loans and access to credit due to the MLA. In addition, those denied credit were more likely to be late on their "bill payments, pawn items, or

[2]Chintal A. Desai and Gregory Elliehausen, "The Effect of State Bans on Payday Lending on Consumer Delinquencies," vol. 64, 2017, p. 104.
[3] Ibid.
[4] Kabir Dasgupta and Brenden J. Mason, "The effect of interest rate caps on bankruptcy: Synthetic control evidence from recent payday lending bans," Vol. 119, 2010, p. 3.
[5] *New Mexico Legislature*, "2022 Regular Session - HB 132," 2022, available online at: https://www.nmlegis.gov/Legislation/Legislation?Chamber=H&LegType=B&LegNo=132&year=22.
[6] Mark Henricks, "Can Laws Protect You from Excessive Loan Interest Rates?" *Yahoo,* September 16, 2022, https://www.yahoo.com/now/laws-protect-excessive-loan-interest-130035935.html.
[7] *Center for Responsible Lending*, "U.S. Senators Introduce Bill to Establish Strong, Nationwide Interest Rate Cap," July 28, 2021.
[8] Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau Issues Interpretive Rule on Authority to Resume Examinations Regarding Military Lending," June 16, 2021, https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-interpretive-rule-on-authority-to-resume-examinations-regarding-the-military-lending-act/.

overdraft their accounts," most of which were more expensive than the types of loans prohibited under MLA.[9]

Yet, advocates of rate caps contend that short-term loans are predatory, where "high-interest lenders pull people down into financial quicksand, making them more likely to experience a range of harms, such as losing their bank account and defaulting on their bills, losing their car, and declaring bankruptcy. It is low-income consumers and disproportionately communities of color – whom the lenders target – that are being harmed."[10]

On the other hand, opponents of such legislation contend that short-term loans offer low-income and minority Americans access to an essential line of credit. As outgoing Senator Pat Toomey (R-PA) noted last year, "Many would suffer if they lost access to small loans," particularly those with low credit scores, limited incomes, and those who do not have access to bank accounts or credit cards.[11] Therefore, rate caps hurt the very consumers they intend to help.

Short-Term Loans, Purpose and Uses

Colloquially known as *payday loans*, short-term loans are generally $500 or less and are typically due on the borrower's next payday. Unlike traditional loans, these short-term loans are "generally easy to qualify for if the applicant has a job." Such low eligibility requirements mean that borrowers who are unbanked or who have a poor credit history can still qualify for loans.

For instance, a 2017 survey by the Federal Deposit Insurance Corporation found that 8.4 million Americans, or 6.5% of the population, were unbanked.[12] In addition, another 24.2 million Americans were underbanked, meaning they had an existing bank account but still required alternative financial services.[13] That is 25.2% of all Americans that needed access to nontraditional forms of credit.

In addition, a 2019 iteration of the same survey asked respondents why they did not have a traditional bank account.[14] The most common reason given was that they "Don't have enough money to meet minimum balance requirements."

[9] The Harris Poll, "Military Finances Survey: Research Report," May 8, 2019, https://cdn2.hubspot.net/hubfs/5146491/Financial%20Literacy%20Among%20US%20Military%20and%20Spouses_datasheet%20w%20key%20findings_050819.pdf.

[10] *Center for Responsible Lending*, "U.S. Senators Introduce Bill to Establish Strong, Nationwide Interest Rate Cap," July 28, 2021.

[11] Senator Pat Toomey, "Imposing 36% Interest Rate Cap on All Consumers Would Harm Access to Credit," *United States Senate Committee on Banking, Housing and Urban Affairs*, July 29, 2021, https://www.banking.senate.gov/newsroom/minority/toomey-imposing-36-interest-rate-cap-on-all-consumers-would-harm-access-to-credit.

[12] Federal Deposit Insurance Company, "2017 FDIC National Survey of Unbanked and Underbanked Households," December 17, 2021, https://www.fdic.gov/analysis/household-survey/2017/index.html.

[13] Ibid.

[14] Ibid. Also see, "How America Banks: Household Use of Banking and Financial Services," December 17, 2021, https://www.fdic.gov/analysis/household-survey/.

The survey also found that unbanked and underbanked Americans tended to have less money in savings available for unexpected expenses and emergencies. This finding explains why there is a strong demand among many low-income Americans for alternative forms of credit, like payday loans.

According to Pew, an estimated 12 million Americans use short-term loans, about 5.5% of the adult population, with an average loan size of $375.[15] Pew also estimates that 9% of adults between the ages of 25 and 29 have used short-term loans, and they typically earn just $15,000 to $25,000 per year.[16] Additionally, 12% of those who use short-term loans are disabled, 13% are separated or divorced, and 12% are African American.[17]

Understanding these statistics makes it clear that those who depend most on access to short-term loans often come from historically disadvantaged demographic groups. Insight into the types of people who use payday loans also exposes the reality that banning them would most likely harm the most vulnerable in society, with wealthier Americans experiencing little to no change.

Despite growing hostility to short-term loans, those who have used them report a good experience. According to a report from The Tarrance Group, "virtually all borrowers (96%) say they completely understood how long it would take to pay off their payday loan and the finance charges they would pay before taking out the loan."[18] Additionally, the Tarrance Group report found "Nearly all borrowers (96%) say the payday loans they have taken out have been useful to them personally, with two-thirds (66%) saying they have been very useful."[19]

Other surveys have found similar approval. A 2020 Morning Consult survey found that a strong majority of Americans believe that the "amount lenders should be able to charge for a two-week loan of $100" should exceed the 36% APR cap proposed by Congress.[20]

Widespread public support for short-term loans means that any attempt to legislate them out of existence will only deny borrowers access to financial arrangements they overwhelmingly approve of and

[15] *The Pew Charitable Trusts*, "Payday Lending in America: Who Borrows, Where They Borrow, and Why," July 2012, https://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2012/pewpaydaylendingreportpdf.pdf.
[16] Ibid.
[17] Ibid.
[18] The Tarrance Group, "Borrower and Voter Views of Payday Loans," March 2016, https://www.cfsaa.com/files/files/GSG%20Tarrance%20CFSA%20Borrower%20and%20Voter%20Survey-Analysis.pdf.
[19] Ibid.
[20] Online Lenders Alliance, "New Poll Finds Vast Majority of American Adults Think Lenders Should Be Allowed to Charge More than 36 Percent APR on Short-Term Loans: Believe Underbanked Consumers Deserve Credit Access," October 14, 2020, https://www.prnewswire.com/news-releases/new-poll-finds-vast-majority-of-american-adults-think-lenders-should-be-allowed-to-charge-more-than-36-percent-apr-on-short-term-loans-believe-underbanked-consumers-deserve-credit-access-301152048.html.

support. It also highlights how any prohibition would deny consumers choice.

Both Illinois and Colorado provide clear examples of why not to cap interest rates. After Illinois capped interest rates at 36% in 2021, borrowers consistently encountered fewer credit options.[21] Specifically, 56% of borrowers who previously used short-term loans reported they could no longer access them after the rate cap.[22]

Similarly, a new study by Bolen, Elliehausen and Miller found the 36% cap in Illinois led to 44% of small dollar loans, and that 79% of subprime consumers wanted the option to return to their old lender.[23] As a result, these borrowers likely incurred expensive late fees on bills, were forced to borrow money from friends and family, or had to cut back on everyday expenses to make ends meet.

Colorado experienced a similar trend after imposing an interest rate cap in 2010. Not only did the number of short-term loan lenders decline significantly, but so too did the dollar amount of each loan.[24] While no specific data exists for consumer consequences, the decline in providers and size of transactions shows that, similar to Illinois, a cap on interest rates cuts access to credit for those who most need it.

Time Matters

One major misunderstanding that some lawmakers have is an expectation that an APR for a long-term loan is comparable to an APR for a short-term loan. This misunderstanding of how time impacts APRs can overstate the true cost of a short-term loan.

For example, assume a consumer borrows $100 and agrees to eventually pay back $110 whenever they are able to do so. Under one scenario, if the consumer pays the loan back in one year, the effective APR is 10%. However, under another scenario, if the consumer pays back the loan in two-weeks, the effective APR becomes 260%. Yet, the payback amount from the two loans is identical — $10. The only difference is the time frame.

Now consider if the consumer took out a 10% 30-year fixed loan for the $100. While the consumer with a 10% APR on a one-year loan would be required to payback the $100 plus $10 of interest, the payback on the 30-year loan would be $315.93 or more

[21] Online Lenders Alliance, "An Illinois Consumer Survey: Understanding the Impact of the 2021 Rate Cap on Consumers," February 22, 2022, https://onlinelendersalliance.org/wp-content/uploads/2022/02/Illinois-Report-2-23-2022-1.pdf.

[22] Ibid.

[23] J. Brandon Bolen, Gregory Elliehausen, and Thomas W. Miller, Jr., "Effects of Illinois' 36% Interest Rate Cap on Small-Dollar Credit Availability and Financial Well-Being," December 29, 2022, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919.

[24] Colorado Attorney General, "Colorado Payday Lending- Demographic and Statistical Information, July 2000-December 2015: Summary Information from the Ongoing Colorado UCCC Study of Payday Lenders, Payday Loans, and Borrowing Consumers," August 22, 2016, https://coag.gov/app/uploads/2019/06/ddlasummary2000-2015.pdf.

than three times the principal on the loan. Thus, for short-term products, the APR overstates the true cost of a loan, because most short-term loans last less than a year.

Risk Matters

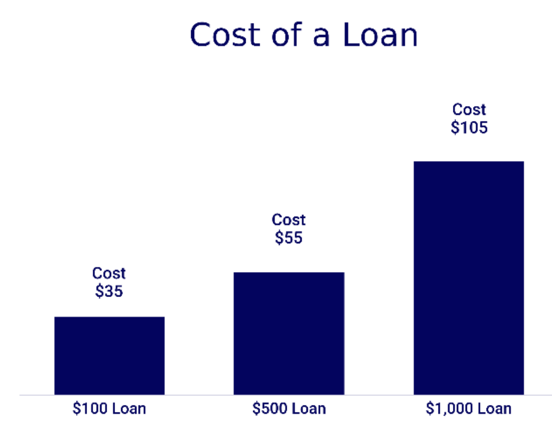
Critics of short-term loans often ignore the fact that those who use them are high-risk borrowers. In 2015, the Center for Responsible Lending found that "a large proportion of borrowers ultimately default after taking out their first payday loan: 39% did so within one year of their first loan, and 46% did so within two years."[25]

In contrast to the high default rate for payday loans, the default rate for all commercial loans was just 2.51% during the first quarter of 2015 (the same month the Center for Responsible Lending's study was released).[26] Similarly, the default rate on credit card payments for the same period was just 2.13%.[27]

The takeaway here is simple: short-term lenders face significantly higher default rates, which necessitates considerably higher interest rates. These rates are necessary to mitigate the heightened likelihood of default and associated loss to the loan provider.

Critics of short-term loans also ignore the costs of administering this type of loan. According to the Banking Policy Institute, "the annualized per-dollar cost for a responsible small-dollar loan will be significantly higher than for most other types of consumer loans."[28]

Further outlining the costs of administering short-term loans, the Bank Policy Institute noted that covering overhead, loan defaults, and delinquency costs lenders about $35 for a three-month $100 loan, $55 for a $500 loan, and $105 for a $1,000 loan. These costs are then passed on to consumers and, given the relatively small amount of the initial loan, makes "the cost of those loans appear misleadingly high."[29]



After considering the costs associated with short-term loans, it becomes clear that one explanation for such high APRs is simply

[25] Susanna Montezemolo and Sarah Wolf, "Payday Mayday: Visible and Invisible Payday Lending Defaults," *Center for Responsible Lending,* March 2015, https://www.responsiblelending.org/payday-lending/research-analysis/finalpaydaymayday_defaults.pdf.
[26] St. Louis Federal Reserve, "Delinquency Rate on All Loans, All Commercial Banks," https://fred.stlouisfed.org/series/DRALACBN.
[27] Ibid. Also see, "Delinquency Rate on Credit Card Loans, All Commercial Banks," https://fred.stlouisfed.org/series/DRCCLACBS.
[28] Paul Calem, "Costs and Pricing of Bank-Provided Small Dollar Loans," *Bank Policy Institute,* December 15, 2020, https://bpi.com/costs-and-pricing-of-bank-provided-small-dollar-loans/.
[29] Ibid.

financial calculations that account for the need to recover costs. It is not predatory lending or a nefarious scheme that conspires to place people into a cycle of debt; it is simply a way for consumers without credit to get access to capital when no other option is available to them.

Not only have experts expressed concerns about the high cost of administering short-term loans, so has the Federal Reserve, the independent agency responsible for regulating financial services. In a lengthy outline on the cost of providing short-term loans, the Federal Reserve noted:

"Operating costs arise from a lengthy list of activities that a lender must undertake to grant credit, process payments, and collect delinquent payments or incur bad debt expenses. To originate loans, lenders must solicit customers, take applications, evaluate loan requests, and disperse funds. After origination, operating expenses are incurred to process a series of payments over the term of the loan and to maintain records of payments received. Some borrowers do not always make timely payments. Lenders must monitor loans for delinquent payments and contact delinquent borrowers to seek payment. Lenders may need to make frequent contacts to remind borrowers of overdue payments, negotiate a new schedule for repayment, or decide to turn over accounts for serious collection efforts (such as pursuing legal remedies). Some accounts with delinquencies may eventually pay in full. Processing such accounts can be quite costly. Other accounts are written off, resulting in loan losses."[30]

The Consumer Bankers Association has noted that a cap on interest rates ultimately means a cap on revenue. Specifically, they have argued that "a 36% rate cap, however, calculated, will mean depository institutions will be unable to profitably offer affordable small-dollar loans" as they will be unable to meet the cost of the loan, as well as the "costs related to compliance, customer service, IT, underwriting, administration, and defaults."[31]

The risk to profitability also provides a clear explanation of why providers stopped providing loans after states imposed interest rate caps.

Were Congress to pass a national cap on interest rates, providers of short-term loans would have less opportunity to generate revenue, forcing them to leave the market. A cap of 36% on a two-week loan of $200 would only see providers collect 1.2% in revenue, hardly enough to cover administration fees, let alone the risk associated with such lending.

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[30] Lisa Chen and Gregory Elliehausen, "The Cost Structure of Consumer Finance Companies and Its Implications for Interest Rates: Evidence from the Federal Reserve Board's 2015 Survey of Finance Companies," Federal Reserve Board of Governors, August 12, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/the-cost-structure-of-consumer-finance-companies-and-its-implications-for-interest-rates-20200812.htm.

[31] Consumer Bankers Association, "Joint Financial Trades Letter on Rate Cap," July 23, 2021, https://www.consumerbankers.com/cba-issues/comment-letters/joint-financial-trades-letter-rate-cap.

Such slender margins would not only push short-term lenders out of the market but also help incumbent banks who charge higher rates to consumers via loan sharks, bank overdraft fees, and other alternatives. These projections also show that any new proposed regulations would impose a more harmful financial penalty while denying borrowers access to lines of credit.

The Bank Overdraft Alternative

Capping interest rates on short-term loans could force consumers to rely on alternative sources of borrowing, such as bank overdrafts.

In simple terms, overdrafts are fees banks impose on individuals who spend more money than they have available. However, unlike short-term loans, there are few restrictions on overdraft fees. As a consequence, banks are free to charge customers large fees for overdrafts.

For instance, a $200 two-week loan with an annual interest rate of 36% would, as noted earlier, equate to a 1.2% interest payment over a two-week term, or roughly 0.08% each day. In contrast, many banks charge around $36 dollars for a one-day overdraft.[32] This amounts to a one-day effective rate of 18% or 915% annually on a comparable two-week term. The table below compares the one-day effective rate between a capped short-term loan and a bank overdraft. Essentially, bank overdrafts should be a much more serious concern for policymakers than short term loans if APR rates are the benchmark.

Interest Expense
Loan Versus Overdraft

	Short-Term Loan	Bank Overdraft
Principal	$200	$200
- Interest Rate on Loan (%)	36%	N.A.
- Overdraft Fee ($)	N.A.	$36.00
1-Day Effective Rate*	0.08%	18.00%

This example demonstrates the enormous disparity in financial costs between a short-term loan and a standard overdraft fee. Yet, lawmakers seem intent on applying disproportional scrutiny toward payday lenders and denying consumers an important service they demand.

Unfortunately, overdraft fees are particularly problematic and do not offer a less predatory source of credit. According to the Consumer Financial Protection Bureau (CFPB), "eight percent of customers incur nearly 75 percent of all overdraft fees," and consumers who overdraft over ten times per year can pay $380 each year in fees.[33] In total, banks collect over $8 billion a year just in overdraft fees.[34]

[32] For example, NerdWallet provides a recap of various bank overdraft charges, available at https://www.nerdwallet.com/article/banking/overdraft-fees-what-banks-charge.
[33] Consumer Financial Protection Bureau, "Data Point: Checking Account Overdraft," July 2014, https://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf.
[34] Jennifer Surane et al., "Myth of 'Free' Checking Costs Consumer Over $8 Billion a year," *Bloomberg*, July 26, 2022, https://www.bloomberg.com/graphics/2022-bank-

Given that overdraft fees occur when individuals spend more money than they have available, these fees penalize low-income Americans and those who struggle to make ends meet, the same group of people allegedly suffering from short-term loans.

The other issue with overdraft fees is that they are only available to consumers who already have an active account. As stated earlier, some 25.2% of Americans are either unbanked or underbanked, meaning they rely on alternative financial services such as a money order, payday loan, cashing services, or paycheck advance. These Americans are "more likely to have low income, less education, or be in a racial or ethnic minority group."[35] Unfortunately, the unbanked and underbanked may not have access to an overdraft to meet their immediate financial needs.

Compared to overdrafts, short-term loans offer consumers access to cheaper financing.

The Loan Shark Alternative

Perhaps the most obvious and pernicious source of alternative financing is the loan shark. Unlike short-term loans or traditional banks, loan sharks offer financing with the threat of physical violence if the debt cannot be repaid. As noted by David Baker and Mackenzie Breitenstein, "it is very likely that the elimination of alternative sources of credit which are the main competition for the American loan shark would result in his return."[36]

Loan sharks would be particularly well placed to benefit from such a cap because, unlike traditional lenders, they are willing to take the risk of providing credit to high-risk borrowers.[37] However, borrowers turning to loan sharks would be particularly egregious.

The Pawn Shop Alternative

Another alternative to a short-term loan is a loan from a pawn shop. Unlike traditional loans, borrowers bring items to pawnbrokers, and the value of a loan is determined by the appraised value of the items. The pawnbroker will then use that item as collateral until the loan is paid off. If the borrower fails to pay off the loan within a reasonable timeframe, then they lose that item, which is then resold by the pawnbroker. On average, this represents about 15% of cases.[38]

Unlike traditional loans, pawnshops do not require credit checks. According to the

overdraft-fees-costing-consumers-billions/?leadSource=uverify%20wall.

[35] *Federal Reserve,* "Report on the Economic Well-Being of U.S. Households in 2018 - May 2019," June 5, 2019, https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-banking-and-credit.htm.

[36] David Baker and Mackenzie Breitenstein, "History Repeats Itself: Why Interest Rate Caps Pave The Way for the Return of the Loan Sharks," *Banking Law Journal*, Volume 127, no.7, 2010, p. 596.

[37] Ibid, p. 595.

[38] Steve Nicastro, "Types of Personal Loans," *NerdWallet,* January 21, 2022, https://www.nerdwallet.com/article/loans/personal-loans/personal-loan-types.

Federal Deposit Insurance Corporation, 1.3% of all households used pawnshop loans in 2019, or some 30 million Americans.[39]

For unbanked households, however, that figure rose to 5.6%.[40] According to the National Pawnbrokers Association, the typical pawnshop loan is $150[41] with an average APR of about 200%.[42] However, recently pawnbrokers have seen loans as high as $700.[43]

Sky-high inflation and worries of an impending recession have changed consumer habits, especially for unbanked and underbanked individuals who are finding they need larger and larger loans just to get by.

While pawnbrokers serve an essential purpose in the financial system, access to them is dependent on the borrower having items of sufficient value to serve as collateral. Without such goods, pawnshop loans are unobtainable, particularly for low-income Americans who might not have access to high-value items. This creates a situation whereby borrowers might not be able to source the capital they need to make ends meet.

Conclusion

The debate around short-term lending is certainly an emotionally charged one. No politician on the right or the left wants to see the most vulnerable in a society stuck in a cycle of debt that destroys lives and severely limits any opportunity for economic prosperity or even stability. Perhaps that is why lawmakers and regulators have so frequently resorted to imposing caps on short-term loans that advertise high APRs. They desire to resolve larger societal problems that are visible in existing inequalities.

Unfortunately, in their effort to create change, they often reach for the lowest hanging fruit. Limiting short-term lending will have disastrous consequences for everyone involved.

For borrowers, caps on interest rates ultimately mean they lose access to an essential source of credit they overwhelmingly approve of and support. The problem is particularly acute for low-income Americans and other vulnerable members of society who depend on short-term loans for access to mainstream credit.

Lenders are also harmed by caps on interest rates because their customer base is overwhelmingly comprised of high-risk

[39] Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services," 2019, https://www.fdic.gov/analysis/household-survey/2019report.pdf.
[40] Ibid.
[41] National Pawnbrokers Association, "Pawn Industry Statistics," 2018, https://nationalpawnbrokers.org/assets/2018/02/FAQ_2018.pdf.
[42] Steve Nicastro, "Types of Personal Loans," *NerdWallet,* January 21, 2022, https://www.nerdwallet.com/article/loans/personal-loans/personal-loan-types.
[43] Emelia Miles, "Pawn shops across the nation see an uptick in loans," Fort Wayne NBC, October 24, 2022, https://www.fortwaynesnbc.com/2022/10/24/pawn-shops-across-nation-see-an-uptick-loans/.

borrowers who are significantly more likely to default on a loan. Therefore, high fees are necessary for mitigating risk. After all, in order to continue providing such services, businesses must be able to generate profit.

Therefore, when considering legislation that will impose caps on interest rates, Congress, federal agencies, and state lawmakers must recognize these factors and craft a regulatory environment that does not deprive borrowers of access to short-term credit. Doing otherwise would only push low-income and underbanked Americans further into financial insecurity.

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