The Effects of Interest Rate Caps

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The Uniform Small Loan Law (USLL) of 1916.

(By 1940, all but nine states had adopted some version of this Model Law)

- In 1909, Reformers, spearheaded by Mr. Arthur Ham of the Russell Sage Foundation, sought **ways to spread access to credit to workers**.

- **Reformers at the time recognized that BOTH lenders and borrowers had to be satisfied for a sustainable market-based alternative to the illegal "loan shark problem."**

- The intent of these reformers was to pass laws allowing specially licensed lenders to make small consumer loans at rates **seven** times above state-imposed interest rate caps, then about 6% per year—that is, 42% APR.

The 1940 Version of the USLL recommended an APR of 36%

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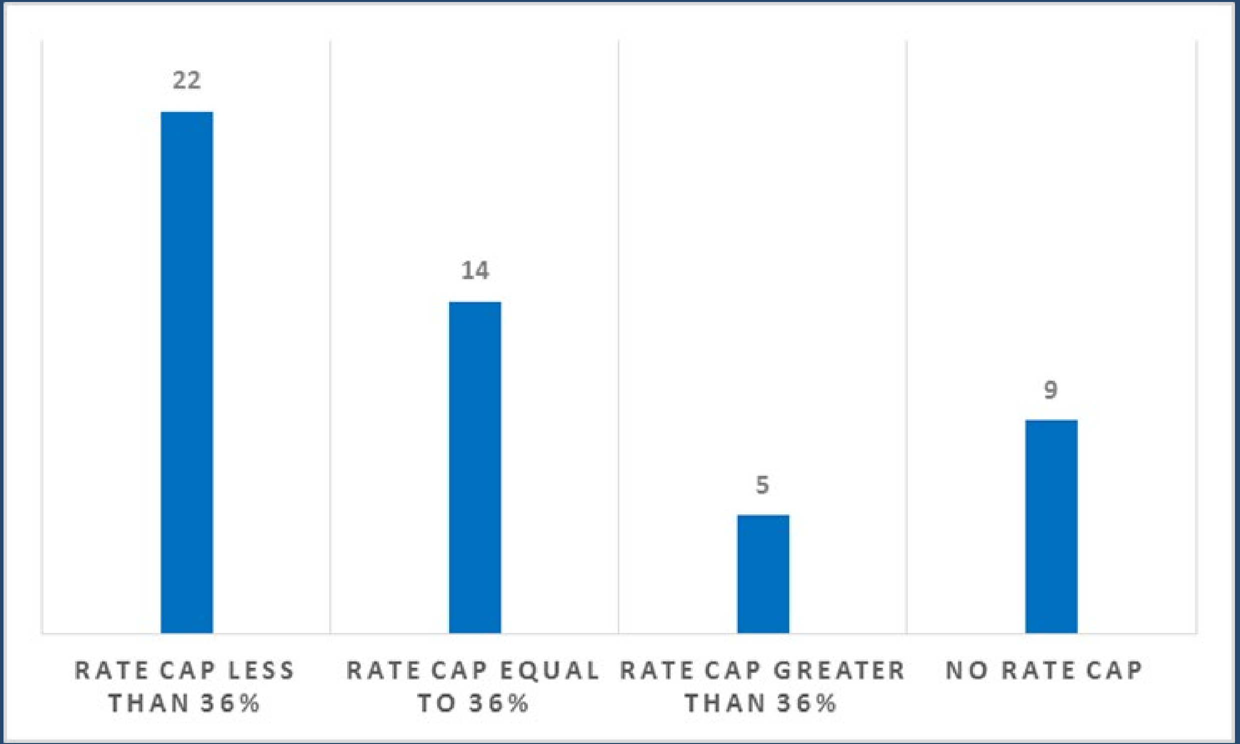
State-Mandated Interest Rate Caps on Installment Loans, 2017

"This rate should be reconsidered after a reasonable period of experience with it…."

USLL of 1916

Does 100 years exceed "a reasonable period"?



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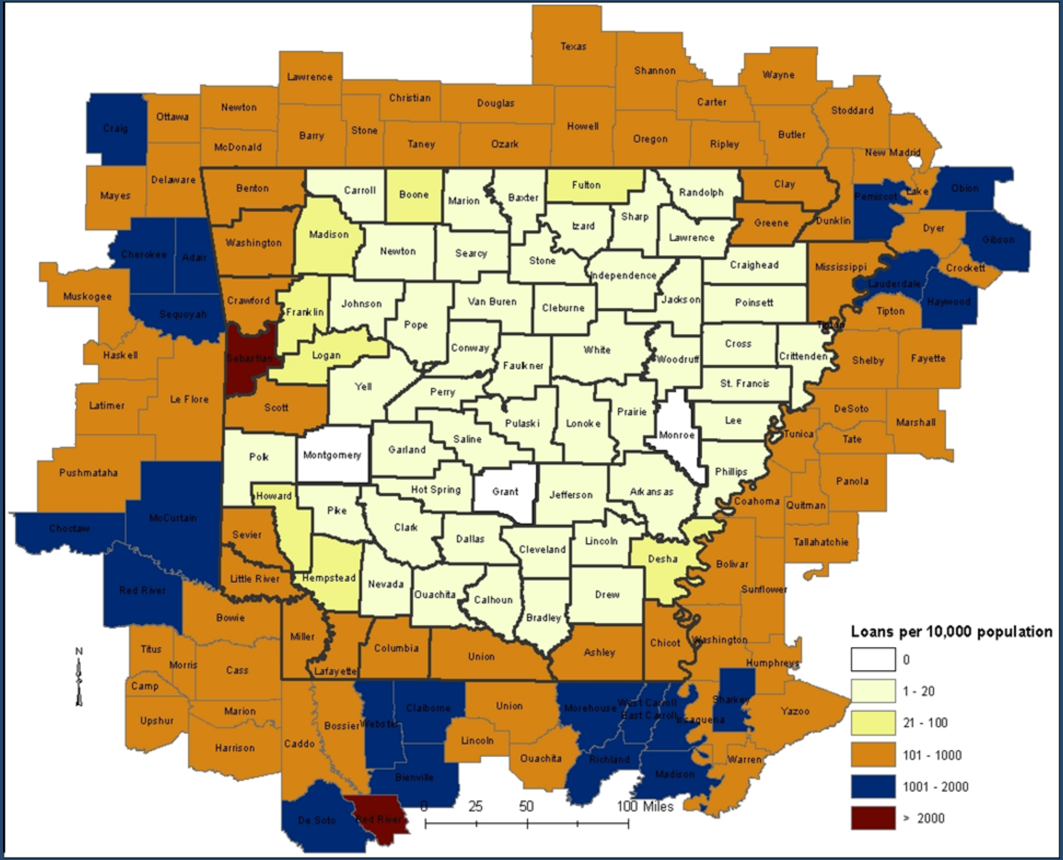
Arkansas: 17% Cap on Installment Loans



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36% Rate Cap: Effect on Payday Loans

		With a Fee of $15 Per $100	With a 36 Percent Rate Cap
Revenue, per $100 loan:		**$15.00**	**$1.38**
Costs (per $100 loan):			
Operating Expenses:	**$9.41**		
Bad Debt Expense:	**$3.74**		
Costs of Debt / Equity Capital:	**$0.74**		
Total Costs:		**$13.89**	**$13.89**
Pretax Profit:		**$1.11**	**($12.51)**
Likely Decision:		**Provide Loans**	**Do Not Provide Loans**

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“Interest Rate Caps Hurt the Very People they are Designed to Protect.”