

Restricting Consumer Credit Access: Household Survey Evidence on Effects Around the Oregon Rate Cap*

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ABSTRACT

Many policymakers and some behavioral models hold that restricting access to expensive credit helps consumers by preventing overborrowing. I examine some short-run effects of restricting access, using household panel survey data on payday loan users collected around the imposition of binding restrictions on payday loan terms in Oregon. The results suggest that borrowing fell in Oregon relative to Washington, with former payday loan users shifting partially into plausibly inferior substitutes. Additional evidence suggests that restricting access caused deterioration in the overall financial condition of the Oregon households. The results suggest that restricting access to expensive credit harms consumers on average.

Keywords: payday loan, subprime credit market, predatory lending, usury, interest rate ceiling, behavioral economics, psychology and economics, financial sophistication, financial literacy, household finance, consumer finance, behavioral finance

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