Restricting Payday Loans Harms Consumers

In the study *The Case Against New Restrictions on Payday Lending*, Todd J. Zywicki of George Mason University's Mercatus Center concludes that "Economic theory and empirical evidence strongly suggest that…paternalistic regulations would make consumers worse off, stifle competition, and do little to protect consumers from concerns of over indebtedness and high-cost lending."

Full article available at http://mercatus.org/PublicationDetails.aspx?id=27570

The study found that:

- **Payday loans are more attractive than potential alternatives.**

  "Those who use payday loans have limited alternative sources of credit, such as pawn shops, bank overdraft protection, credit card cash advances (where available), and informal lenders. Although expensive, payday loans are less expensive than available alternatives."

- **Eliminating payday loans does not eliminate the need for short-term credit**

  "[F]oreclosing viable options for credit because they are thought to be too expensive does not make the need for credit go away."

  "[L]ack of access to payday loans would likely cause [customers] substantial cost and personal difficulty, such as bounced checks, disconnected utilities, or lack of funds for emergencies such as medical expenses or car repairs."

  "Deprivation of access to credit could cause substantial economic and personal harm if it forces the consumer to go without the means to meet necessary expenses such as medical care, car repairs, living expenses, rent, or work-related expenses such as transportation or appropriate work clothing."

- **The unintended negative consequences of regulation outweigh any positive effect.**

  "[E]fforts by legislators to regulate the terms of small consumer loans (such as by imposing price caps on fees or limitations on repeated use "rollovers") almost invariably produce negative unintended consequences that vastly exceed any social benefits gained from the legislation."

  "Volumes of theory and empirical analysis indicate that further restrictions on payday lending likely would prove counterproductive and harmful to the very people such restrictions would be intended to help."

  "[T]he end result of the regulatory scheme may be simply to change the mix or composition of credit held by consumers, but not the overall amount of debt."

  "The overall impact of usury regulations is to force lenders and borrowers to change the terms, types, and amounts of consumer credit offered when compared to what they would agree to under a voluntary contract."

Highlights prepared by:
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