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Abstract

- We examine the impact of an economic shock and subsequent government response on financial access for financially underserved consumers.
- We use COVID-19 as a natural experiment and use foot traffic to consumer lenders as a proxy for loan demand.
- The results show that the Pandemic Emergency Unemployment Compensation (PEUC) reduces demand for credit from consumer lenders after controlling for online borrowing and supply of credit. The shelter-in-place (SIP) orders suppress underserved consumers’ financial access.
- The impacts of SIP orders and relief programs i) differ across underserved areas and metropolitan areas, and ii) differ across consumer lenders and banks.

Research Questions

- What economic factors drive borrowers to borrow from consumer lenders?
- What is the impact of economic shocks and of the government relief programs on financially underserved consumers?

Data

- Demand for credit: Weekly foot traffic (SafeGraph) to points of interest identified as non-depository credit intermediaries from January 2019 to December 2020.
- Economic data: State-level initial claims and continued claims rates for traditional state unemployment insurance and Coronavirus related relief programs from United States Department of Labor.

Differential Impacts in Underserved Areas and in Metropolitan Areas

Impact of SIP Orders & Relief Programs on Demand for Credit

| S
d| ln(\text{visitors to consumer lenders}) |
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>SIP</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>ln(\text{#eCase})</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>ln(\text{#Death})</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>insulated</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>unemployment rate</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>PEUC.CC.rate</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>area x SIP_hist</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>area x insured rate</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>area x unemployment rate</td>
<td>-0.097*** (0.002)</td>
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<td>area x PEUC.CC.rate</td>
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<td>area x insulin</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>area x internet access</td>
<td>-0.097*** (0.002)</td>
</tr>
<tr>
<td>Other Controls</td>
<td>Yes</td>
</tr>
<tr>
<td>Week Fixed Effect</td>
<td>Yes</td>
</tr>
<tr>
<td>Location Fixed Effect</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>319,955</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.754</td>
</tr>
</tbody>
</table>

- The dependent variable is the natural logarithm of the number of visitors to a consumer lender without requiring collateral.
- In 2017, there were 14,348 payday loan storefronts in the U.S., about the same as the number of Starbucks locations. (Bennett, 2019[1])

- Traditional unemployment program reduces demand for credit in metropolitan areas, but not in underserved areas.
- Economic data shows trends in credit supply and demand.
- The impacts of SIP orders and relief programs i) differ across underserved areas and metropolitan areas, and ii) differ across consumer lenders and banks.

- Consumer lenders are non-depository institutions that provide loans for personal purpose.

- Compared to banks, consumer lenders offer small-dollar, short-term loans to lower-credit-score customers without requiring collateral.

- Financial access improves social welfare by allowing people to smooth consumption and share risks. Access to financial credit promotes economic growth and stability by making households and businesses resilient to economic shocks.
- However, many households and individuals are unable to tap financial services from traditional institutions such as banks and resort to non-depository lenders such as payday lenders.
- The unemployment insurance (UI) was supplemented by PEUC and Pandemic Unemployment Assistance (PUA), which extended the exhausted unemployment compensation for another 13 weeks and entitled those traditionally unemployed to receive UI.

What are Consumer Lenders?

- Consumer lenders complement banks by providing alternative loan products to underserved customers or in situations when bank credit is not available.
- The state unemployment insurance (UI) was supplemented by PEUC and Pandemic Unemployment Assistance (PUA), which extended the exhausted unemployment compensation for another 13 weeks and entitled those traditionally unemployed to receive UI.

- The SIP orders suppress customers’ financial access: the reduction in foot traffic is less in areas with a high unemployment rate and PUA continued claims rate.

- Consumer credit demand is positively related to the county’s consumption level, consistent with Chetty et al. (2020)[2].

An increase in the PUA coverage rate leads to a greater reduction in visits to banks than to consumer lenders.

Conclusion

- Demand for credit is sensitive to economic shocks and government relief programs.
- Impacts of SIP orders and responses differ across underserved areas and metropolitan areas.
- Low-income households in affluent areas demand more credit than low-income peers in other areas.
- Borrowers of consumer lenders are financially constrained and assign a greater marginal benefit to financing than bank customers.

- Change in people’s willingness to travel: We replace some variables with the Social Distancing Index; we use visits to other brands as controls and find similar results.

Other Findings

- The SIP orders suppress customers’ financial access: the reduction in foot traffic is less in areas with a high unemployment rate and PUA continued claims rate.
- The supplemental paycheck program (FPUC) complements PEUC by further reducing foot traffic to consumer lenders.

- Consumer credit demand is positively related to the county’s consumption level, consistent with Chetty et al. (2020)[2].

An increase in the PUA coverage rate leads to a greater reduction in visits to banks than to consumer lenders.

Robustness

- Credit supply change: We compare the geographically diversified consumer lenders’ and less diversified lenders’ reactions to the economic shock and find that the results are unlikely to be driven by credit supply changes.

- Effects of SIP orders and responses differ across underserved areas and metropolitan areas.
- Low-income households in affluent areas demand more credit than low-income peers in other areas.
- Borrowers of consumer lenders are financially constrained and assign a greater marginal benefit to financing than bank customers.

References
