Impact of Economic Shocks on Financial Access: Evidence from COVID-19 Pandemic

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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 customers' 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.

Background

- 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.
- 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 unqualified unemployed to receive UI.

What are Consumer Lenders?

- 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.
- 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])

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 customers?

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.

Impact of SIP Orders & Relief Programs on Demand for Credit

	ln(#visitors to consumer lenders)	
SIP	-0.008^{***}	-0.007^{***}
	(0.002)	(0.002)
$ln(\#case+1)$	-0.105^{***}	-0.083^{***}
	(0.008)	(0.009)
$ln(\#death+1)$	-0.015^{***}	-0.027^{***}
	(0.005)	(0.006)
$insured.rate$	-0.014^{***}	-0.016^{***}
	(0.001)	(0.001)
$unemployment.rate$	-0.041^{***}	-0.048^{***}
	(0.003)	(0.003)
$PUA.CC.rate$	0.002	0.003^{**}
	(0.001)	(0.001)
$PEUC.CC.rate$	-0.011^{***}	-0.019^{***}
	(0.002)	(0.004)
$ln(\#devices\_residing)$	0.089^{***}	0.084^{***}
	(0.003)	(0.003)
Supply & Online Borrowing Controls	No	Yes
Week Fixed Effect	Yes	Yes
Location Fixed Effect	Yes	Yes
Observations	398,919	282,260
Adjusted R^2	0.749	0.773

- The dependent variable is the natural logarithm of the number of visitors to a consumer lender in a week.
- Supply & Online Borrowing Controls: Credit supply rate, Google Trend Index for "cash loan" search, and the county level internet access rate.

Differential Impacts in Underserved Areas and in Metropolitan Areas

	ln(#visitors to consumer lenders)	
	area= underserved area	***area= metropolitan area***
SIP	-0.005^{**}	-0.006^{***}
	(0.002)	(0.002)
$insured.rate$	-0.016^{***}	-0.016^{***}
	(0.002)	(0.002)
$unemployment.rate$	-0.039^{***}	-0.041^{***}
	(0.004)	(0.003)
$PUA.CC.rate$	-0.002	0.001
	(0.002)	(0.002)
$PEUC.CC.rate$	-0.015^{***}	-0.015^{***}
	(0.002)	(0.002)
$area \times SIP\_dum$	0.005	-0.002
	(0.004)	(0.002)
$area \times insured.rate$	0.007^{**}	-0.005^{**}
	(0.003)	(0.002)
$area \times unemployment.rate$	0.013^{**}	-0.008^{***}
	(0.005)	(0.003)
$area \times PUA.CC.rate$	-0.015^{**}	0.002
	(0.006)	(0.003)
$area \times PEUC.CC.rate$	-0.005	0.004
	(0.004)	(0.003)
$SIP \times internet\_access$	-0.005^{***}	-0.005^{***}
	(0.001)	(0.001)
$area \times SIP \times internet\_access$	0.005^{***}	-0.004^{***}
	(0.001)	(0.001)
Other Controls	Yes	Yes
Week Fixed Effect	Yes	Yes
Location Fixed Effect	Yes	Yes
Observations	319,955	319,955
Adjusted R^2	0.751	0.751

- Traditional unemployment program reduces demand for credit in metropolitan areas, but not in underserved areas.
- Demand for credit in underserved areas is more sensitive to newly-funded relief programs.
- Greater access to internet reduces more foot traffic to consumer lenders in metropolitan areas than in underserved areas during the SIP orders.

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.
- **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.

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.

References

[1] Bennett J.
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Federal Reserve Bank of St. Louis, Economic Research, 2019.

[2] Chetty R, Friedman J. N, Hendren N, Stepner M, and The Opportunity Insights Team.
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