

Financial Literacy



New Forms of Predatory Lending Threaten Consumers

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Over the past decade, no state has authorized either predatory payday or car title loans. That consumer financial progress came about through a combination of state and local advocates working with state lawmakers to bring a sense of financial fairness to their local communities.

But just like a bad penny that won't go away, new predatory products have emerged across the nation: high-priced open-end lines of credit and installment



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from payday and car title to unsafe installment loans.

"Despite their installment terms," states the brief,

ucts are available in a handful of states like Virginia.

In 10 other states, two of the disturbing loan models are available in California, Delaware, Illinois, Missouri, New Mexico, Ohio, South Carolina, South Dakota, Texas, and Wisconsin.

Some might wonder why businesses would offer lending products with high delinquency and/or default rates.

The answer is there is more money to be made with debt. These lenders can collect more in fees than the principal owed long before the loan is due. Consider these examples from across the country:



of its average monthly loan balances.

Last year in Virginia, nearly one-third of installment loan borrowers were at least two months delinquent in payments and 19,368 cars were repossessed – about 15 percent of their customers.

In Missouri, TitleMax, a national car title lender, reported in 2014 that better than one in five or 23 percent of its car title installment loans were over 60 days in arrears, better than one in 10 loans were charged off and 8,900 cars were repossessed.

Two nearly identical state legislative proposals that would have authorized high-priced open-end lines of credit in Arizona and in Texas were fortunately defeated. Had either of these passed, another predatory product would exist. In Arizona, for example, consumers who borrowed \$3,000

would have paid over \$4,900 in interest and fees in addition to the principal owed.

Consumers who want to steer clear of deceptively high-priced loans should consider the same factors that should discourage payday borrowing: high fees; direct access to a borrower's bank account or car; high rates of default; credit insurance or other add-on products that provide little benefit to the borrower and no consideration of a borrower's ability to repay.

Although the Consumer Financial Protection Bureau lacks authority to impose an interest rate cap, CRL believes its other powers can strengthen consumer protections by:

Issuing rules that require high-cost lenders to assess a borrower's ability to repay a loan, including the applicant's income and expenses;

Taking enforcement actions against lenders that engage in unfair, deceptive and abusive installment lending practices; and

Using its rulemaking and enforcement powers to prevent lenders from trapping borrowers into loans that are repeatedly refinanced, have unreasonably high default rates, or hinder a borrower's ability to fully repay a loan.

"Whether we are talking about a payday loan, a car title loan or a high-cost installment loan, the fundamental harm is making a loan that a borrower cannot afford to repay," said Diane Standaert, CRL State Policy Director. "While many states have acted to protect their people from predatory payday and car title loans, our report shows that abusive lenders see installment loans as a new front. Regulators and policymakers should beware."

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loans that are remarkably similar to traditional payday and car title loans.

If these new products are allowed to expand in today's marketplace, even more financial harm will strip consumers of their hard-earned dollars and mire them in yet another cycle of debt.

A policy paper by the Center for Responsible Lending (CRL) explores this predatory financial migration

"these loans share the same troublesome characteristics as other payday and car title loans: a lack of underwriting; access to a borrower's bank account or car as security; structures that prevent borrowers from making progress repaying; and excessive rates and fees that increase costs further when loans are flipped."

Today, all three of these new predatory lending prod-

In the first half of 2015, Texas-based Cash America, a large storefront payday lender, had more delinquent installment loan balances (\$2.5 million), than those that were current (\$2.3 million).

Similarly in California, another national payday lender, Rise Credit did business as Elevate and reported to its state regulator charge offs that were larger than all