

## SUPPORT AB 539 (Limón-Grayson) - Fair Access to Credit Act of 2019

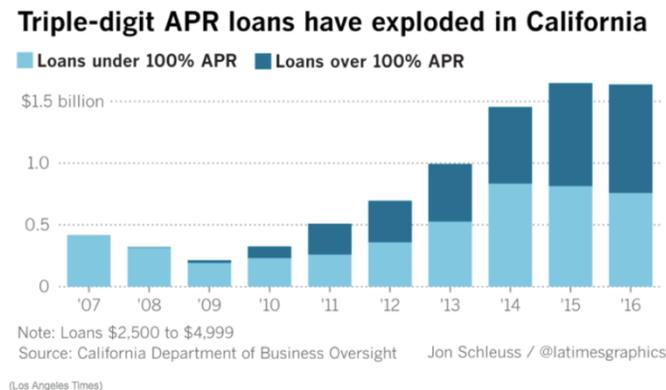
### Californians deserve protection from high interest, predatory loans

#### California law does not limit interest rates on loans of more than \$2,500

In California, loans less than \$2,500 have a rate cap to protect consumers from unconscionable loans. However, loans of more than \$2,500 have no such limits. This puts us well behind 37 states (Colorado, New York, Georgia) that have a cap of 36% APR or less for loans in this range.<sup>i</sup> Also, in 2006, Congress capped all loans issued to active duty military at 36%, through the Military Lending Act.

#### Triple digit interest rates are on the rise

Since 2010, there has been a sharp increase in ultra high-cost installment loans. In 2017, nearly 60% of loans in the range of \$2,500 - \$5,000 had an APR of more than 100%.<sup>ii</sup> Many of these loans require repayment of 4-8 times the original amount borrowed!



#### These loans are a debt-trap

The National Consumer Law Center examined high-cost loans in California and found that approximately 20-40% of these loans end up in default. When you take into account borrowers that are struggling to repay and have a 30-day late payment, that number increases to 30%-80% of loans made.<sup>iii</sup>

#### **Example: \$5,000, 116% Loan Balloons to \$40,000**

Here is a complaint submitted to the Consumer Financial Protection Bureau from a California borrower that is illustrative of the issues with these loans:

*“In 2014, I took out a \$5,000 personal loan with Cash Call, Inc. The terms of the loan are egregious and predatory. My annual percentage rate is 116%. The cost of my loan, according to my contract is \$35,000 and the total cost, if I make 84 monthly payments (7 years) according to schedule, will be \$40,000. Currently (after 2 years of payments) less than \$3.00 per month is applied toward payment.”*

## **Predatory lenders are aggressively marketing to vulnerable populations**

Predatory lenders are aggressively marketing to vulnerable populations through direct mail, phone calls, ads on Black and Latino radio stations, and their expansive number of store fronts, the majority of which are deliberately located in communities of color.<sup>iv</sup> Predatory lenders are also targeting seniors, veterans, and low-income borrowers.

## **Borrowers are being steered away from regulated loans into higher dollar loans**

Payday lenders are luring borrowers by offering loans of \$1,000 and then steering them into loans of \$2,501, where they can charge 100% APR or more. The following companies have been sued for this practice, Cash Call, now LoanMe, Advance America, California Check Cashing Stores, Check Into Cash, Quick Cash Funding.<sup>v</sup>

## **Access to safe and affordable credit is ruined**

Borrowers who end up saddled with these ultra high cost loans very often end up with damaged credit and have trouble accessing lower cost credit in the future. Lenders use aggressive debt collection tactics, including harassing phone calls, car repossession if the loan is secured by car title, and lawsuits where they can pursue wage garnishment or wipe out funds from their bank account. Lenders can also charge off unpaid debt and get a break on their taxes. In addition, borrowers can lose their bank accounts and end up in bankruptcy.

## **AB 539 stops these predatory tactics, protects consumers and focuses on fair credit**

**AB 539** caps interest rates at 36% plus the fed fund rate (2.5% today).<sup>vi</sup> This bill is a compromise between consumer advocates and lenders that are currently offering loans at approximately 36%.

**AB 539** limits the terms of loans to a minimum loan term of 12 months and maximum loan of 5 years. This will stop lenders from spreading loans over an extended number of years to hide the true cost.

**AB 539** prohibits any prepayment penalties.

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<sup>i</sup> National Consumer Law Center, "A Larger and Longer Debt Trap? Analysis of States' APR Caps for a \$10,000 Five-Year Installment Loan," October 2018, <https://www.nclc.org/issues/a-larger-and-longer-debt-trap-installment-loan.html>

<sup>ii</sup> California Department of Business Oversight, "California Department of Business Oversight Annual Report" June 2018, [http://www.dbo.ca.gov/Press/press\\_releases/2018/CFL%20RSDL%20Annual%20Reports%20Release%2006-18-18.asp](http://www.dbo.ca.gov/Press/press_releases/2018/CFL%20RSDL%20Annual%20Reports%20Release%2006-18-18.asp)

<sup>iii</sup> National Consumer Law Center, "Misaligned Incentives, Why high-rate installment lenders want borrowers who will default," July 2016, <https://www.nclc.org/issues/misaligned-incentives.html>

<sup>iv</sup> California Department of Business Oversight, "The Demographics of California Payday Lending: A Zip Code Analysis of Storefront Locations," December 2016, [http://www.dbo.ca.gov/Press/press\\_releases/2016/Zip%20Code%20Research%20Brief%20Release%2012-07-16.asp](http://www.dbo.ca.gov/Press/press_releases/2016/Zip%20Code%20Research%20Brief%20Release%2012-07-16.asp)

<sup>v</sup> California Department of Business Oversight, "DBO Settlement with Advance America Subsidiary Continues Crackdown on Interest Rate Cap Avoidance," March 2018, [http://www.dbo.ca.gov/Press/press\\_releases/2018/Advance%20America%20Settlement%20Announcement%2003-12-18.asp](http://www.dbo.ca.gov/Press/press_releases/2018/Advance%20America%20Settlement%20Announcement%2003-12-18.asp)

<sup>vi</sup> Federal Funds Rate - 62 Year Historical Chart, <https://www.macrotrends.net/2015/fed-funds-rate-historical-chart>