Indiana Institute for Working Families
Research and Public Policy
A Program of INCAA
INDIANA COMMUNITY ACTION ASSOCIATION

Testimony before the House Financial Institutions Committee

Opposing SB 613 Consumer credit

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March 26, 2019

Chairman Burton and Members of the Committee, thank you for allowing us the opportunity to discuss Senate Bill 613.

I want to start with a brief glimpse at the current financial picture for Hoosier families. Consumers have access to and have taken on many, many types of debt. In fact, nationally, household debt has reached a new peak of $13.54 trillion - $869 billion higher than its peak in the third quarter of 2008.

- Non-housing related debt balances are growing with rising auto loan and credit card balances. Outstanding student loan debt has tripled over the last decade. Consumers can and many do finance just about anything – from appliances to furniture to iPhones. In Indiana, far from preventing credit options, the changes we have made to the consumer code over the years have resulted in a substantial increase in the number of consumer credit licensees and registrants since 2009. There are many, many options for borrowers under our current laws.

And some borrowers are showing signs that they cannot manage the level of debt they have.

- One in three Hoosiers has a debt in collections.
- Auto loan delinquencies have reached a historic high, especially for people under age 30.
- Nearly 40% of borrowers are expected to default on student loans by 2023.[1]
- Older Americans are more likely than ever to find themselves in bankruptcy court.[2]
- Meanwhile, many Americans do not have savings – for today or for the future.[3]

Declaring bankruptcy, having delinquent debt or debt in collections, and overextending the lines of credit a borrower has available all land borrowers in the lower end of the credit score spectrum. In other words, when lenders talk about lending to individuals with impaired credit, what they often mean is lending to individuals who are underwater financially.

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[1] https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/
[2] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3226574
[3] https://www.nirsonline.org/reports/retirement-in-america-out-of-reach-for-most-americans/

Today, we're here to discuss whether or not the best solution we can offer those individuals is more and even higher-cost debt. That's not a lifeline, it's an anchor.

This bill creates unmanageable debt in all kinds of ways: *(Use Chart)*

- For decades, Indiana has maintained a 72% cap on loans, lending above which is a felony. In 2002, Indiana created one exemption to this felony loan sharking cap: the payday loan. This was intended to be very short-term emergency loan product. These 14-day payday loans – which average $350 - have created many issues and harmful fall-out, about which you will hear more today. However, SB 613 does not do anything to reduce the cost or change the structure of these loans. Instead, it *adds* more extremely high cost loans as additional exemptions to felony loan sharking.
- The first is called an 'unsecured installment loan', but like the 14-day payday loans, the loan IS secured by requiring permission to directly collect from the borrower's checking account – so the lender can be first in line when a paycheck or other benefit check comes in. Despite the fact that many borrowers will have substantial debt or trouble meeting living expenses, eligibility does not include any consideration of this debt in considering ability to repay the loan. These loans are *at minimum* 6 months and $605 up to $1500 with a much lower threshold for eligibility. So while a borrower may be told they can borrow more money at a lower rate and have more time to pay it back than a payday loan, these will not be "a better deal." A typical borrower will now pay from $400 to over $1500 in fees. For borrowers, weighing this option against others will be challenging because the loan terms are confusing: how would you react if someone told you the loan terms included a non-refundable finance charge of 15% of the first $605 of original principal and 7.5% of amounts above that and a monthly maintenance fee – computed in advance - of $8 per $100 borrowed on the original principal balance?
- The second set of new loans are in Chapter 8, of up to $4000 with no maximum loan terms. These loans start out at 99% interest, but to this must be added the pre-paid finance charges and additional products, like insurance, certainly totaling well over 100% APR. These loans are structured to allow loan flipping and loan stacking: High APRs, precomputed interest, up-front fees, and the ability to finance credit insurance products. Language in this chapter, which only limits how many times the prepaid finance charge can be assessed (and only *if a borrower is refinancing with the same lender)*, signals that intention by saying "regardless of the number of new loans obtained by the debtor from the lender if the new loans are used to pay a previous loan from the lender." A lender offering borrowers "more time to pay" or "cash out" will no doubt make an appealing sales pitch to a cash-strapped borrower who doesn't realize just how much that extra time or cash will cost. The loans also would allow car title or household goods to be taken as collateral.
- A third way borrowers will be mired in unaffordable debt is the elimination of the step rate in Chapter 3, which will allow lenders to charge 36% on loans of any size, and to triple the non-refundable prepaid finance charge that can be layered on top of that from $50 to $150. The difference on a $20k car loan at 25% versus 36% is over $8k.

- And finally, this bill changes the long-established definition of criminal loansharking. If our read of this change is correct, lenders could make triple-digit APR loans in Chapters 3, 7, and 8, meaning that the current felony loan sharking cap would essentially be eliminated, and Hoosiers could pile on high-cost debt that use extreme forms of leverage from multiple sources with few, if any, limitations.

These are loans already-distressed borrowers cannot afford. And unaffordable debt falls out negatively not only on individuals, but on communities, churches, social service programs, taxpayers, and our economy as a whole.

We urge you not to suddenly up-end years of established lending protections. Please take time to study and carefully consider the path that Indiana will take forward to ensure a healthier fiscal future for Hoosiers. Thank you.