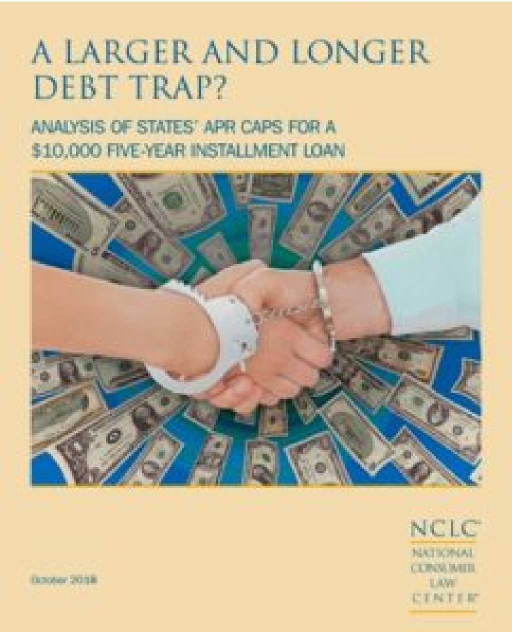
A Larger and Longer Debt Trap?

Analysis of States' APR Caps for a $10,000 Five-Year Installment Loan

This National Consumer Law Center report examines the annual percentage rate (APR), including both interest and fees, allowed in each state and the District of Columbia for a $10,000 five-year loan. The report finds that 39 jurisdictions have APR limits in place, at a median rate of 25%, protecting 236 million people. However, some of those caps are excessively high. And 12 states place no numerical cap on the APR, leaving 90 million people unprotected.



- Report (PDF)
- Overview (2 pages)
- Executive Summary
- Map of APRs Allowed for $10,000 Five-Year Loan by State
- Key Recommendations
- Map, Table & Charts (PDF)
- Appendices

  Appendix A (Comparison Between State APR Caps for $10,000 Five-Year Loan and $2,000 Two-Year Loan)

  Appendix B (State-by-State Analyses)

- Press Release

Additional Resources

- 2015 report (including comprehensive information on state non-bank installment loan statutes): Installment Loans: Will States Protect Borrowers from a New Wave of Predatory Lending?, July 2015

- Update to 2015 report: [Predatory Installment Lending in 2017: States Battle to Restrain High-Cost Loans], August 2017
- [Misaligned Incentives: Why High-Rate Installment Lenders Want Borrowers Who Will Default], July 2016
- [Why Cap Small Loans at 36%?]
- More [Usury resources] prohibiting lenders from charging borrowers excessively high rates of interest on loans

States Can Tighten Laws to Stop Longer-Term Predatory Lending that Traps Families in a Cycle of Debt

This report finds that, for a $10,000 five-year loan, 39 states have APR limits in place, at a median rate of 25%, protecting 236 million people. However, some of those caps are excessively high. And 12 states place no numerical cap on the APR, leaving 90 million people unprotected.

An APR cap is the single most effective step states can implement to deter abusive lending and ensure that families are not caught in a debt trap that's nearly impossible to escape. Most states impose rate caps on a $10,000 loan, five-year loan, at a median APR of 25%.

Of the 39 jurisdictions that have rate caps, more than two-thirds (27) limit the rate to 27% or less and
20 jurisdications—Alaska, Arkansas, Colorado, Connecticut, the District of Columbia, Florida, Hawaii, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Nebraska, New York, Oklahoma, Rhode Island, Vermont, and Wyoming—limit the maximum APR for a $10,000 five-year loan to 25% or less. Arkansas, Maine, and Vermont are particularly protective of consumers, with APR limits of 17%, 18%, and 18%, respectively.

Eleven states (Arizona, Louisiana, Michigan, Mississippi, New Jersey, North Carolina, Pennsylvania, Tennessee, Texas, Washington, and West Virginia) have an APR limit between 26% and 30%. Most of these states—seven of them—are at the low end of this range, capping APRs at 26% or 27%.

One state, Iowa, permits a 32% APR, and five states (Illinois, Montana, New Hampshire, Oregon, and South Dakota) allow 36%.

Two states have APR limits above 36%: Nevada allows APRs as high as 40%, and Georgia allows a 60% APR.

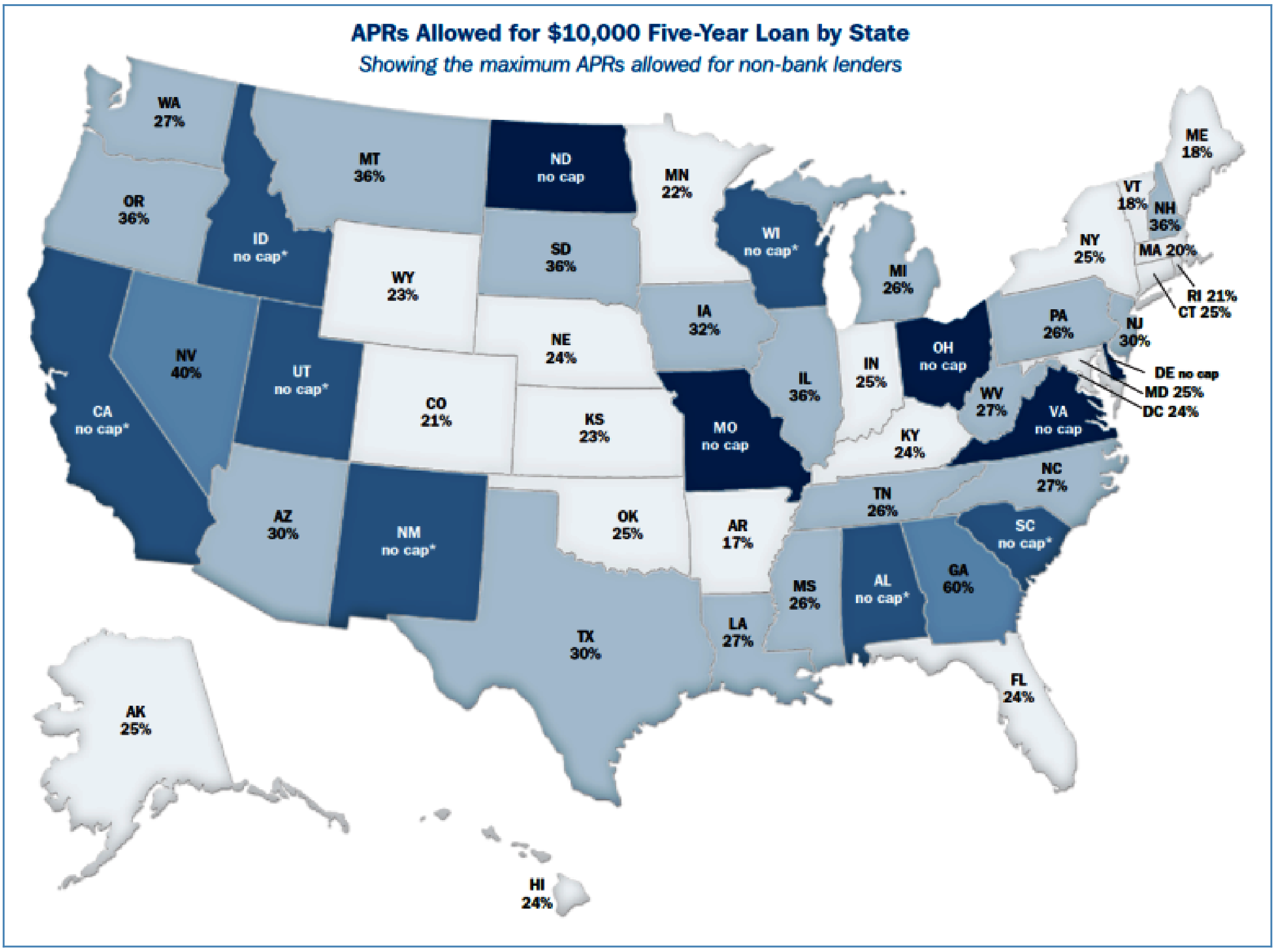
Twelve states impose no numerical rate cap. Alabama, California, Idaho, New Mexico, South Carolina, Utah, and Wisconsin impose no limit other than a prohibition of rates that shock the conscience. The lending laws in Delaware, Missouri, North Dakota, Ohio, and Virginia impose no limit at all for a $10,000 five-year loan.

Among the 39 jurisdictions that impose interest rate and fee caps for a $10,000 five-year loan, over half have an APR limit of 25% or less, and nearly 70% (27 jurisdictions) cap APRs at 27% or less. **This finding reflects a consensus that, while an APR cap of 36% may be appropriate for smaller, shorter-term loans, the cap should decrease to well below 36% for larger loans**.

APRs Allowed for $10,000 Five-Year Loan by State

Showing the maximum APRs allowed for non-bank lenders

Note: All rates are current; if you have updated information, please email ccarter@nclc.org



Key Recommendations

Limit APRs. An APR cap is the single most effective step states can implement to deter abusive lending—protecting consumers from excessive costs and giving lenders an incentive to ensure ability to repay. An APR cap of about 25% is at the high end of what is reasonable for larger, longer-term loans such as a $10,000 five-year loan, and represents the median among the 39 states that cap the APR for such a loan. States with caps of 25% or less should preserve their caps, states that have higher caps should reduce them, and states that do not have a numerical cap should impose one.

Ban or strictly limit junk fees for credit insurance and other add-on products. States should place strict limits on add-on products and should require their cost to be included in the APR cap.

Ensure that the consumer can afford to repay the loan. States should impose a duty on lenders to meaningfully evaluate whether the consumer can afford to repay the loan while covering other expenses without re-borrowing.

Require loan terms that are neither too short nor too long. States should adopt rules regarding the length of loans that mandate a middle ground between overly long loan terms that make it difficult to pay off loans because the cost of the interest eats up so much of each payment, and loan terms that are so short that the borrower cannot afford the monthly payments and is forced to refinance the loan.

Insist on equal amortizing payments. States should prohibit payment schedules that involve balloon payments, interest-only payments, or other unusual payment schedules that keep the balance high despite the borrower's payments.

Stop loan flipping. States should prohibit origination fees that can be earned with each refinancing, disadvantageous rebate formulas, and other incentives that predatory lenders build into loans to make loan flipping profitable.

Prevent draconian treatment of borrowers who default. States should not countenance draconian penalties for borrowers who default. States should limit post-default interest to a reasonable, low rate, and protect a borrower's home, car, household goods, wages, and a basic amount of cash from seizure by creditors.

Address open-end credit and prohibit evasions. To prevent evasions, states should make sure that APR limits and other strong protections apply not just to closed-end credit, but also to open-end credit such as lines of credit and nonbank credit cards. States should also prohibit evasions more generally, including tactics such as disguising finance charges as late fees in order to evade APR caps.

The role at the federal level. Given the lack of APR caps at the federal level, state APR limits are the primary protection against predatory lending by nonbank lenders. Congress and federal regulators should not allow high-cost lenders to evade state protections through a national bank charter for nonbank lenders, arrangements such as rent-a-bank partnerships, or any other steps to preempt state APR limits. Congress should adopt an APR cap that will apply nationwide, to banks and all other types of lenders, so that consumers in all states are protected.

A thorough discussion of all the issues addressed in this report, along with detailed updated summaries of the laws it discusses, may be found in the National Consumer Law Center's publication *Consumer Credit Regulation*.