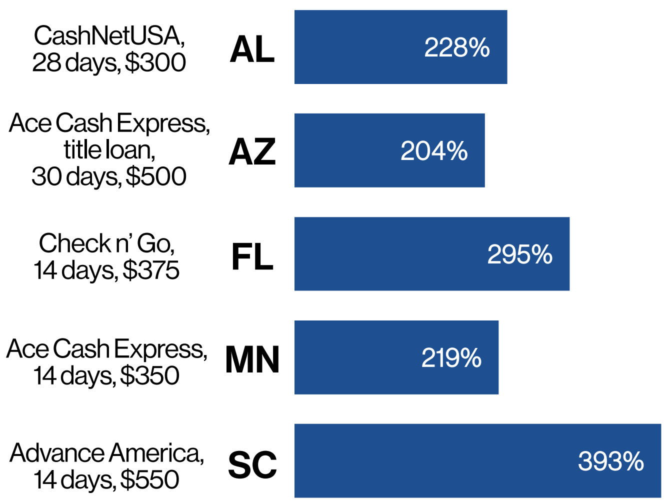
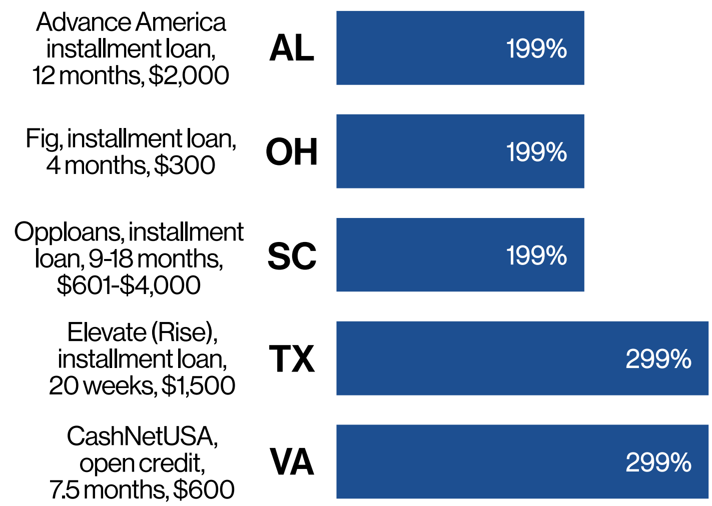
National Consumer Law Center

What States Can Do to Help Consumers
High-Cost Loans

APR for Short-term Payday Loans



APR for Longer-term Payday Loans



State Reforms to Protect Consumers

The debt trap caused by short-term payday loans is well known. Payday and car title lenders are now increasingly moving into high-cost longer-term installment loans and lines of credit that can be a deeper and longer debt trap. Both short- and longer-term payday and title loans rely on high interest rates and coercive tactics to ensure the lender's ability to collect rather than the borrower's ability to repay.

Payday lenders are constantly seeking to evade consumer protections in order to sustain the debt trap business model. The simplest and most effective protection from high-cost loans is a broadly applicable affordable rate cap that includes all interest and fees. Forty-three states and the District of Columbia cap the rate on a $500, six-month loan, at a median rate of about 36%, with lower rates for larger loans. Sixteen states and D.C. effectively protect against high-cost short-term loans through rate caps. With such rate caps in place, states can take action against evasion. Here are a variety of actions states can take to protect consumers from high-cost loans.

Enact Effective Interest Rate Caps

CONSUMER PROBLEMS	STATE SOLUTIONS
High-cost loans carry excessive charges and lead to a cycle of debt.	Cap rates for small loans at 36%, and lower for larger loans, as many states do.
Lenders evade rate caps by adding loan fees, credit insurance charges, and fees for loan brokers or "credit service organizations" on top of interest.	Include all fees and charges in the rate cap for both closed-end and open-end credit.
Lenders switch to open-end credit or "flex loans" to avoid caps on rates and fees.	Make sure that rate caps apply to open-end credit and include all fees.

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Stop Evasions

CONSUMER PROBLEMS	STATE SOLUTIONS
High-cost lenders, including some of the new "fintech" companies, try to evade state credit laws and may even claim they are not offering credit.	Define the lending law's scope broadly, with a strong anti-evasion provision and no exemptions for any form of finance, such as wage advances or income-share agreements.
Some online lenders violate state laws or use faux tribal affiliations to try to block enforcement.	Explicitly cover online loans, ban the collection of illegal loans, and make illegal loans void and uncollectible, including principal and interest.
High-cost lenders use banks to originate loans and avoid state rate caps.	Challenge rent-a-bank schemes in court and push Congress and federal and state regulators to crack down on them.

Protecting Basic Family Assets and Income from Creditors

CONSUMER PROBLEMS	STATE SOLUTIONS
Predatory lenders use deception, fraud, and bait-and-switch tactics.	Ensure that the state deceptive practices law covers credit and bans unfair, abusive or deceptive practices.
Lenders increase fees and costs through loan flipping and refinancing.	Ban or cap fees and require any fees to be refunded pro rata if a loan is refinanced.
Lenders coerce repayment of unaffordable loans by holding vehicle titles or security interests in household goods.	Ban vehicle title lending and security interests in household goods.

For more on how to reform high-cost lending, see:
National Consumer Law Center's
Payday and Installment Loans Issue Page

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