2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
P 215.575.9050
F 215.575.4939

901 E Street NW, 10th Floor
Washington, DC 20004
pewtrusts.org
P 202.552.2000
F 202.552.2299

October 9, 2017

State of Kansas Senate
Financial Institutions and Insurance Committee

By Electronic Delivery

RE: Financial Institutions and Insurance Committee Interim Hearing (October 11, 2017)

Chairman Longbine and Members of the Committee:

My name is Alex Horowitz and I am the senior research officer for the consumer finance project at The Pew Charitable Trusts. My testimony is informed by in-depth research Pew has conducted on the small-loan market over the past six years. This research includes four nationally representative telephone surveys of borrowers, 22 focus groups with borrowers of high-cost credit across the country, and extensive analysis of market and regulatory data. We have published reports, briefs, and fact sheets available at www.pewtrusts.org/small-loans. I appreciate the opportunity to share these findings.

In short, Pew's research shows that payday loans as we know them today in Kansas carry excessive fees that drain millions of dollars from residents each year. The typical APR for a payday loan in Kansas today is 391%. In dollar terms, a borrower who takes out $300 and ends up in debt for five months, the average amount of time that a payday borrower spends in debt during the year nationally, would repay a total of $750.

Pew's research shows that small amounts of credit can help people who are struggling to make ends meet, but only if structured appropriately to be affordable at lower prices. With well-designed product safety standards, policymakers can align the interests of borrowers and lenders, ensuring an efficient marketplace where there is widespread access to credit that is affordable for borrowers and profitable for lenders. In Colorado, where sensible limits have been in place for seven years, it has led to more than $300 million in savings. Last year, Kansas considered SB2267, which was modeled after Colorado's law. That legislation would enable access to credit while saving borrowers in Kansas millions of dollars each year.

<u>First-ever federal payday loan regulations from CFPB</u>

Last Thursday, The Consumer Financial Protection Bureau (CFPB) issued the first federal regulations for payday loans. The final rule, which has been scaled back from an earlier proposal, covers payday and auto title loans that have terms up to 45 days or carry a balloon payment. However, the federal rule does not limit rates and fees; only state legislatures have that authority to limit the fees of state-licensed lenders. In Kansas, 300% APR payday "line of credit" or "flex loan" products and auto title installment loans already exist, and they are likely to flourish under Kansas' UCCC, primarily under the open-end credit statute 16a-1-301(31). Take, for example, two typical loans on the market today that will not be covered by the federal regulation:

Kansas	Principal Borrowed	Months	Finance Charges	APR
Payday Loan Example	$500	6	$589	337%
Auto Title Loan Example	$1000	12	$1600	227%

These loans, where the borrower pays more in fees than they originally borrowed, have costs that are far higher than necessary to make credit available to consumers with damaged credit. The CFPB rule does not cover these loans issued in Kansas. Because payday and auto title lenders are likely to only issue loans with terms longer than 45 days once the rule takes effect, Kansans will only be protected from dangerous terms and gain access to better loans if the legislature acts.

Colorado's experience provides evidence-based, CFPB-compatible solution

In a neighboring state, borrowers that are similar in income and risk profile are charged almost three times less. Colorado's experience shows how policies that require the loans to be repaid in affordable installments, with a reasonable amount of time to repay, and lower prices, are still profitable for lenders.

In 2010, Colorado lawmakers created a more transparent and efficient market by requiring that all payday loans be paid back in affordable installments over time and cutting prices by two-thirds. Seven years later, the market is stable and access to credit remains widely available. Borrowers save more than $40 million a year in that state, three-quarters of loans are repaid early, and defaults are down. Lender-charged bounced check fees are also down, which helps protect borrowers from losing their bank and credit union accounts if lenders repeatedly attempt to withdraw funds using post-dated checks. Payday loan stores, which now profitably serve more customers per location, remain in communities across the state and virtually the same amount of credit is issued.

Colorado has succeeded in aligning the interests of borrowers and lenders. Colorado's law is also compatible with the new federal regulations. In several notable ways, Kansas SB2267 improves upon the Colorado model with modifications that would make providing loans easier for lenders in Kansas as compared to Colorado.

Specifically the bill would ensure:

1. Affordable payments. This reform would require affordable monthly payments limited to 5% of a borrower's monthly income vs. the 36% that is consumed today. Research shows that payments of 5% of income are viable for efficient lenders and affordable for borrowers.

2. Reasonable fees. An interest rate of 36% and a standard monthly fee of $5 per $100 loaned, not to exceed $20 per month, provide enough revenue for efficient lenders to continue making credit available. Whereas the Colorado law prevents lenders from taking monthly fees until the end of the second month, SB2267 would allow lenders to earn monthly fees immediately. This would give lenders more revenue in the early months of the loan compared to the Colorado model, helping to offset the cost of loan origination.

3. No front-loaded charges. Similar to Colorado, SB 2267 would remove incentives for lenders to refinance loans by prohibiting front-loaded charges like nonrefundable origination fees and prohibiting monthly fees on refinanced credit.

4. **Enough time to repay**. By requiring affordable monthly payments, SB2267 would ensure that borrowers have a reasonable time to pay off their loans in small installments, instead of in one large balloon payment. To allow

greater flexibility than Colorado's six-month minimum term, SB2267 would allow lenders to set shorter durations for customers that can afford larger monthly payments.

5. Limits on long-term indebtedness. By limiting loan costs to no more than half of the loan principal (for example, total fees and interest on a $500 loan could not exceed $250), Kansas could prevent loans with unreasonably long terms and excessive costs.

6. Efficient lenders—large and small—would provide access to credit across the state. Lenders would serve more borrowers per store at lower prices after reform. In Colorado, some stores closed but the remaining stores each serve twice as many customers. Access to credit is virtually unchanged throughout the state and tens of millions of dollars have been returned to local economies.

In closing, with the changes outlined in SB 2267, Kansas would achieve the successful outcomes of Colorado, and offer some increased flexibility for borrowers and lenders. The CFPB regulation is no substitute for state law, and 300% APR loans will continue under it. If Kansas residents are going to gain access to safer, lower-cost options and be protected from harmful products, the legislature will have to act. I am happy to take any of your questions.

Thank you,
Alex Horowitz
Senior Research Officer, Consumer Finance
The Pew Charitable Trusts
www.pewtrusts.org/small-loans

Appendix

Below, you can see an example of what it might cost to draw **$600 once from a $1,000 line of credit** and make different kinds of repayments.

If you make only your **minimum payment bi-weekly**, your repayment will look like this:

Number of Bi-Weekly Payments	Total Repayment Time	APR	Fees and Interest Paid	Total Repayment
15	7.5 months	299%	$853.11	$1,453.11

If you were to repay more than the minimum each billing cycle, the time it would take to pay off your balance would go down, as would your repayment total. If you repaid **$200 bi-weekly**, your repayment would look like this:

Number of Bi-Weekly Payments	Total Repayment Time	APR	Fees and Interest Paid	Total Repayment
5	2.5 months	299%	$374.21	$974.21

With an actual line of credit, your repayment might look different than the examples above. For instance, you could draw more money in the middle of a billing period, increasing your total repayment. Or you might repay a large sum all at once, reducing the cost and length of your repayment period.

https://www.cashnetusa.com/rates-and-terms.html#rates_terms

LOAN PAYMENT CALCULATOR

Desired Loan Amount *

$1,000.00

Desired Length of Loan *

12 months

Monthly Payment

$216.67

*Estimated 1st payment. Actual monthly payment will be calculated upon completion of loan application.

NO CREDIT CHECK

Bad Credit? No Credit? No Worries! No credit check is required at Title Loanz. Your past credit is not important to us because your car is your credit.

YOU'RE APPROVED

Here at Title Loanz you're pre-approved. We offer a fast, easy process to obtain a car title loan and get the cash you need. When other lenders say NO, we lend an ear and say YES!

FLEXIBLE TERMS

Flexible terms ranging from one month to 24 months. Affordable payment plans for every situation.

LOW INTEREST RATES

The Annual Percentage Rate ("APR") will vary depending on the amount borrowed. Title Loanz offers some of the lowest rates in the title loan industry for Kansas and Missouri. An interest rate that's low and economical means lower payments and the ability to pay your loan off quicker!

http://www.titleloanz.com/