

**Initiative #126
Limitations on Payday Loans**

1 **Proposition ? proposes amending the Colorado statutes to:**

- 2 ◆ limit the total cost for a payday loan to a 36 percent annual percentage rate; and
- 3 ◆ expand what constitutes unfair or deceptive trade practices for payday lending.

4 **Summary and Analysis**

5 **Background.** Payday loans are small, short-term loans that do not require collateral or a
6 credit check. In 2016, about 207,000 individuals in Colorado secured over 414,000 payday
7 loans. These loans totaled over \$166 million, and consumers paid an estimated \$50.0 million in
8 loan costs (any combination of fees and interest). The rate of default on these loans was
9 23 percent.

10 **Annual percentage rate (APR).** The APR is the total loan cost expressed as a yearly rate
11 and includes the interest on the loan amount, origination fees, and monthly maintenance fees.
12 The average APR on payday loans in Colorado is 129 percent. The actual APR ranges
13 between 100 and 200 percent for most payday loans, depending on how quickly the borrower
14 repays the loan. The federal government does not cap APR for most payday loans; however,
15 there is a 36 percent APR cap on payday loans issued to active duty members of the military.

16 **Current payday loan regulations.** Colorado law limits payday loans to \$500 with a
17 minimum repayment term of six months and no maximum repayment term. The law allows
18 lenders to charge an origination fee of up to 20 percent of the first \$300 loaned, plus 7.5 percent
19 of any amount in excess of \$300. In addition, lenders may charge an interest rate of 45 percent
20 per year per loan and a monthly maintenance fee of \$7.50 per \$100 loaned, up to a total of
21 \$30 per month. If the borrower repays the loan early, the lender must refund a prorated portion
22 of the APR. Current law defines unfair and deceptive trade practices as making loans disguised
23 as personal property sale and leaseback agreements or as a cash rebate.

24 **Changes under the measure.** The measure limits the loan costs on a payday loan to a
25 maximum APR of 36 percent and removes all specific fees from state law. In addition,
26 regardless of whether payday lenders have a physical location in the state, they may not
27 circumvent the new restrictions by offering higher cost loans via electronic or U.S. mail, the
28 internet, or telemarketing.

29 Table 1 below is an example of the total cost for a \$500 loan that is repaid in six months
30 under current law and under Proposition ?.

31 **Table 1. Comparison of Maximum Cost of Six-Month Payday Loan***

	Current Law	Proposition ?
Loan amount	\$500	\$500
Total cost of loan	\$293	\$90
Total amount paid	\$793	\$590
APR	115%	36%

*The actual costs may vary by lender.

*For information on those issue committees that support or oppose the measures on the ballot at the **November 6, 2018**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

1 **Argument For:**

- 2 1) Coloradans are paying too much to borrow small amounts of money from payday
3 lenders. Some consumers borrow money to pay off other loans, which leads to a cycle
4 of debt. Because the measure reduces the high cost of payday loans, consumers may
5 be better able to repay their loans and avoid further financial stress.

6 **Argument Against:**

- 7 1) This measure is unnecessary because the state legislature passed reforms in 2010 that
8 led to reduced loan costs and fewer defaults while helping maintain a healthy payday
9 loan market. This measure hurts the payday loan industry and may have unintended
10 consequences for borrowers if they lose access to payday loans. With limited or no
11 access to payday loans for emergencies, consumers may pay higher costs to other
12 creditors from late payment fees, bounced check and overdraft fees, or utility disconnect
13 fees.

14 **Estimate of Fiscal Impact**

15 *Please note: A summary of the fiscal impact will be included in this space in the second draft of*
16 *the analysis. A final fiscal impact statement will be prepared and placed on the General*
17 *Assembly's website when the final blue book is sent to voters.*