The Bell Policy Center

Finance Charges on Certain Consumer Credit Transactions

Senate Bill 16-185

Testimony to the House State, Veterans and Military Affairs Committee
Rich Jones, Director of Policy and Research
May 4, 2016

Thank you for the opportunity to present this testimony.

I am Rich Jones, the Director of Policy and Research with the Bell Policy Center. The Bell is a non-partisan, nonprofit research and advocacy organization founded on progressive values and dedicated to making Colorado a state of opportunity for all.

SB16-185 will raise the costs that working families pay for certain supervised loans and consumer credit sales. The Bell Policy Center opposes this legislation because there is no objective evidence or rationale for increasing these rates. At a time when interest rates on other credit products are at near-historic lows, this bill would increase the interest costs of these products by adding between 2 and 3 percentage points to the annual percentage rates, driving up the total interest paid on these loans by 10 percent. The cumulative increase in interest payments on these loans is estimated to total about $9.5 million. These costs will increase every year thereafter because of the adjustment for inflation. Consumers will see no benefits from these proposed increases.

There is no objective reason for these increases.

According to data presented by the Colorado Attorney General's office, Coloradans currently have access to these loans, and the number of loans issued and the dollar volume of funds loaned has increased over the past five years. The primary lender in Colorado, OneMain Holdings, is highly profitable with a sizeable business in Colorado. There is no evidence that these loans will not continue to be available in Colorado.

Borrowers refinance these loans.

Many of the loans issued by these lenders are renewals of existing loans. In a recent presentation to investors, OneMain Holdings, reported that about half of its customers renew at least once during the life the loan, and those who renew their loans do so an average of 2.73 times.[1] High rates of refinancing suggest that borrowers are struggling to repay these loans at existing rates. Increasing the costs of the loans will make it even harder for Coloradans to repay them. Because a large number of the loans are refinanced, the increases proposed in SB16-185 will directly affect existing borrowers who will have to pay more when they renew their current loans.

These loans often come with high-cost credit insurance and other ancillary services.

Lenders inflate the cost of these loans by packing them with high-cost credit insurance. To pay for the insurance, the lender extends the borrower a larger loan to cover the cost of the premiums. This increases the borrower's debt-load and drives up the interest payments. Lenders such as OneMain Holdings sell insurance policies issued by their own affiliates. In this way, the lenders not only profit from the added interest payments but also from the expensive credit products sold as part of the loan. Actions like this caused the U.S. Department of Defense to include the costs of these types of products in calculating the 36 percent (APR) limit on loans made to active-duty military service members and their families.[2]

These loans do not compete with payday loans.

Proponents have argued that borrowers would turn to more expensive payday loans if these loans were not available. This is simply not plausible. The two products are vastly different in terms of size of loan, length of loan term and credit worthiness of the borrowers. Payday loans have a maximum $500 loan limit and a minimum six-month term. They are often used by borrowers with such low credit scores that they do not qualify for other credit. In comparison, these loans average about $6,000 and have terms of 60 months or more. They are underwritten and borrowers need higher credit scores and incomes to qualify. The two products are not the same and cannot be substituted for each other. In fact, OneMain Holdings' presentation to investors emphasizes how its loans serve a market segment different from payday lenders.[3]

Raising the costs on supervised loans and credit sales forces hard-working Colorado families, many whose credit histories are damaged by the Great Recession, to pay more for no justifiable reason. This is no way to help middle-class Coloradans get ahead and stay ahead economically.

We respectfully urge you to vote no on SB16-185.

Thank you for your time and I am happy to answer any questions you might have.

---

[1] OneMain Presentation at Investor Conference, February 2016, Slide 23, http://files.shareholder.com/downloads/AMDA-28PMI5/1910547286x0x880074/1640B947-71DA-4DCB-BEB6-96838F87FEF9/Vegas_Deck_vf.pdf

[2] U.S. Department of Defense, *Limitations on Terms of Consumer Credit for Members of the Armed Forces and Dependents*, Final Rule (Jul. 22, 2015), https://www.federalregister.gov/articles/2015/07/22/2015-17480/limitations-on-terms-of-consumer-credit-extended-to-service-members-and-dependents#h-49

[3] See endnote 1, slide 5