

Please Support HB24-1148 (Reps. Weissman & Mabrey): Amending Terms of Consumer Lending Laws

Concerning a more inclusive calculation of the finance charge applicable to certain consumer lending transactions, resulting in greater transparency on the cost of credit for those loans.

WHAT THE BILL DOES:

- Amends the "Uniform Consumer Credit Code" calculation of finance charges to make them more transparent and reflective of the total cost of loans from nondepository institutions. Right now effective cost (APR) can exceed nominal cost due to additional fees for associated products sold in connection with the loans themselves but which are not calculated into the interest rates. This means calculating the total amount of the finance charge to include the total cost of specific additional charges.
- HB24-1148 draws inspiration from the Military Lending Act, federal legislation that creates heightened protections for military servicemembers and their families, including a more inclusive & accurate method for calculating the APR for a loan subject to the MLA.

Under HB24-1148, a lender may lend in either of the following two ways:

- **Blended approach:**
 - 36% on loan amounts less than \$1,000
 - 21% on loan amounts \$1000-\$3000
 - 15% on loan amounts over \$3000
 - Including additional fees as defined in the bill
- **Simple 21% approach:**
 - 21% on entire loan amount
 - Including additional fees as defined in the bill

Note that Colorado law allows lenders to choose whatever approach is most advantageous for them. For loans up to about \$8000, the blended approach allows a higher effective interest rate for the lender. For larger loans, the simple 21% is preferred by the lender:

<u>Loan size</u>	<u>Maximum APR permitted</u>	<u>Finance charge (3-year loan)</u>
\$1,000	36.00%	\$435.70
\$2,000	31.15%	\$1,101.67
\$3,000	28.24%	\$1,481.24
\$4,000	26.10%	\$1,809.30
\$5,000	24.39%	\$2,098.33
\$6,000	23.09%	\$2,371.90
\$8,000	21.32%	\$2,898.26
\$10,000	21%	\$3,563.02

APR – the annual percentage rate a borrower pays after all costs are calculated. This practice enables installment lenders to contractually comply with state interest-rate caps while issuing loans with all-in APRs that often exceed those regulations. It also conceals the all-in APRs from borrowers, which makes it extremely difficult for consumers to evaluate credit products and compare costs.”

Center for Responsible Lending (December 2022)³

- *“Beyond the finance charges accrued on these loans, many of the loans in the sample were also subject to credit insurance, which imposes additional costs to borrowers and increases their debt loads. Both OneMain and Lendmark promote the sale of credit insurance and profit from it.¹⁵ The profit takes two primary forms. First, the lenders receive a share of the premiums. In the case of OneMain, this is because the policies offered to borrowers are sold by OneMain’s insurance affiliates, American Health and Life Insurance Company and Triton Insurance Company.¹⁶ These affiliates are “predominately dependent” on these sales, as OneMain borrowers are the affiliates’ primary source of business.¹⁷ The OneMain loan agreements include the statement that OneMain or its affiliates may profit from the insurance sale. In the case of Lendmark, the company’s loan agreements inform borrowers that the lender may retain a portion of the insurance premium. In addition to insurance, both Lendmark and OneMain also sell “automobile club memberships” as add-on products.”*
- *“In addition to profiting from the sale of insurance premiums, the lenders also earn interest on the cost of the premiums because the cost is paid from the loan proceeds. The borrower takes on additional debt to pay for the insurance, and the lender earns interest on that additional debt. The automobile club memberships and other add-ons are paid for in the same way.”*
- *“While these insurance policies are highly profitable to the lenders, they are of low value to the borrowers. In general, the premiums charged are high relative to the amounts actually paid on claims. In the event a claim is paid, the payment goes to the lender, not the borrower.”*