HB 1319: The Fictions and the Facts

VOTE NO ON HB 1319

FICTION **This bill creates a reasonable product needed by financially struggling Hoosiers.**

FACTS

- HB 1319 preserves 2-week payday loans up to $605, and expands allowable predatory loans up to $1500 over 12 months, with an APR up to 222% APR - an amount three times Indiana's felony loan sharking rate of 72%.
- No testimony was presented from Hoosiers saying they want or need this additional usurious product. In fact, both the public[i] and payday borrowers[ii] want to see more reform of this industry, not expansion.
- Opponents of this bill include many different faith communities, the big 4 veterans' groups, those who serve and represent the working poor, and consumers.
- These are deceptive and dangerous loans, offering larger and extremely high cost installment loans to working low-income Hoosiers. These loans result in bankruptcies, foreclosures, and a vortex of debt.[iii]

FICTION **This bill will help Hoosiers build positive credit histories.**

FACTS

- The higher the cost of the loan, the higher the rate of default. One analysis found that loans at 59%APR had a 21% default rate, which climbed to a 44% default rate at 96%APR.
- Indiana already has the 7th highest bankruptcy rate in the nation.[iv]
- Loans with rates up to 222% APR will only "help" Hoosiers build bad credit histories.

FICTION **This bill is modeled after the Colorado reform of payday lending.**

FACTS

- Colorado repealed their payday lending statute. HB 1319 leaves our payday lending statute (391% APR) intact.
- The APR allowed by HB 1319 is almost double the amount permitted by Colorado's law.
- Colorado origination fees are pro rata refundable. Fees under HB 1319 are not.
- Colorado limited loans to $500. HB 1319 allows loans up to $1500.

FICTION **This bill is necessary so that consumers will not be driven to unethical online lenders, which cannot be regulated.**

FACTS

- The courts have held that unaffiliated online lenders are subject to Indiana's laws and regulations. Several class action lawsuits in Indiana have voided illegal online loans to Indiana borrowers, and required that these companies register in Indiana and follow our laws if they wish to continue lending in Indiana.
- Online lenders have pulled their business out of states with good regulations.
- The Department of Justice has obtained criminal convictions against illegal online payday lenders.
- Research from Pew Charitable Trusts demonstrates that in states with restrictions, borrowers do not turn to online lenders.[v] They employ a variety of other means to meet their financial needs, including lower-cost installment loans and credit cards.[vi]

FICTION **This bill is necessary because the Consumer Financial Protection Bureau(CFPB) has issued a rule which will drive payday lenders out of business.**

FACTS

- The payday rule has been suspended by the current director of the CFPB, and he has requested a zero budget for the CFPB going forward.
- Even if implemented in 2019, the rule would only have required lenders to either assess a borrower's ability to repay the loan or to limit the number of borrower loans per year to 6. The rule could not change or cap interest rates.

FICTION **This product is different from payday lending.**

FACTS

- Both payday loans and the usurious installment loans created by HB 1319 secure access to a borrower's checking account at unaffordable APRs.
- Both kinds of loans incentivize lenders to make loans to individuals that are already experiencing significant financial challenges, without concern for default rates, as recoupment of the principal and significant interest are collected early in loan repayment.

Footnote citations on back of this page.

Indiana Institute for Working Families
Research and Public Policy
A Program of INCAA Indiana Community Action Association

Loan Examples Under HB 1319

Loan Amount	Nonrefundable Origination Fee	Monthly Fee ($8/month/ $100 borrowed)	Total Fees	Total Repayment	Monthly Payments	APR	Qualifying Income (year)
Term: 3 months							
$605	$91	$145	$236	$841	$280	**222%**	$16,824.00
$800	$105	$192	$297	$1,097	$366	**212%**	$21,947.50
$1,000	$120	$240	$360	$1,360	$453	**205%**	$27,207.50
Term: 6 months							
$1,000	$120	$480	$600	$1,600	$267	**184%**	$16,003.75
$1,500	$158	$720	$878	$2,378	$396	**180%**	$23,778.75
Term: 12 months							
$1,000	$120	$960	$1,080	$2,080	$173	**163%**	$10,401.88
$1,500	$158	$1,440	$1,598	$3,098	$258	**161%**	$15,489.38

FOOTNOTES

i Prosperity Indiana, Indiana Institute for Working Families, & Brightpoint in Collaboration with Bellweather Research, *Payday Lending Poll*, (January 2018), https://www.prosperityindiana.org/resources/Payday%20Lending%20Poll%20Results%20For%20Release.pdf

ii Pew Charitable Trusts, *Payday Loan Customers Want More Protections, Access to Lower-Cost Credit from Banks*, (April 2017), http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/04/payday-loan-customers-want-more-protections-access-to-lower-cost-credit-from-banks

iii See, for example, Center for Responsible Lending, *Payday Mayday*, http://www.responsiblelending.org/research-publication/payday-mayday-visible-and and National Consumer Law Center, Why High-Rate Installment Lenders Want Borrowers Who Default, https://www.nclc.org/media-center/report-why-high-rate-installment-lenders.html

iv Prosperity Now, *Scorecard: Bankruptcy Rate*, http://scorecard.prosperitynow.org/data-by-issue#finance/outcome/bankruptcy-rate

v Pew Charitable Trusts, *Who Borrows, Where They Borrow, and Why*, http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2012/pewpaydaylendingreportpdf.pdf

vi See for example, Southern Bancorp Community Partners, *Into the Light: A Survey of Arkansas Borrowers Seven Years after State Supreme Court Bans Usurious Payday Lending Rates* and University of North Carolina prepared for the North Carolina Commissioner of Banks, *North Carolina After Payday Lending: Attitudes and Experiences with Credit Options*, http://www.nccob.gov/public/docs/News/Press%20Releases/Archives/2007/NC_After_Payday.pdf