Testimony on HB 1547

House Committee on Financial Institutions

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- Good morning, Chair Speedy and members of the Committee.

- My name is Andy Nielsen, and I am a senior policy analyst at the Indiana Community Action Poverty Institute.

- We are a program of the Indiana Community Action Association, which is a statewide organization representing the 22 Community Action Agencies that work tirelessly to address community needs and fight poverty in all 92 Indiana counties.

- I am also here representing Hoosiers for Responsible Lending - a statewide coalition of veterans organizations, faith communities, consumer groups, and social service providers who recognize both the benefits of equitable, responsible lending and the damages of predatory lending.

- Thank you for the opportunity to testify today on HB 1547, which would raise the cost of borrowing for Hoosier consumers who rely on subprime credit and alternative financial services.

- We oppose this bill, and ask that should the Committee vote, that you oppose this piece of legislation.

- HB 1547 would make several changes to the Uniform Consumer Credit Code as it relates to supervised loans.

- Under current law, supervised loans are subject to a loan finance charge (interest) and a prepaid finance charge. Together, these charges affect the payments borrowers make and the cost of credit.

- Loan finance charges under current law are assessed through a “step rate” or 25%, which is up to the lender. The step rate is:
  - 36% on the balance $2,400 and less;
  - 21% on the balance between amounts over $2,400 and $4,800; and
  - 15% of the balances over $4,800; or
  - 25%.

- So for example a $3,000 loan would likely be assessed an all-in rate of 33%.

- At about $6,500, the 25% all-in rate is optimal as the lower 15% step is diluted as balances rise.

- Beyond interest, lenders may assess a prepaid finance charge, which is traditionally a finance charge that is due at closing of the loan and is not subject to interest. Some lenders may choose to offer borrowers the ability repay these charges over time.

- Under current law, lenders may charge:
  - $75 on loans $2,400 and less;
  - $150 on loans between $2,400 and $4,800; and
  - $200 on loans $4,800+

- HB 1547 would eliminate the step rate altogether, and allow lenders to charge 36% regardless of the loan balance, but preserves the step up on finance charges.

- Modeling these together, we find that HB 1547 would have a smaller impact on loans in the $2,400 range. Costs would rise. For example, a borrower with a 6-month, $3,000 loan would pay an additional $27.48 over the term of the loan.

- However, the real problem with this bill can be illustrated for loans larger than $10,000 and as the term of the loans are extended

- Examples:
    - 12-month, $10,000 loan:
        - Borrower would pay an additional $650 ($12,255 total).
    - 24-month, $20,000 loan:
        - Borrower would pay an additional $2,043 ($21,457 total).
    - 60-month, $20,000 loan:
        - Borrower would pay an additional $8,138 ($43,560 total).

- And while loans of this size are traditionally secured and collateralized by property, think auto loans, existing statute nor this bill provide protections that these loans be completely unsecured.

- Market forces, in a perfectly competitive market, would dictate that borrowers would shop around and find the lowest rate possible.

- But these aren't competitive markets. Subprime lending, alternative financial services provide "credit" to borrowers who otherwise cannot receive conventional loans.

- There is nowhere else for these borrowers to turn. So yes, this could be viewed as a necessary service these lenders are providing, but they aren't competitive markets – so the rates, and terms and conditions set by state statute, are very important. Because these are the rates, terms, and conditions that lenders will pass along to borrowers. There is no competition. There is no shopping.

- As such, they must be highly regulated, tracked, and any price increases need a thorough and thoughtful analysis as to why.

- Especially when the industry is earning more money, at higher margins, despite rising delinquencies and charge offs.

- We are just concerned that we are simply arbitrarily raising the costs of credit on Hoosiers.

- We hope that we can have a serious discussion as to how we can provide access to credit to borrowers who must rely on subprime, alternative financial services.

- As advocates, we stand prepared to have those tough conversations, and are hopeful that real discussions – similar to those that we had last year – can occur so that we don't hastily make decisions that could have a serious, negative impact on Hoosiers who can least afford it.

- For these reasons, we ask that you oppose this legislation.

- Again, I appreciate the opportunity to testify on this bill today.