



Testimony on SB 352

Senate Committee on Insurance & Financial Institutions

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- Good morning, Chair Zay and members of the Committee.
- My name is Andy Nielsen, and I am the 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.
- Thank you for the opportunity to testify today on SB 352, which would drastically change subprime, high-cost installment lending in our state.
- Unfortunately, the changes made through this legislation are very problematic, and we strongly oppose this bill as currently written, and ask that the Committee vote against passage.
- First, I want to address the comments that this is an effort to combat payday lending in Indiana:
 - We agree that payday loans are a serious financial drain on Hoosiers, and would be happy to engage with this Committee on this important issue.
 - This bill does not eliminate the payday lending statute. It does not strike Chapter 7 of the IUCCC.
 - So it is unclear how this bill would supplant payday lending, it almost seems to supplement these problematic loans.
- {And it does so by increasing} // (SB 352 increases) the cost of subprime installment loans through higher finance charges and fees, than under current law.
- The bill mandates that lenders may only collect a maximum amount of charges and fees relative to the size of the loan.



- With total fees and interest of 75% of original principal for loans \$1,500 and smaller and 100% for loans over \$1,500.
- So under a \$2,000 loan, lenders could charge \$2,000 in charges and fees.
- However, exempt from these charges are fees for credit insurance.
- The bill allows lenders to charge borrowers more than the insurance premium itself, providing a backdoor “broker fee” for contracting credit insurance. This is a change from current law.
- The bill does not define how much additional premium can be charged to the borrower, and would create an incentive for lenders to cross sell these products, which are often junk insurance that make it difficult or impossible for borrowers to collect any benefits.
- The inflection point (going from 75% to 100%) at which the maximum allowable charges increases, creates a huge incentive for lenders to push borrowers into larger loans.
- For example, assume a \$1,500 and a \$1,501 – both over 12 months.
 - Lenders could charge borrowers an extra \$262.24 for borrowing that additional \$1. So why wouldn't a lender push a borrower to do so? Worse, why wouldn't all lenders choose to only provide loans of larger than \$1,500?
- Additionally, the bill does not provide any limitations on refinancing, and it is our interpretation that when borrowers refinance, these 75% and 100% maximums would reset.
- Lenders could aggressively push borrowers to refinance these loans as often as possible to collect additional charges and fees.
- SB 352 would also constrain credit, as borrowers will need to take out multiple loans through multiple lenders to meet larger credit needs.
- We refer to this as loan stacking, and under SB 352, this would substantially raise the cost of credit.
- The concerns I have addressed thus far, can best be illustrated with the following example:



- Assume a borrower needs \$6,000 for a car loan over 12 months.
- Under current law, the borrower would:
 - Obtain a single loan
 - Pay 12 installments of \$589.27,
 - That's \$7,071.29 in total
 - With cost of credit equaling \$1,071.29 (or 18% of the original loan)
- SB 352 limits borrowers to one loan per lender (or an affiliate) and caps the loan at \$2,500.
- With the \$50 underwriting fee permissible under the bill, we assume the actually "maximum disbursement" to be \$2,450.
- So under this bill, assuming an optimal outcome for the borrower, the borrower would have to:
 - Take out three loans – 2 at \$2,450, 1 at \$1,100
 - This allows three separate lenders to charge \$50 underwriting fees each and to optimize the 13% monthly maintenance fee.
 - So across all three loans the borrower would:
 - Pay 36 installments over 12 months, with a total monthly payment of \$977.08
 - That's \$11,275 in total
 - With a cost of credit equaling \$5,727 (or 95% of the original loan)
 - That's a full \$4,653.71 more than under current law – for a \$6,000 loan.
 - Again, that's the best case scenario
 - Because if lenders coordinate, and a borrower has to obtain a fourth loan (4 at \$1,501), that additional lender raises the overall cost to the borrower by another roughly \$275.
- So as the borrower juggles payments with three or four different lenders, the risk of default or cash flow mismatches increases, meaning lenders will see the value in refinancing ASAP.
- And all this can be done without any due diligence from the lender ensuring that the borrower demonstrates an ability to repay the loan.
- However, let's just assume that a borrower is able to handle this. What happens?



- Unfortunately, the bill does not require lenders to report loans to credit bureaus, meaning borrowers receive no credit for successfully paying off a loan and demonstrating creditworthiness.
- Borrowers should receive favorable reporting on their credit reports if they successfully repay the loan.
- By not doing so, this creates a self-fulfilling cycle where a borrower's only options are subprime loans.
- And let's go back to payday lending.
- Again, this bill does not eliminate the payday lending statute (Chapter 7).
- If anything, payday lenders will now hold two licenses, and continue to push borrowers to obtain the costly two-week product.
- When the borrower is at risk of default or hits the maximum number of payday loans (six consecutive before one- week waiting period), lenders can now refinance the payday loan with the product created under SB 352, extracting yet again, more charges and fees.
- In total, we believe SB 352 expands predatory lending in Indiana, fuels a debt trap, and would have a negative impact on financially vulnerable Hoosiers and their families.
- For these reasons, we ask that you oppose this legislation.
- Again, I appreciate the opportunity to testify on this bill today.
- And I am happy to answer any questions.
- Thank you.