PROPOSITION 111

Limitations on Payday Loans

Summary
This statutory initiative would reduce the total costs lenders can charge on payday loans to 36 percent annual percentage rate (APR). Currently, the average rate on these loans is 129 percent, but can exceed 200 percent APR.

Research
Payday loans are short-term loans with a maximum amount of $500. They have a minimum term of six months, although borrowers can repay them sooner with prorated total costs based on the length of time the loan was outstanding. The average Colorado payday loan in 2016 totaled $392, costing customers an average of $119 in interest and fees.

Payday lenders have a special exemption from the state's usury laws, allowing them to charge fees and a maximum interest rate of 45 percent for these loans. When the fees and Interest costs are combined with the amount of time borrowers take to repay the loans, the APR on payday loans totaled 129 percent in 2016. APR is a uniform standard for computing the costs of loans with different fees, interest rates, and length so borrowers can compare costs. Coloradans paid $50 million in interest and fees to payday lenders in 2016. By capping the total amount lenders can charge to 36 percent APR inclusive of all fees, this proposal would make payday loans subject to the same interest rates allowable for virtually all other installment loans in Colorado.

Over a decade ago, the U.S. Congress capped the interest rate on payday loans offered to active duty military and their families at 36 percent APR. Currently, 15 states and the District of Columbia have outlawed payday loans or capped them at their state's usury limit — generally 36 percent APR. Research shows former payday loan customers are relieved to be free from the payday's debt trap, and report a variety of less costly ways of meeting financial shortfalls. Several low-cost and consumer-friendly alternatives exist in Colorado, including loans from credit unions, salary advances from employers, and loans from faith-based and community groups.

Payday lenders are also concentrated in communities of color. According to the Center for Responsible Lending, Colorado neighborhoods with over 50 percent black and Latino residents are twice as likely to have a payday lending store than other areas and seven times more likely than in predominantly white neighborhoods.

Payday lenders require access to borrowers' bank accounts, either by check or an ACH authorization, to debit their accounts to receive payment. Because payday lenders submit requests for payment irrespective of whether the borrowers have the funds to cover it, this often results in overdrafts and additional charges being levied on borrowers.

The Colorado legislature passed legislation in 2010 that reformed payday loans and reduced their costs by about $40 million per year. However, the loans are still expensive and can trap people in debt. In 2016, about one-quarter of payday loans ended in default.

This proposal will significantly reduce the cost of payday loans and the amount borrowers pay for them. According to polling, this proposal has broad support across the political spectrum including Republicans, Democrats, and Independents.

Legislative Council Staff's Fiscal Impact Statement
Secretary of State's Ballot Measure Information

Arguments For

- This initiative would reduce the costs of payday loans and put them on equal footing with other installment loans in the state. Reducing the costs of these loans would reduce the number of people who get trapped in a cycle of debt they cannot escape.
- Proposition 111 also eliminates a special exemption provided to payday lenders that allows them to charge exorbitant rates to vulnerable families who just need a few bucks to get by.

Proponents

Coloradans to Stop Predatory Payday Loans — backed by the Bell Policy Center and a broad coalition of community, civil rights, faith-based, veterans, and policy groups — is supporting this measure.

Arguments Against

- Payday lenders cannot afford to make these loans at 36 percent APR. Setting the maximum rate at this amount would put all payday lenders in the state out of business.
- Low-income Coloradans with bad credit need to borrow money to cover expenses and meet other needs. They would have no access to any type of credit if these loans are eliminated.

Opponents

There is no issue committee registered with the Secretary of State's office opposing this measure. The primary opponents are the payday lenders themselves.

Recommendation: Support

Building assets is a key step to helping people get ahead economically. Putting aside money from current income is hard enough for most families without having their hard-earned savings stripped away by predatory payday lenders. As one of Proposition 111's core proponents, the Bell Policy Center believes capping interest rates on payday loans at 36 percent will help hardworking Colorado families avoid getting trapped in a cycle of debt caused by these predatory practices.

Special breaks in the current law allow payday lenders to charge over 200 percent for loans to vulnerable Coloradans who just need a little help to make ends meet. Payday lenders use these special breaks to take advantage of Colorado communities and working families to charge triple digit interest rates. This is not right, and Proposition 111 will eliminate these special breaks and cap interest rates on payday loans, ending the outrageous interest charged to borrowers who can least afford it.