

IN THE KNOW:

CONSUMER LOAN PROTECTION

Most consumer credit and lending activity in Colorado is regulated by the state's [Uniform Consumer Credit Code \(UCCC\)](#). The UCCC oversees a variety of lending products – such as payday loans, installment loans, auto loans, and credit cards issued in-state – and sets terms, conditions, consumer protections, and required disclosures. Notably, provisions within the UCCC can be changed by policymakers, including elected officials and voters. For example, in 2018 Coloradans overwhelmingly voted in favor of [Proposition 111](#), which capped total annual percentage rates (APR) on payday loans at 36 percent.

Yet, there are ways for lenders to avoid Colorado-imposed laws. The ability to do so stems from a provision in the federal Depository Institutions Deregulation and Monetary Control Act (DIDMCA), which passed in 1980. This law allows any state-chartered, federally-insured bank to charge out-of-state customers the same APR as is allowed in the bank's home state. For example, if a bank chartered in Utah makes a loan to a resident in Colorado, the bank can use Utah's, instead of Colorado's, lending rates. These arrangements are commonly known as rent-a-bank situations. These arrangements are of growing relevance given that the internet has made out-of-state lending easier.

In 2022, the [National Consumer Law Center](#) found that companies like EasyPay are evading Colorado laws, and partnering with out-of-state banks to offer Coloradans more expensive loans. By doing so, EasyPay can originate loans that have a 189 percent total APR. This compares to a maximum APR of 31 percent for a comparable \$2,000, two-year loan made by an in-state lender. As shown in the chart below, these higher interest rates can lead to considerably higher costs for the consumer.

Total Repayment Costs for a \$2,000, Two Year Loan 31% vs 189% APR

31% APR	\$2,710
189% APR	\$7,790

Costs are estimates based on a loan: with monthly payments, which compounds monthly, and has no prepaids; Numbers rounded to the nearest \$10

States can opt out of the above-mentioned DIDMCA provision, and require that all out-of-state lenders comply with in-state lending laws. States such as Maine, New Mexico, and [Iowa](#) have either opted-out, or recently considered opting out of this provision.

Though Colorado has not opted out of the afore-mentioned DIDMCA provision, the state has engaged in efforts to restrict out-of-state lenders' ability to circumvent Colorado lending laws. In 2017, the Colorado Attorney General (AG) [filed lawsuits against two fintechs](#), which are companies that use technology to facilitate the use of financial services or products. These fintechs were partnering with an out-of-state bank to offer loans above Colorado's allowable lending rates. The AG's Office alleged that the fintechs, as opposed to the out-of-state bank, were the true lender and held the primary interest for the loan. As a result, the state believed the fintechs were subject to Colorado lending laws. Ultimately, the fintechs and the AG's Office [reached an agreement](#) in which the companies agreed to obtain a Colorado lending license and comply with the state's 36 percent APR cap.

Key Context



As it relates to many loan products, **Colorado has some of the strongest consumer-friendly lending protections in the nation.** These protections have been maintained and strengthened with bipartisan support over the years.



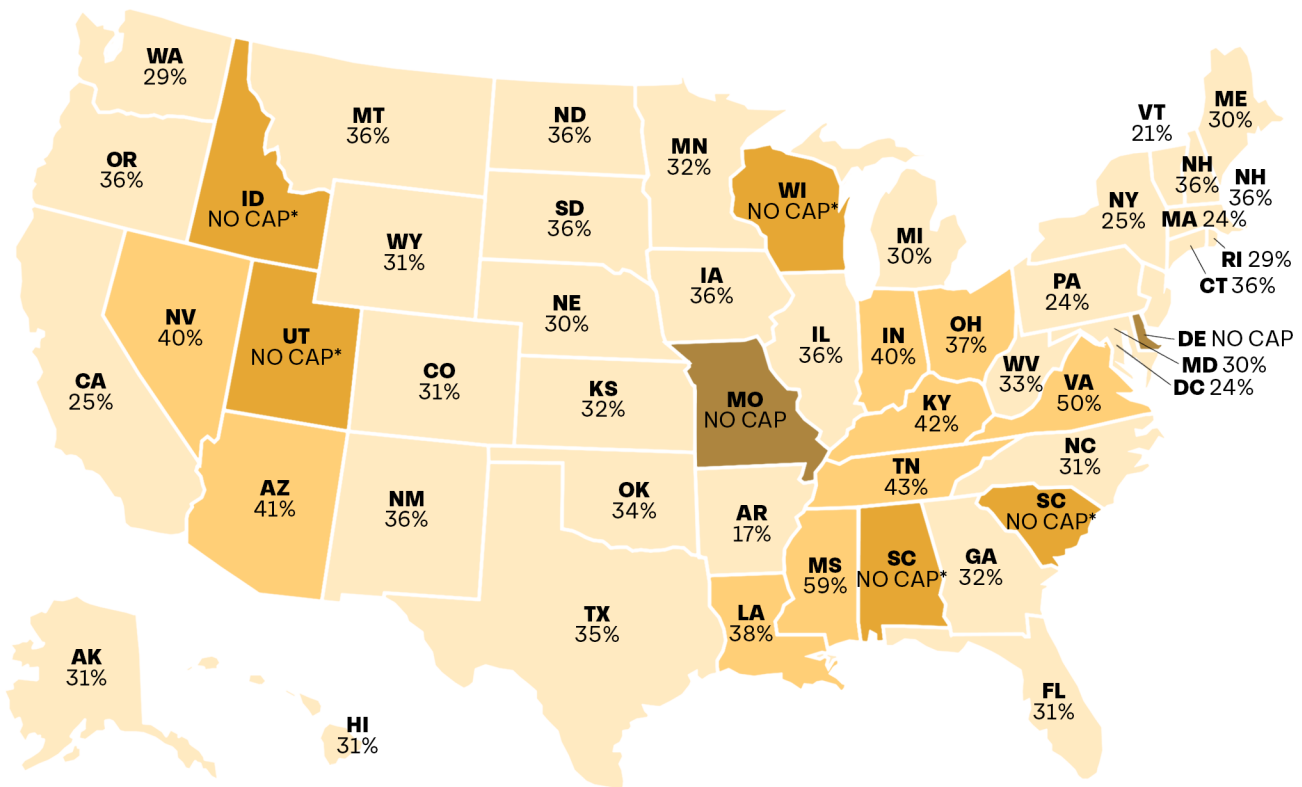
A growing number of personal loans are being made online. In a [recent report](#) by the Colorado Attorney General's Office, lenders, "indicated that a substantial and growing portion of their loans are originated online or that the application process begins online."



Lending regulations vary significantly across the country. The map below shows allowable APRs for a two-year, \$2,000 installment loan. Notably, several nearby states, like Idaho, Missouri and Utah have either no APR cap or a cap that must not be 'unconscionable.'



In the context of lending, "unconscionable" is a legal phrase which simply means that the terms can not shock the conscience. However, this lack of a definitive rate cap can be synonymous with no caps at all. For example, loans originating in Utah are regularly known to exceed 150 percent APR.



- No stated cap on finance charges (2 states)
- No cap other than unconscionability (no cap*) (5 states)
- Allowable full APR over 60% (no states)
- Allowable full APR between 36% and 60% (9 states)
- Allowable full APR of 36% or less (34 states and DC)

APRs Allowed for Two-Year \$2,000 Installment Loan

Source: [National Consumer Law Center](#)