# PROTECTING COLORADANS' FINANCIAL SECURITY

In 2018, an overwhelming majority of Coloradans voted to cap interest rates on predatory payday loans at 36 percent. Supported by over 77 percent of voters, Proposition 111 remains one of the most successful ballot measures in Colorado history. Proposition 111 is just one of several successful efforts within the past several years to protect consumers from predatory lending. In limiting exploitative interest rates and fees, existing regulations are critical to helping vulnerable Coloradans avoid inescapable cycles of debt.

Despite widespread support for existing regulations, the predatory lending industry is renewing efforts to circumvent and loosen consumer protections. Rolling back existing regulations and allowing the predatory industry to bypass the intent of Proposition 111 will have disastrous consequences for our state, especially at a time when over a quarter of Colorado households are struggling to cover basic expenses. If our state is to build back stronger, we must prioritize Coloradans' financial security by guarding the very protections that foster economic well-being.

### Alarming Industry Efforts to Weaken Consumer Protections

High-interest and costly loans have a long history of creating cycles of debt that paralyze families and communities. Weakening regulations around these predatory products during an economic crisis will have lasting damage, but that is just what the predatory lending industry is trying to do with alternative charge and supervised installment loans.

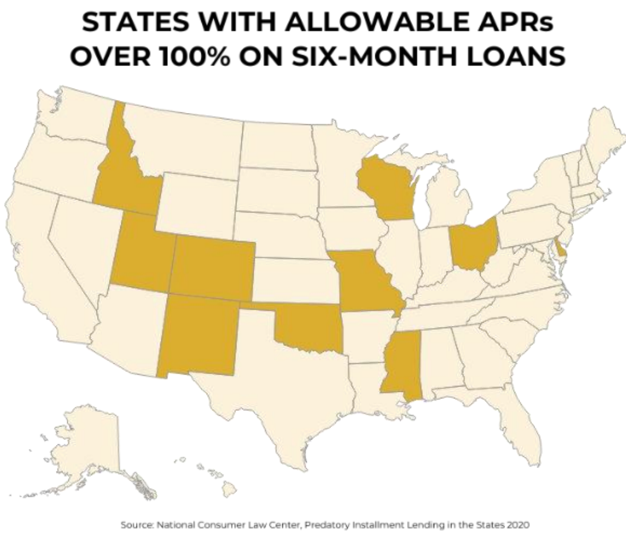
| Colorado's Lending Landscape | | | |
|---|---|---|---|
| | **Payday Loans** | **Supervised Installment Loans** | **Alternative Charge Loans** |
| **Allowable Loan Amounts** | $500 | No limit | $1,000 |
| **Allowable Interest Rates & Fees** | 36% APR | 36% APR for $0-$1,000<br>21% APR for $1,001-$3,000<br>15% APR for $3,001+ | Interest is not allowed and a varied charge structure exists<br>Average APR in 2019 was 114%<br>42% of charges are from delinquency charges |
| **Status** | Proposition 111 rate caps are in effect | Lending industry is actively trying to increase existing rates | Since the passage of Proposition 111, there has been a large shift to these loosely regulated loans<br>(Estimated $350k loans in 2019) |

**Alternative Charge Loans**

- **What are they?** Alternative charge loans are short-term, small-dollar loans, limited to $1,000. While lenders don't assess interest on these products, they do place a variety of high cost "charges" on them. When calculated as an equivalent APR, these "charges" averaged an annual 114 percent in 2019. Charges, however, can also greatly exceed this amount. As seen in the map below, limited restrictions on alternative charge loans make Colorado a significant outlier, in that we remain one of the few states that allows total APR on small-dollar loans to exceed 100 percent.

- **What's the problem?** Alternative charge loans have become a loophole to existing consumer protections like those created by Proposition 111. Payday lenders created the statute that governs alternative charge loans to ensure their products are not subject to existing interest rate and fee restrictions. Recent data from Colorado's Uniform Consumer Credit Code (UCCC) shows, since the passage of Proposition 111, lenders have shifted to these more loosely regulated products.

- **What can we do to protect consumers?** Just like we do with other lending products, we can cap total allowable charges on these loans to 36 percent — similar to what was done for payday loans through Proposition 111 and what is in statute for all other consumer loan products.




**Supervised Installment Loans**

- **What are they?** Supervised installment loans are loans that can be repaid in small increments. Current statute caps interest rates on these loans at 36 percent for the first $1,000, 21 percent for the next $2,000, and 15 percent for any amount above $3,000.

- **What's the problem?** The predatory loan industry is actively trying to weaken existing consumer protections by increasing the allowable interest rate for supervised installment loans. If successful, they will eliminate the current framework and replace it with a flat 36 percent limit.

- **What can we do to protect consumers?** We must maintain existing protections. As loan amounts increase, the devasting effects of high interest rates worsen. The existing framework makes sense, creates important limits, and is easy to understand.

## A Path Toward Financial Security & Empowerment

Colorado's economic recovery from COVID-19 will only be as strong as the financial well-being of our families and communities. Rolling back and allowing the circumvention of valuable, tested protections that limit predatory lending practices will not help Coloradans or our economy.

Across the country — in both red states like Nebraska and blue states like California — a growing bipartisan movement recognizes the detrimental impacts of predatory lending. Current lending and fee restrictions in Colorado for payday and installment loans are not outside the norm and our communities will only be strengthened by greater consumer protections on alternative charge loans.

But more than just protecting consumers, Colorado can also help communities build wealth. By creating a statewide office of financial empowerment (OFE), we can increase access to safe, affordable banking products and financial education to create a more resilient, equitable Colorado.