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Report regarding a resolution in support of Assembly Bill 2500, the Safe Consumer Lending Act (Kalra), and authorizing the Mayor to sign a letter in support of Assembly Bill 2500. (Mike Futrell, City Manager)

RECOMMENDATION

Staff recommends that City Council adopt a resolution in support of Assembly Bill 2500, the Safe Consumer Lending Act (Kalra), and authorizing the Mayor to sign a letter in support of Assembly Bill 2500.

BACKGROUND/DISCUSSION

Many families throughout California are living paycheck to paycheck today. Stagnant wages, high-cost housing, childcare costs, and other financial strains are contributing to this problem. Unfortunately, some lenders see this despair as an opportunity to trap borrowers into high-cost loans with exorbitant interest rates that far too often lead them into financial ruin. This type of abuse leads to damaged credit, repossession of cars, closure of bank accounts, law suits, wage garnishment, and even bankruptcy.

The Trump Administration is rolling back important federal consumer protection regulations, including halting the Consumer Financial Protection Bureau’s (CFPB) final rule on payday and car-title lending. Inaction at the federal level means that California families will depend on the state legislature to curb predatory payday lending and abusive high-cost installment loans.

Background

According to a 2016 annual report by the California Department of Business Oversight (DBO), 58 percent of installment loans of \$2,500 to \$5,000 had 100 percent annual percentage rates (APRs) or higher.

An example from a borrower in Anaheim, California, with a high-cost installment loan, is as follows:

- \$5,125 loan
- 115 percent APR
- 7-year loan term
- \$495 monthly payment
- \$36,974 finance charge
- \$42,099 total payment

In its July 2016 report “Misaligned incentives: Why High-Rate Installment Lenders Want Borrowers Who Will Default,” the National Consumer Law Center, states that “data collected by California reveal default rates from 20 percent to 40 percent or even higher among high-rate installment lenders, compared to default rates of 2 percent to 9 percent for companies that make lower interest rate loans to California consumers with subprime credit scores.”

Unfortunately, the borrower is left with a damaged credit report that will take years to repair and is unable to access credit or a loan from a bank--hinders their ability to regain financial stability and build wealth.

These lenders deliberately target Latino and African American borrowers by setting up stores in minority and low-income neighborhoods around California. Last year, DBO released a report that found that payday loan stores are disproportionately located in minority and low-income communities. Payday loan stores are one-stop shop for check cashers, payday and car title loans, and high-cost installment loans.

Existing Law

Currently, there is no limit on APRs for loans ranging from \$2,500 to \$10,000. This gives lenders the opportunity to lure borrowers into this unregulated range of loans and charge higher-cost loans.

In California, loans between \$300 and \$2,500 have an interest rate cap that ranges from 60 percent APR down to 28 percent. As the loan amount increases, the APR decreases.

AB 2500

Assemblyman Ash Kalra (D-San Jose) and Sen. Holly Mitchell (D-Los Angeles) proposed AB-2500 in February 2018, which would extend California’s current interest rate cap for consumer loans between \$2,500 and \$10,000. Under this proposed law, a \$10,000 loan with a 12-month repayment plan would carry a maximum interest rate of 20 percent. The bill is active and pending in the legislature. Other co-authors of the bill are Assembly Members Bloom, Bonta, Chiu, Chu, Gonzalez Fletcher, Jones-Sawyer, McCarty, Mark Stone, and Ting. There isn’t a companion bill in the Senate, and the League of California Cities has yet to take a position on the bill.

This bill covers both unsecured and secured consumer loans. Secured loans can be secured by personal property including the borrower’s car. If the borrower defaults on the loan, the lender can repossess their car.

FISCAL IMPACT

There is no impact to budget.

CONCLUSION

AB 2500 would close a gap in California's Consumer Finance Lender Law (CFLL) that is being exploited by predatory lenders, by extending the state's interest rate cap for loans up to \$10,000. Putting a limit on APRs would level the playing field for lenders that are providing access to safe and affordable loans.