



State Laws Put Installment Loan Borrowers at Risk

How outdated policies discourage safer lending

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The Pew Charitable Trusts is driven by the power of knowledge to solve today’s most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life.

Overview

When Americans borrow money, most use credit cards, loans from banks or credit unions, or financing from retailers or manufacturers. Those with low credit scores sometimes borrow from payday or auto title lenders, which have been the subject of significant research and regulatory scrutiny in recent years. However, another segment of the nonbank consumer credit market—installment loans—is less well-known but has significant national reach. Approximately 14,000 individually licensed stores in 44 states offer these loans, and the largest lender has a wider geographic presence than any bank and has at least one branch within 25 miles of 87 percent of the U.S. population. Each year, approximately 10 million borrowers take out loans ranging from \$100 to more than \$10,000 from these lenders, often called consumer finance companies, and pay more than \$10 billion in finance charges.

Installment lenders provide access to credit for borrowers with subprime credit scores, most of whom have low to moderate incomes and some traditional banking or credit experience, but might not qualify for conventional loans or credit cards. Like payday lenders, consumer finance companies operate under state laws that typically regulate loan sizes, interest rates, finance charges, loan terms, and any additional fees. But installment lenders do not require access to borrowers' checking accounts as a condition of credit or repayment of the full amount after two weeks, and their prices are not as high. Instead, although statutory rates and other rules vary by state, these loans are generally repayable in four to 60 substantially equal monthly installments that average approximately \$120 and are issued at retail branches.

Systematic research on this market is scant, despite its size and reach. To help fill this gap and shed light on market practices, The Pew Charitable Trusts analyzed 296 loan contracts from 14 of the largest installment lenders, examined state regulatory data and publicly available disclosures and filings from lenders, and reviewed the existing research. In addition, Pew conducted four focus groups with borrowers to better understand their experiences in the installment loan marketplace.

Pew's analysis found that although these lenders' prices are lower than those charged by payday lenders and the monthly payments are usually affordable, major weaknesses in state laws lead to practices that obscure the true cost of borrowing and put customers at financial risk. Among the key findings:

- **Monthly payments are usually affordable, with approximately 85 percent of loans having installments that consume 5 percent or less of borrowers' monthly income.** Previous research shows that monthly payments of this size that are amortized—that is, the amount owed is reduced—fit into typical borrowers' budgets and create a pathway out of debt.
- **Prices are far lower than those for payday and auto title loans.** For example, borrowing \$500 for several months from a consumer finance company typically is three to four times less expensive than using credit from payday, auto title, or similar lenders.
- **Installment lending can enable both lenders and borrowers to benefit.** If borrowers repay as scheduled, they can get out of debt within a manageable period and at a reasonable cost, and lenders can earn a profit. This differs dramatically from the payday and auto title loan markets, in which lender profitability hinges on unaffordable payments that drive frequent reborrowing. However, to realize this potential, states would need to address substantial weaknesses in laws that lead to problems in installment loan markets.
- **State laws allow two harmful practices in the installment lending market: the sale of ancillary products, particularly credit insurance but also some club memberships (see Key Terms below), and the charging of origination or acquisition fees.** Some costs, such as nonrefundable origination fees, are paid every time consumers refinance loans, raising the cost of credit for customers who repay early or refinance.

- **The “all-in” APR—the annual percentage rate a borrower actually pays after all costs are calculated—is often higher than the stated APR that appears in the loan contract (see Key Terms below).** The average all-in APR is 90 percent for loans of less than \$1,500 and 40 percent for loans at or above that amount, but the average stated APRs for such loans are 70 percent and 29 percent, respectively. This difference is driven by the sale of credit insurance and the financing of premiums; the lower, stated APR is the one required under the Truth in Lending Act (TILA) and excludes the cost of those ancillary products. The discrepancy makes it hard for consumers to evaluate the true cost of borrowing, compare prices, and stimulate price competition.
- **Credit insurance increases the cost of borrowing by more than a third while providing minimal consumer benefit.** Customers finance credit insurance premiums because the full amount is charged upfront rather than monthly, as with most other insurance. Purchasing insurance and financing the premiums adds significant costs to the loans, but customers pay far more than they benefit from the coverage, as indicated by credit insurers’ extremely low loss ratios—the share of premium dollars paid out as benefits. These ratios are considerably lower than those in other insurance markets and in some cases are less than the minimum required by state regulators.
- **Frequent refinancing is widespread.** Only about 1 in 5 loans are issued to new borrowers, compared with about 4 in 5 that are made to existing and former customers. Each year, about 2 in 3 loans are consecutively refinanced, which prolongs indebtedness and substantially increases the cost of borrowing, especially when origination or other upfront fees are reapplied.

Based on these findings, Pew recommends that lenders, legislators, and regulators improve outcomes for consumers who use installment loans by:

- Spreading costs evenly over the life of the loan. Origination or acquisition fees should be nominal, proportional to the amount financed, and pro rata refundable to minimize lenders’ incentives to refinance loans—and to avoid harm to borrowers.
- Requiring credit insurance to function like other standard insurance policies, with typical loss ratios and monthly premiums rather than premiums that are charged upfront and financed.
- Mandating that the sale of ancillary products be separate from the issuance of credit. Credit insurance and products unrelated to the loan should be offered only after a loan transaction is completed and the borrower has either received the proceeds or been notified that the loan has been approved.
- Setting or continuing to set transparent maximum allowable costs that are fair for borrowers and viable for lenders. If policymakers want small installment loans to be available and safe for consumers, they should allow finance charges that are high enough to enable efficient lenders to operate profitably and prohibit ancillary products rather than setting lower rates and then permitting lenders to sell ancillary products to boost their bottom lines. Existing research is mixed on the overall impact of small credit on consumer well-being, so policymakers may—as those in some states already have—effectively ban small credit by setting low rate limits and forbidding fees and ancillary products.

This report describes the installment lending market, estimating its size and providing an overview of typical loans, particularly elements that work well, especially compared with other subprime credit products. The analysis then turns to examining the two main problems with state laws that result in consumer harm: allowing upfront fees and the sale of low-value credit insurance. It concludes with recommendations to resolve these issues while maintaining access to affordable credit.

Key Terms

All-in APR: The full annualized loan cost, including charges for ancillary products such as credit insurance and club memberships expressed as a percentage of the loan proceeds. This measure is also known as a military APR because it is the rate used in the Military Lending Act.¹

Amount financed: The sum of loan proceeds plus the cost of ancillary products. Interest is calculated on the amount financed.

Ancillary products: Insurance policies or noninsurance products such as club memberships sold in conjunction with installment loans.

Club membership: A product installment lenders sell to borrowers, usually in the form of enrollment in an auto club that provides services, such as roadside assistance or reimbursement for such assistance. The cost of membership is charged in full upfront and financed with the loan proceeds, with customers paying interest to borrow the amount of the dues.

Consumer finance company: A nonbank provider of installment loans, also called an installment lender. These companies operate through networks of brick-and-mortar branch locations.

Cost: The total amount in dollars that a consumer pays for a given loan, including fees, interest, and the cost of ancillary products.

Credit insurance: Insurance sold in conjunction with a loan, which ensures that the lender will receive payments in the event the borrower becomes unable to make them. Installment lenders act as brokers, either including credit insurance in loan contracts or offering it to borrowers. The premiums are charged in full at the outset of the loan and financed with the loan proceeds. Customers pay interest to borrow the amount due for premiums, and the cost of credit insurance counts toward the all-in APR but not the stated APR.

Credit insurance loss ratio: The share of premium dollars paid out as benefits that is used as a standard measure of value in the insurance industry. The higher the ratio, the greater the share of premium dollars paid out as benefits and the better the value for consumers.

Finance charges: The sum of interest and fees that must be disclosed in the contract under the Truth in Lending Act (TILA).

Interest rate: The proportion of the loan charged, calculated on an annualized basis, excluding any origination or transaction fees or the cost of any ancillary products.

Large/small loan: For the purposes of this analysis, an installment loan with proceeds of \$1,500 or more is considered large and one with proceeds of less than \$1,500 is small.

Continued on next page

Loan proceeds: The amount of cash disbursed to a borrower at the time the loan is issued.

Origination (or acquisition) fee: A nonrefundable charge that is either a flat dollar amount or a share of the loan proceeds, is assessed at the time the loan is issued, and is added to the amount the borrower owes.

Stated APR: The annualized finance charges expressed as a percentage of the amount financed. This rate has to be disclosed in the contract under the TILA. The stated APR includes certain fees, such as origination, that the interest rate does not; both exclude costs for ancillary products.

Truth in Lending Act: A 1968 law requiring uniform disclosure of certain terms of credit, including an APR that reflects interest and certain fees, so consumers can compare loan costs.

How installment lending works

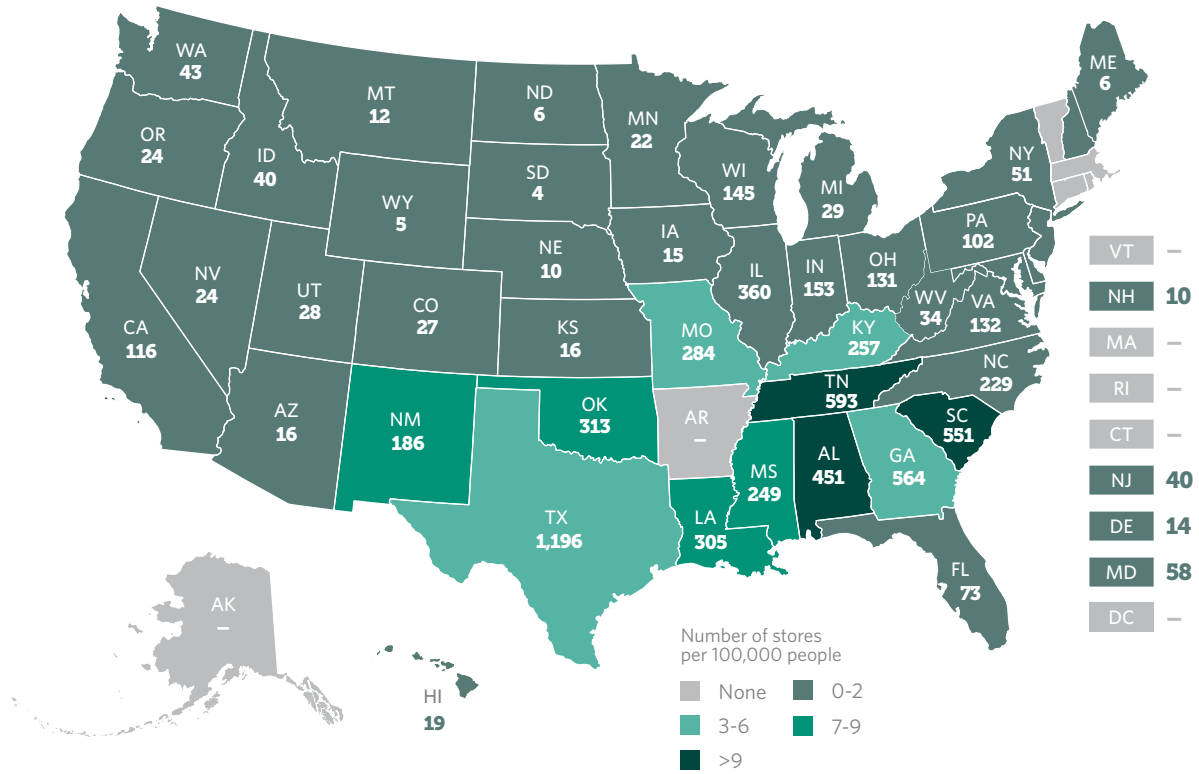
Consumer finance companies offer installment loans in 44 states to borrowers who usually have low credit scores.² Although allowable finance charges vary significantly across these states,³ prices for these loans are generally higher than banks or credit unions charge customers with higher credit scores. Installment loans range from about \$100 to more than \$10,000, are repayable in four to 60 monthly installments, and can either be secured—meaning the borrower provides collateral, such as an automobile title or personal property—or unsecured.⁴ The market is split into lenders who primarily issue small loans, under \$1,500, and those that mostly offer large loans.⁵

Approximately 14,000 consumer finance stores operate nationally, about half of which are owned by the 20 largest national lenders.⁶ The nation's largest consumer finance company operates more than 1,800 branches in 44 states.⁷ These national lenders offer small loans in 18 states,⁸ while large loans are available across all 44 states that allow installment lending. In general, Southern states tend to allow higher prices and have more stores per capita. (See Figure 1 and Appendix A.) An estimated 10 million people spend more than \$10 billion annually for these loans.⁹ These figures do not include installment loans issued by payday or auto title lenders, which are multipayment loans issued at much higher prices than the traditional installment loans described in this report.¹⁰

Figure 1

Installment Lenders Operate in 44 States

Per capita store density and total stores of the largest national installment lenders, by state



Notes: Store density is a ratio of the total number of stores of the largest national installment lenders per state to the total adult population in that state and is expressed as number of stores per 100,000 people.

Sources: Store locations and counts from company websites; U.S. Census Bureau

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Terms and conditions

To obtain an installment loan, a borrower applies at a local branch or fills out an application on a company website, and then brings proof of identity and residence and recent paystubs to the store to complete the transaction.¹¹ Although the loans are often described as unsecured, most lenders require an auto title and/or nonessential household goods, such as consumer appliances, electronics, firearms, or jewelry, as collateral, especially for larger loans.¹²

The approval process usually takes 15-60 minutes, during which an employee assesses the applicant's creditworthiness and underwrites the loan by pulling a credit report and analyzing monthly payments on major credit obligations and some self-reported recurring expenses.¹³ Loan proceeds are typically disbursed by check or are deposited into the borrower's checking account, but occasionally proceeds of very small loans are distributed in cash.¹⁴

The stated APR, finance charges, amount financed, total repayment amount, loan duration, and monthly payments are disclosed by the lender in the loan contract in accordance with state and federal laws, including the TILA.¹⁵ The loans are fully amortizing, meaning each payment reduces principal until the balance reaches zero, and the loans have substantially equal monthly payments that are set during the underwriting process.

Based on the loan contracts analyzed, monthly payments range from about \$50 to \$400, averaging around \$100 and \$200 for small and large loans, respectively. The largest trade association representing installment lenders, the American Financial Services Association (AFSA), reports that its members' payments average \$120.¹⁶ These findings are consistent with installment loan data previously reviewed by Pew, consisting of several hundred thousand installment loans ranging from \$100 to \$3,000 obtained from a credit bureau; an analysis of that data set revealed that 85 percent had monthly payments of 5 percent or less of a borrower's gross monthly income, the threshold for affordability established in previous research.¹⁷

Installment loans from nonbank providers typically have "precomputed," as opposed to "simple," interest. Precomputed interest means that the payment schedule, including the amount of interest due, is calculated at the time the loan is issued, so even if a borrower makes early payments, the total interest charged does not change.¹⁸ By contrast, when a consumer takes out a simple-interest loan, such as a student loan or borrowing on a credit card, the interest is calculated on the outstanding principal on the day each payment is due.

Cost

In general, the cost of an installment loan comprises the interest, fees, payments for credit insurance premiums and other ancillary products, and interest charged for financed premiums. However, under the TILA, stated APRs do not include all of these costs.¹⁹ The more accurate representation is the all-in APR, which captures all costs associated with the loan, including those for credit insurance and other ancillary products, and is the rate a borrower actually pays based on how much cash they received and how much they owe.²⁰

Among the loan contracts Pew analyzed, the highest all-in APR was 367 percent on a \$129 loan and the lowest was 16 percent on \$10,000. The average was 90 percent for small loans and 40 percent for large ones. Although APRs decreased as loans got larger, the dollar cost as a share of the loan proceeds increased. Average costs were 45 percent of loan proceeds for small loans and 65 percent for large loans. (See Table 1 and Appendix Table A.2.)

Table 1

Total Costs Average 45% of Proceeds for Small Loans, 65% for Large Ones

Summary of sampled loans

Average loan characteristics	Small loans (under \$1,500)	Large loans (\$1,500 or more)
Loan proceeds	\$742	\$4,281
All-in APR (range)	90% (31-367%)	40% (16-93%)
Costs	\$339	\$2,929
Costs as percentage of loan proceeds	45%	65%
Monthly payment	\$97	\$198
Term (months)	11	35

Notes: Loan proceeds are cash disbursed to the borrower. All figures are rounded.

Source: Pew analysis of 142 contracts for loans under \$1,500 and 154 contracts for loans of \$1,500 or more

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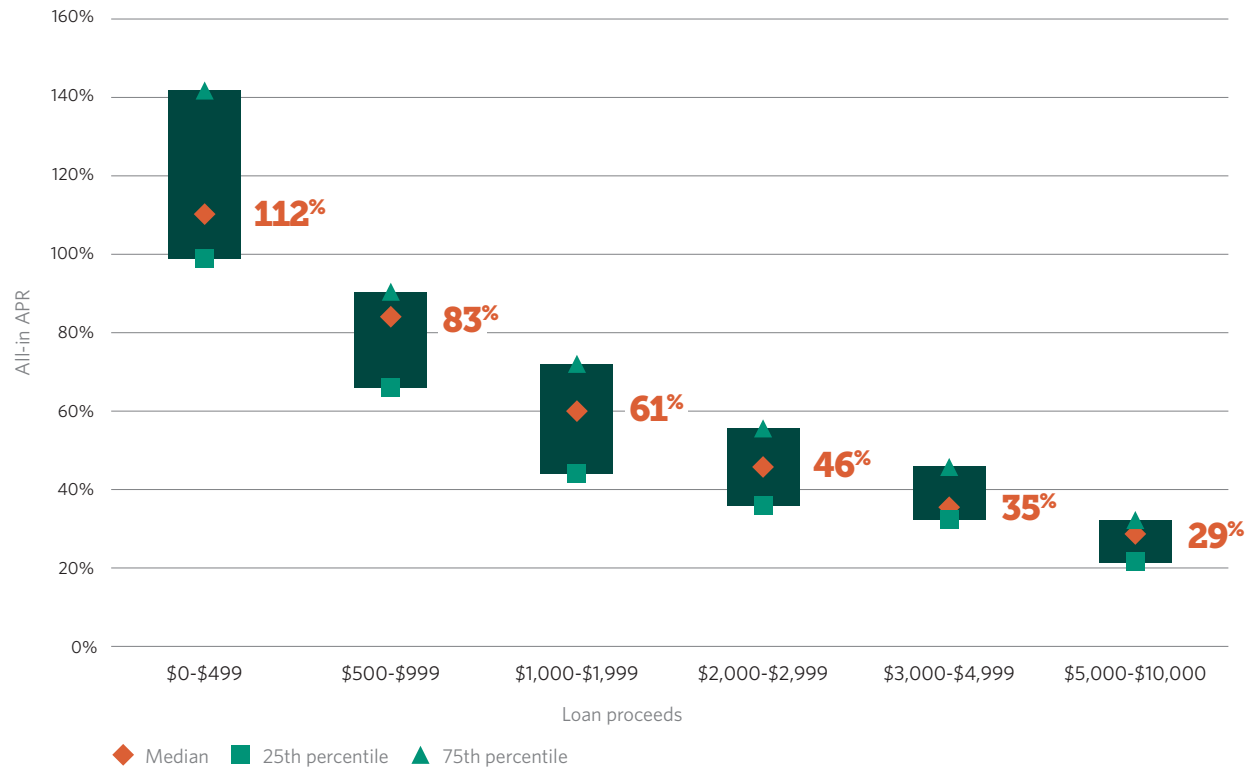
These findings are largely consistent with data published by the states, which regulate loan sizes, interest rates, fees, the sale of credit insurance, and other terms, though the rules—and therefore loan structures and costs—differ significantly by state.²¹ Permissible stated APRs for small installment loans are usually far lower than for payday loans but higher than for credit cards. South Carolina publishes detailed data on finance charges and loan size; the most frequent stated APR in that state is 107 percent on loans of \$600 to \$1,000, and 88 percent for \$1,000.01 to \$2,500.²² A South Carolina rate chart from a large consumer finance company indicates an all-in APR of 101 percent for a \$738 loan with a 12-month term.²³ Other state regulatory data reveal the following costs and all-in APRs for a \$740 loan that lasts 11 months: \$294 and 72 percent in Alabama and Tennessee, \$316 and 77 percent in Oklahoma, and \$336 and 82 percent in Texas.²⁴

Similarly, a survey of AFSA members found that 49.7 percent of loans had stated APRs between 49 and 99 percent, and 10.9 percent had stated APRs of more than 100 percent.²⁵ California's regulatory data show that more than half of loans under \$2,500 have stated APRs of 35 to 70 percent.²⁶ In Arizona, stated APRs on \$2,500 loans with three-year terms that are secured by auto titles range from 26 to 36 percent.²⁷ Industry reports show average stated APRs of 30 percent for \$4,000 to \$5,000 loans, and 25 percent for \$6,000 loans.²⁸

In general, smaller loans have higher APRs. (See Figure 2.) One reason for this, as explained above, is that APRs are annualized, so they tend to be higher for loans with shorter terms. Another reason is that lenders' operating costs, which are charged to borrowers, are largely constant across all loans, so they are higher on a per-dollar-loaned basis for small loans than for large ones. For example, a lender must pay its employees and pay rent for the branch regardless of how much is lent for any individual loan, and those fixed costs represent a much smaller share of the revenue from a \$2,500 loan than from a \$500 loan. Another reason is that installment loans often carry upfront acquisition or origination charges, which increase APRs far more for small loans than for larger

loans. For example, a three-month loan with a fixed \$50 origination fee and 36 percent interest will yield a 132 percent APR for a \$300 loan and a 56 percent APR for a \$1,500 loan.

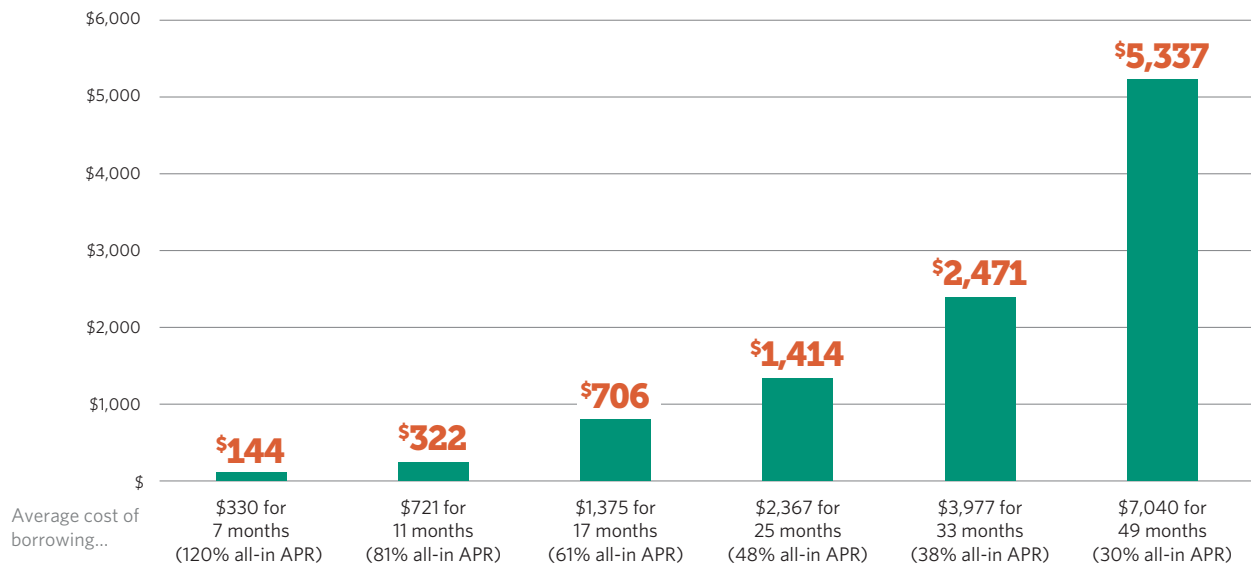
Figure 2
Median All-In APRs Range From 29 to 112%
Distribution, by loan size



Source: Pew analysis of 296 loan contracts
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The relationship between APR and dollar cost, however, tends to be inverse: As loans get larger, their terms lengthen, so APRs, which are calculated on an annual basis, fall while dollar costs rise with the higher number of payments required. (See Figure 3.)

Figure 3
Larger Loans Have Higher Costs but Lower APRs
 Average cost of borrowing, by loan size



Notes: Average costs of borrowing were calculated for average loan proceeds and durations for each subgroup. The all-in APRs were calculated based on these averages. Costs shown are those stated in loan contracts, including credit insurance, assuming that the loans were paid as agreed and not refinanced.

Source: Pew analysis of 296 loan contracts

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Duration

Stated loan durations—the number of months a loan is scheduled to last at the time the borrower signs the contract—generally vary from four to 60 months. The average stated loan duration for the analyzed sample is about one month for every \$70 borrowed for small loans and \$120 for large loans. However, the stated durations tend to differ substantially from the number of months that borrowers spend in debt because most loans are refinanced. (See the “Upfront fees, front-loaded interest charges harm consumers who refinance or repay early” section below.) For instance, it would take twice as long for a borrower to repay a \$1,000 loan with a 12-month stated term if a loan is refinanced three times after its fourth month.



Historically, a majority of the Company's loans have been renewed many months prior to their final contractual maturity dates, and the Company expects this trend to continue in the future."

—1st Franklin Financial Corp., "2016 Annual Report," 31

Security

Although installment loans are generally considered unsecured because they are not purchase-money loans, such as those used to buy a home, vehicle, or other goods, most large national lenders do secure some loans with nonessential household goods, such as computers, appliances, and lawnmowers, and/or auto titles.²⁹

For instance, one company that offers small loans secured 20 percent of its portfolio by volume with vehicles, and another that issues larger loans secured 43 percent with collateral.³⁰ Similarly, 83 percent of loans issued in North Carolina in 2015 were secured by vehicles or personal property.³¹ In the contracts reviewed for this analysis, most loans also were secured with household goods or vehicle titles.

These collateral items offer little in resale value, and lenders usually do not attempt to seize household goods in the event of default. Instead, the goods serve primarily to reduce the risk of default by giving lenders leverage to sell certain insurance products, particularly nonfiling or property, and to threaten repossession to compel repayment. (See "Credit Insurance Explained" below.)

Comparisons with payday and auto title loans

Loans from consumer finance companies are less dangerous for borrowers than payday and auto title loans in three important ways. First, they have much smaller payments, which are affordable for typical consumers. Second, their interest rates are lower. And third, they are based more on the borrowers' ability to repay than on the model used in the payday and auto title market: a lender's ability to collect, in which the lender obtains access to the borrower's checking account or vehicle title.

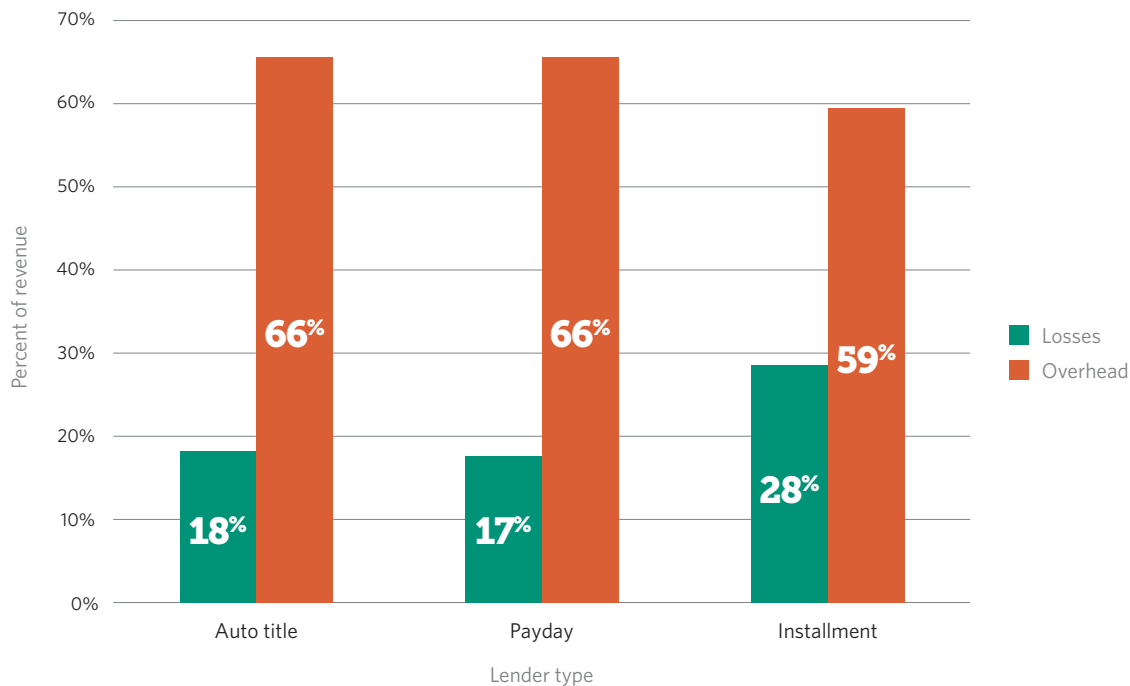
Consumer finance companies, by comparison, normally assess each applicant's income and certain expenses and do not require access to a borrower's checking account. Because installment lenders assess borrowers' ability to repay, issue loans with terms longer than 45 days, and schedule loans to be repaid in equal installments rather than balloon payments, they are not covered by the Consumer Financial Protection Bureau regulation of payday and auto title loans that was finalized in October 2017.³² Although some larger lenders have begun to offer automatic electronic payments, many prefer that borrowers pay their monthly installments at the store as part of a "high-touch servicing model" that enables the companies to encourage frequent refinancing.³³ (See the "Lender-driven refinancing is widespread" section below.)

In one respect, however, the business models of payday and auto title lenders and consumer finance companies are similar. Both generally offer only a small number of products, and their revenue streams are not diversified: They rely heavily on existing borrowers to frequently refinance loans or reborrow to generate revenue.³⁴

This means that operating expenses are spread over a relatively small number of borrowers per store, which contributes to the loans' high costs.³⁵ (See Figure 4.) Consumer finance companies are somewhat more efficient than payday lenders in this regard, serving more than 700 unique borrowers at an average location annually, compared with about 500 and 300 at payday and auto title stores, respectively.³⁶

In addition, although all of these lenders primarily serve consumers with subprime credit scores, typical installment borrowers tend to have credit scores in the high 500s and low to mid-600s, compared with the low 500s for payday loan customers.³⁷ Consumer finance companies also reject a larger share of applicants than do payday lenders; and unlike most payday and auto title lenders, they report customers' repayment behavior to traditional credit bureaus.³⁸

Figure 4
Lender Costs Driven More by Overhead Than Losses
 Average percentages of revenue spent, by expense category and lender type



Notes: Averages for installment lenders were calculated based on the data available in financial statements for 1st Franklin, World Acceptance, Regional Management, and OneMain.

Sources: 1st Franklin Financial Corp., "2016 Annual Report," 23; World Acceptance Corp., Form 10-K, fiscal year ending March 31, 2017, 6; Regional Management Corp., "2016 Annual Report," 76; OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 74; The Pew Charitable Trusts, "Auto Title Loans: Market Practices and Borrowers' Experiences" (2015), 5

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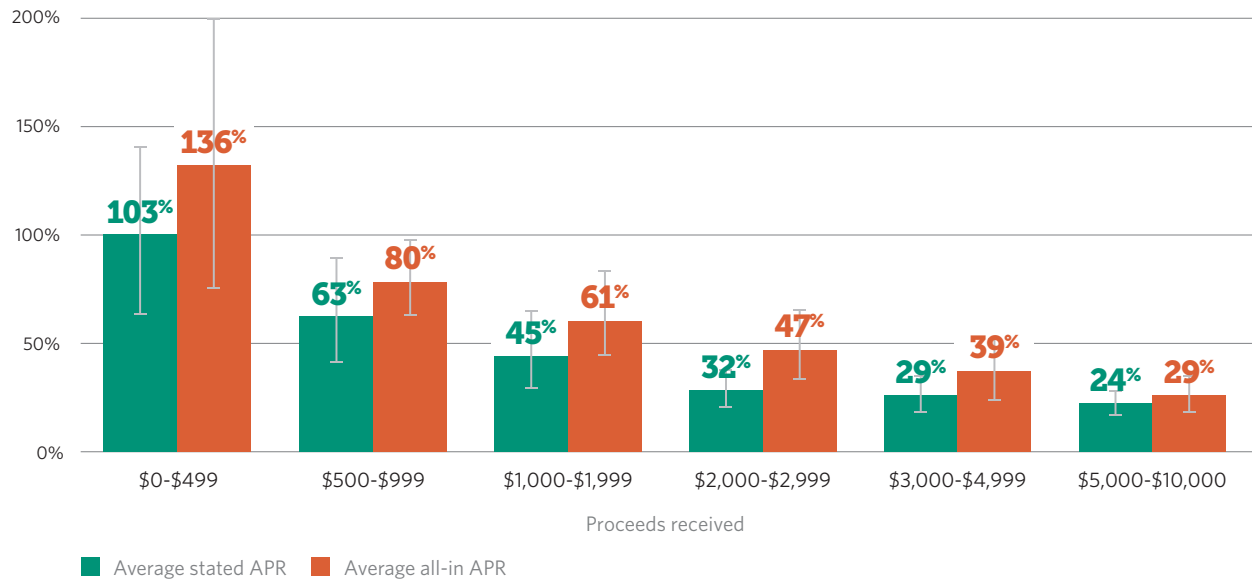
Harmful features of installment loans

Stated APRs tend to underestimate what borrowers will pay

When loan contracts include credit insurance or other ancillary products, the lump-sum premiums or other charges are financed by default, which increases both the total amount borrowed and the amount of interest the borrower pays.³⁹ The cost of these products does not count toward the stated APR, resulting in loan agreements where the rate stated in the contract is often significantly lower than the all-in APR.⁴⁰ (See Figure 5.) This practice enables installment lenders to contractually comply with state interest rate caps while issuing

loans with all-in APRs that often exceed those regulations. It also conceals the all-in APRs from borrowers, which makes it extremely difficult for consumers to evaluate credit products and compare costs.

Figure 5
Credit Insurance and Other Ancillary Products Lead to Rates Above Those Stated in Loan Contracts
 Average stated and all-in APRs, by loan size



Notes: Stated APRs were taken from actual contracts. All-in APRs were calculated based on total loan cost with stated durations for actual loan proceeds received. Stated and all-in APR averages and standard deviations were calculated for each subgroup.

Source: Pew analysis of 296 loan contracts

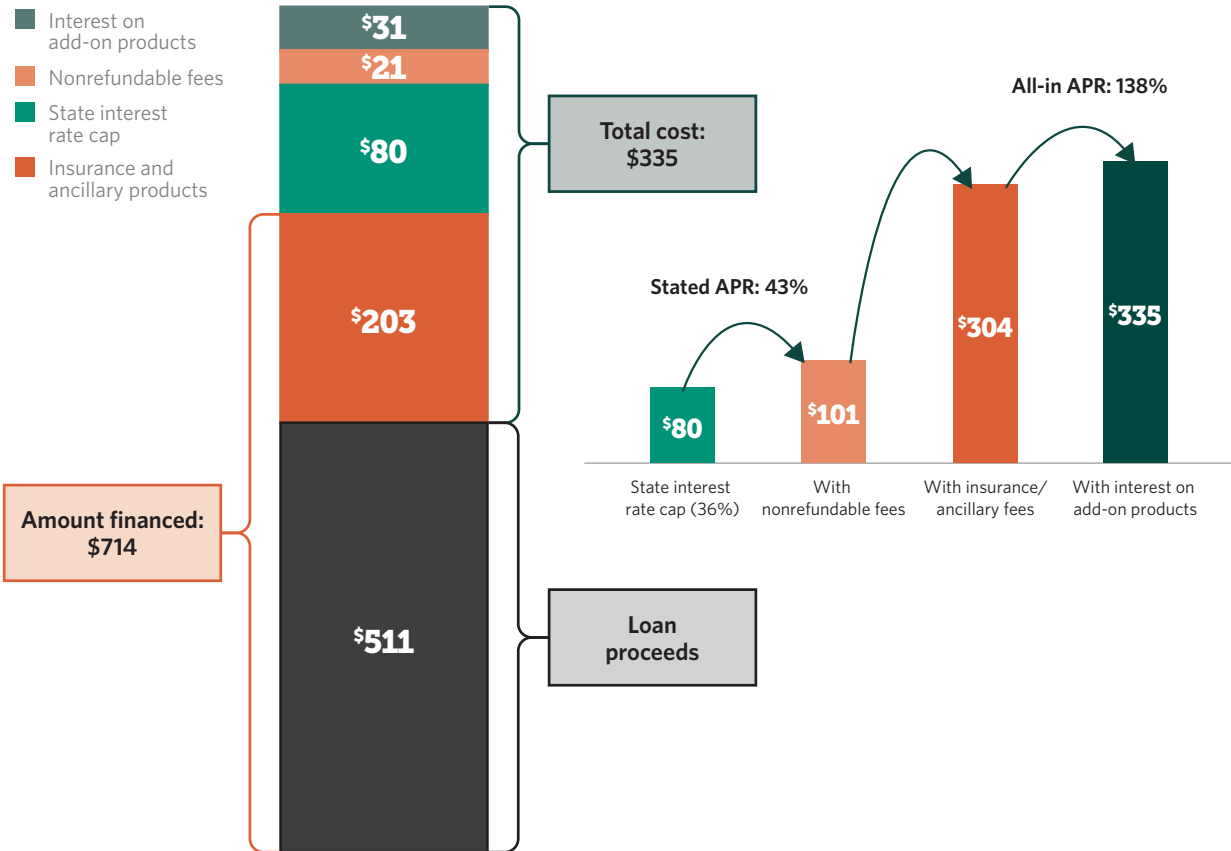
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One of the borrowers in the focus groups, who was aware of the difference between stated and all-in APRs, explained, “There’s a big difference between the [stated] percentage rate and what you’re really being charged.” As an example, a stated APR for a nine-month, \$511 loan issued in Kentucky was 43 percent, but the all-in APR was 138 percent. (See Figure 6.) Because the lender sold credit insurance with the loan and financed the \$203 lump-sum premium, the amount financed increased from \$511 to \$714, which resulted in higher interest and other charges.⁴¹ When all the fees and insurance premiums were included, the all-in APR was 138 percent, three times more than the stated APR.

Figure 6

All-In APRs for Small Loans Can Be Triple the Stated APR

Costs of one \$511, 9-month loan in Kentucky



Notes: The borrower received \$511 and paid \$335 in finance charges and insurance premiums. The stated APR for this nine-month loan was 43 percent, but the all-in APR for this loan was 138 percent.

Source: Pew analysis of the contract for a loan issued in Kentucky in 2010

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Credit Insurance Explained

Credit insurance sold as part of the loan transaction pays out all or a portion of the outstanding balance in the event the borrower experiences a life event, such as an injury or job loss, that makes it difficult to pay off the loan. State statutes usually regulate the type of insurance products that can be sold with installment loans, as well as maximum premium charges and sometimes minimum loss ratios. Almost every state allows the sale of some type of credit insurance, but some specify a minimum loan amount that can bear insurance or set other regulations.⁴² Installment lenders are typically allowed to sell the following types of credit insurance:⁴³

- **Life:** repays a loan's outstanding balance to the lender if the borrower dies. The payout decreases the longer the loan is outstanding because the policy covers only the remaining loan balance.
- **Accident and health or disability:** Makes the monthly payments to the lender if the borrower becomes disabled during the loan term, continuing until the borrower recovers from the health issue or the loan term ends, unless other policy restrictions apply or limit coverage.
- **Involuntary unemployment:** Makes required monthly payments to the lender if the borrower loses his or her job during the loan term until the customer finds new employment.
- **Property:** Covers the value of property pledged to secure a loan if a lender is unable to repossess the property for any reason.
- **Nonfiling:** Protects lenders against losses up to the value of the collateral in the event a borrower defaults and the lender did not undertake the time and expense to file the paperwork to register a security interest in the property.

Installment lenders also are often allowed to sell accidental death and dismemberment insurance that makes loan payments if a qualifying event occurs. Lenders can also sell auto club memberships and automobile security plans.⁴⁴

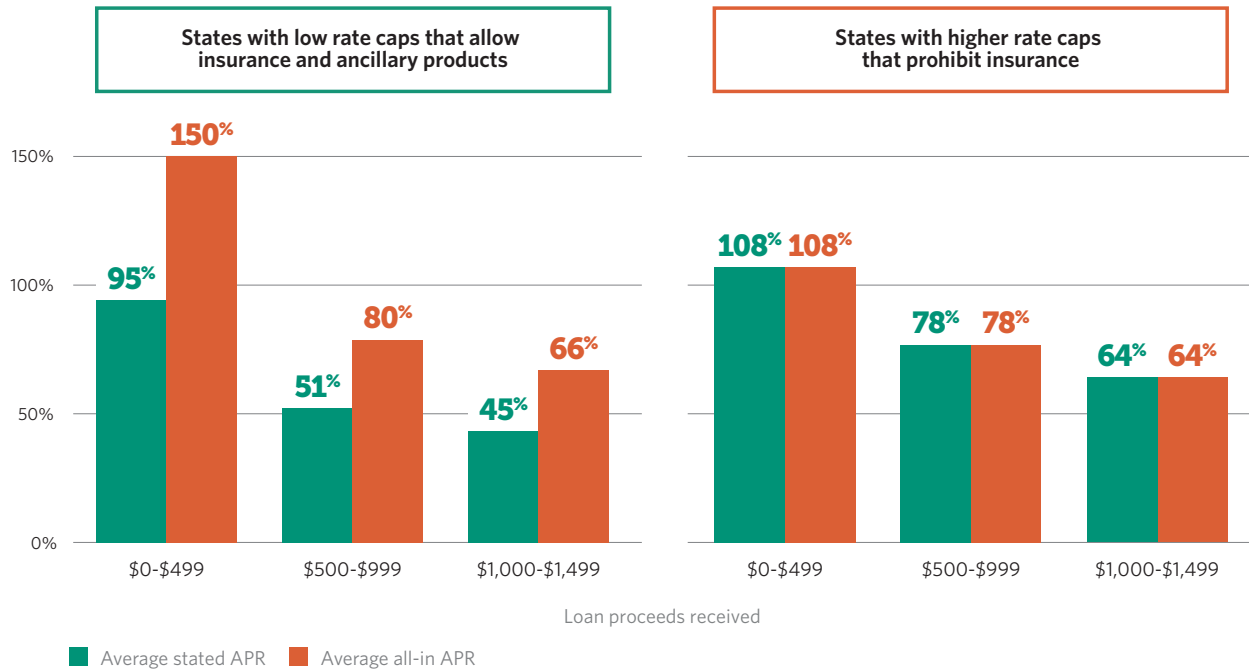
State regulations on insurance and other ancillary products significantly affect borrower costs

Differences between stated and all-in APRs are endemic in states where interest rates are capped but sales of lump-sum credit insurance in conjunction with the loan and financing of premiums are permitted. Pew analyzed contracts from nine such states and found that for loans under \$1,500, the all-in APR was 55 percent higher, on average, than the stated rate. However, some states have alternative tiered fee structures, generally for loans under \$1,500, that permit higher finance charges but prohibit the sale of insurance and other ancillary products with the loans. In these states, lenders generally charge the maximum allowed, but contracts reflect the actual cost to borrowers. (See Figure 7.)

Figure 7

When States Allow the Sale of Insurance, All-In APRs Exceed Rates in Loan Contracts

Average stated and all-in APRs, by state regulation and loan size



Notes: Averages for states with low rate caps and insurance allowed were calculated from the sample contracts. These states—Alabama (for loans greater than \$1,000), Georgia, Kansas, Kentucky, Louisiana, Mississippi, Nevada, and North and South Carolina—allow the sale of credit insurance and other ancillary products in conjunction with loans and the financing of premiums. Loan contracts from these states were compared with loans from states that allow an alternative fee structure for loans generally under \$1,500. The averages for all-in and stated APRs for states with higher finance charges and bans on insurance were calculated using 49 contracts from Alabama (loans less than \$1,000), Oklahoma, Tennessee, and Texas for loans under \$1,500. All of these states have alternative fee structures that allow a 10 percent acquisition charge (\$10 in Texas) and a fixed handling fee that varies based on the proceeds. (In Texas, the monthly handling fee is 4 percent of the loan principal.)

Source: Pew analysis of 86 loan contracts from 13 states

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In dollar terms, added credit insurance and other ancillary products increased the cost of borrowing in states that allow them by more than a third on average. (See Table 2.) These findings are consistent with previous research, which estimated that credit insurance increased the cost of borrowing by over 35 percent on average.⁴⁵

This analysis also found that in states with higher interest rate caps but bans on ancillary products, loans tend to cost borrowers less than in states that have caps of 36 percent or less but allow the sale of insurance and other products.⁴⁶ (See Figure 8.) These findings indicate that when states set rate limits under which consumer finance companies cannot make loans profitably, lenders sell credit insurance to earn revenue that they are not permitted to generate through interest or fees. Setting artificially low interest rate limits while allowing the sale of credit insurance raises costs for consumers while obscuring the scale of those increases.

Table 2

Credit Insurance Raised Cost of Borrowing By 37% Stated and all-in costs

	Average loan of \$753 for 12 months		
	Stated	All-in	Difference
Loan costs	\$281	\$386	+37%

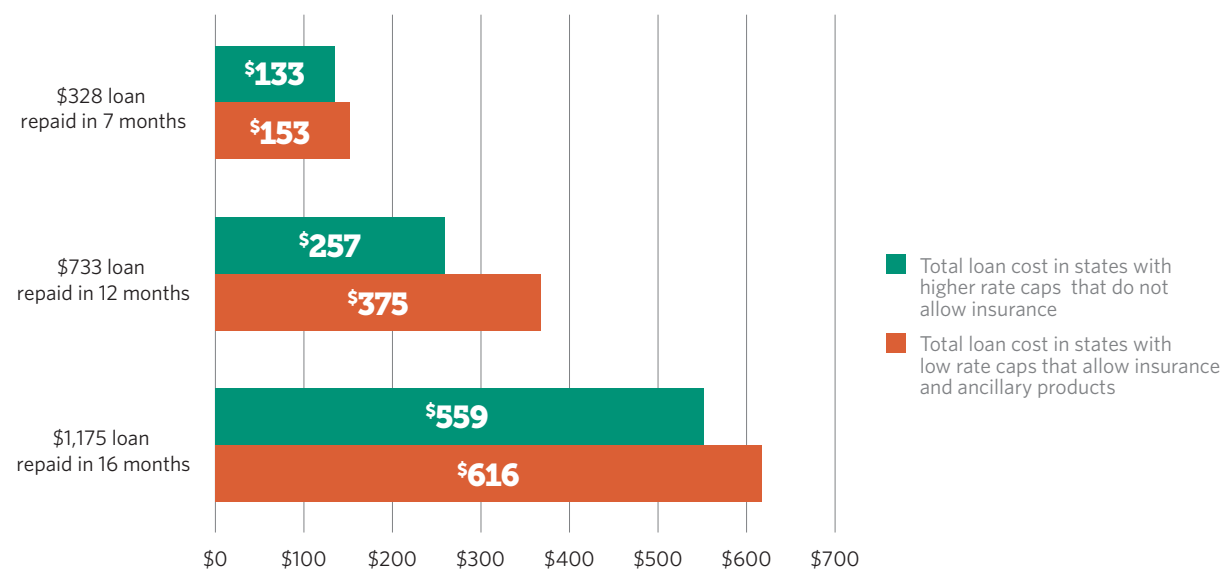
Notes: Averages calculated from sample contracts. These states—Alabama (loans greater than \$1,000), Georgia, Kansas, Kentucky, Louisiana, Mississippi, Nevada, and North and South Carolina—allow the sale of credit insurance and other ancillary products in conjunction with the loan and financing of the premiums. Stated costs are the finance charges disclosed in the contract. All-in costs are the difference between the total payments made by the borrower and the loan proceeds received.

Source: Pew analysis of 86 contracts for loans under \$1,500 from nine states

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Figure 8

Costs Are Somewhat Higher in States That Allow Credit Insurance Average loan costs, by state rate caps and insurance laws



Notes: Averages for states with low rate caps and insurance allowed were calculated from the sample contracts. These states—Alabama (loans greater than \$1,000), Georgia, Kansas, Kentucky, Louisiana, Mississippi, and North and South Carolina—allow the sale of credit insurance and other ancillary products in conjunction with loans and the financing of premiums. Loan contracts from these states were compared with loans from states that allow an alternative fee structure for loans generally under \$1,500. The averages for all-in and stated APRs for states with higher finance charges and bans on insurance were calculated using 49 contracts from Alabama (loans less than \$1,000), Oklahoma, Tennessee, and Texas for loans under \$1,500. To compare exact amounts and terms and assess differences in loan costs, prices for states that allow credit insurance come from the actual contracts analyzed, while the prices for states without credit insurance are based on the maximum rates allowed.

Source: Pew analysis of 86 contracts from nine states

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Where credit insurance is allowed, state laws often provide strong incentives for lenders to sell it

Not all states permit consumer finance companies to sell credit insurance with their loans, but where they do, lenders have four main reasons to do so:

- To earn more in interest on the increased amount financed.
- To receive commissions from insurance companies. (When the insurer and lender are owned by the same parent company, the revenue goes to the lender.)
- In states with low interest rate caps, to generate sufficient revenue to support operations.
- To reduce debt collection costs and losses.

The scale of the increase in revenue and reduction in costs can be substantial. As much as a fifth of lenders' earnings come from selling ancillary products,⁴⁷ including a substantial share from the commissions that insurers pay to installment lenders for brokering the policies in conjunction with loans. Insurance companies spend almost half of their revenue paying these commissions.⁴⁸ In one fiscal year, five of the largest national installment lenders reported combined revenue of more than \$450 million from ancillary products.⁴⁹

Interest income

Insurance premiums provide an important source of revenue for lenders. Premiums are calculated on the total payments on the loan, including not only the proceeds but also the share of each payment covering other premiums, fees, and interest.⁵⁰ As previously noted, premiums are charged when a loan is issued, then added to the principal and financed, triggering more interest and in some cases larger origination fees and longer loan durations, which increase borrowers' costs and boost lenders' revenue.⁵¹

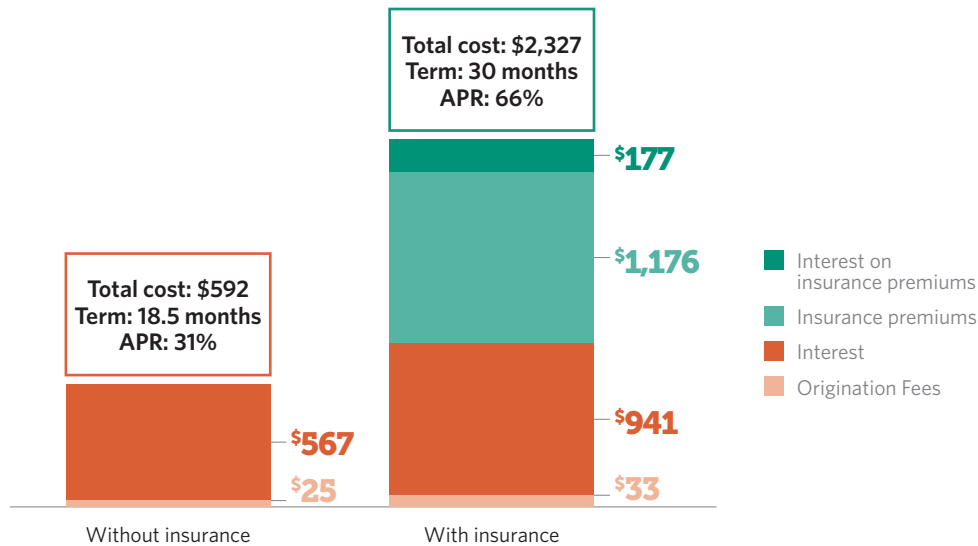
For example, a contract from North Carolina for \$2,173 in loan proceeds had monthly payments of \$150. Without the addition of insurance, those payments would have paid off the loan in 18.5 months. However, because of the premiums the loan lasted 30 months and the cost quadrupled, from \$592 to \$2,327, exceeding the loan proceeds. (See Figure 9.)

Setting artificially low interest rate limits while allowing the sale of credit insurance raises costs for consumers while obscuring the scale of those increases.

Figure 9

Credit Insurance Can Quadruple the Cost of Borrowing

Comparison of costs for a \$2,173 loan with and without insurance in North Carolina



Notes: Actual total costs of \$2,327, at the top of the second column, were taken from the contract. Total insurance premiums of \$1,176 consisted of \$54 for credit life, \$206 for involuntary unemployment, \$899 for vehicle insurance, and \$18 for nonfiling fees. The interest that would have been charged without credit insurance (\$567) was calculated using the state statutory rate cap of 30 percent and the loan's monthly payment of \$150, which together translated to a duration of about 18.5 months.

Source: Pew analysis of a contract for a loan issued in North Carolina in 2014

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Noninterest income

The cost of credit insurance masks the true cost of borrowing for consumers and enables installment lenders to earn a profit even when state rate caps would otherwise render them unprofitable. As previously discussed, because lump-sum premiums are included in the overall loan size, lenders are able to offer loans with stated APRs that conform to state rate laws but have all-in APRs that are much higher.

Reduced debt collection costs and losses

Selling insurance can also reduce lenders' collection costs and minimize losses because credit insurance protects them against a borrower's inability to pay back a loan due to events, such as death, disability, or a job loss. These policies benefit borrowers by covering loan payments during a time of hardship, but their value to lenders is greater because they guarantee repayment, eliminating the need for expensive debt collection activities.

This misalignment of interests in which borrowers pay for policies that primarily benefit lenders is particularly acute with property and nonfiling insurance. Lenders often secure loans with low-value collateral, such as used appliances and electronics, that they do not intend to repossess. The lenders then sell property and/or nonfiling insurance on those items to the borrowers, which guarantees—at the customers' expense—that the lender gets paid should the borrower default because of a covered event and the lender not collect the collateral.⁵²

This reduces lender costs because the consumer finance company does not have to verify the value of the collateral or perfect its security interest—that is, file paperwork establishing the lender’s legal right to seize the items in the event of nonpayment.

Credit insurance is frequently included in loan contracts by default

Credit insurance and other ancillary products are voluntary,⁵³ but borrowers in focus groups reported that these products were automatically added to their loan contracts with an opportunity to opt out, rather than offered before the papers were drawn up. These qualitative findings are consistent with previous research showing that insurance is frequently a standard component of loan contracts.⁵⁴

Pew’s analysis found that in states where the sale of credit insurance is allowed, almost 80 percent of contracts had at least one type of insurance. (See Table 3.) About 70 percent of loans in each of North and South Carolina had credit life insurance.⁵⁵ Moreover, lenders often sell more than one type of insurance to the same borrower: On average, the contracts Pew analyzed included 2.67 insurance and other ancillary products.⁵⁶

Insurance Automatically Added, Borrowers Say: ‘It Was Just There’

“They automatically put it in the loan, and then I was signing the papers. I’m like, what is this for 200-some dollars? They were like some kind of insurance.”

—St. Louis installment loan borrower

“They had to redo the loan papers because it [insurance] was already in there ... but they had to tell me that it was optional.”

—St. Louis installment loan borrower

“The first time I didn’t, but when I did the refinance, they wanted insurance on it so it would cover my collateral.”

—St. Louis installment loan borrower

“It was just there. ... I don’t know. I just know it’s got some dollar signs and numbers.”

—St. Louis installment loan borrower

Table 3

When Credit Insurance Is Allowed, Most Loans Include It

Share of loans, by type

Percent of contracts with ancillary products	Contract analysis	State regulatory data	
		North Carolina	South Carolina
At least one	79%	*	*
Life	66%	73%	70%
Accident and health	47%	37%	33%
Property	45%	56%	69%
Involuntary unemployment	19%	33%	*

* No publicly available data.

Notes: In addition to insurance types listed in the table, optional insurance or ancillary products included dismemberment, auto, and nonfiling insurance, and auto club membership.

Source: Pew analysis of 247 loan contracts from states that permit the sale of credit insurance; North Carolina, "Consumer Finance Annual Report" (2015), 16; South Carolina Board of Financial Institutions, "Annual Report 2011-2012," 62

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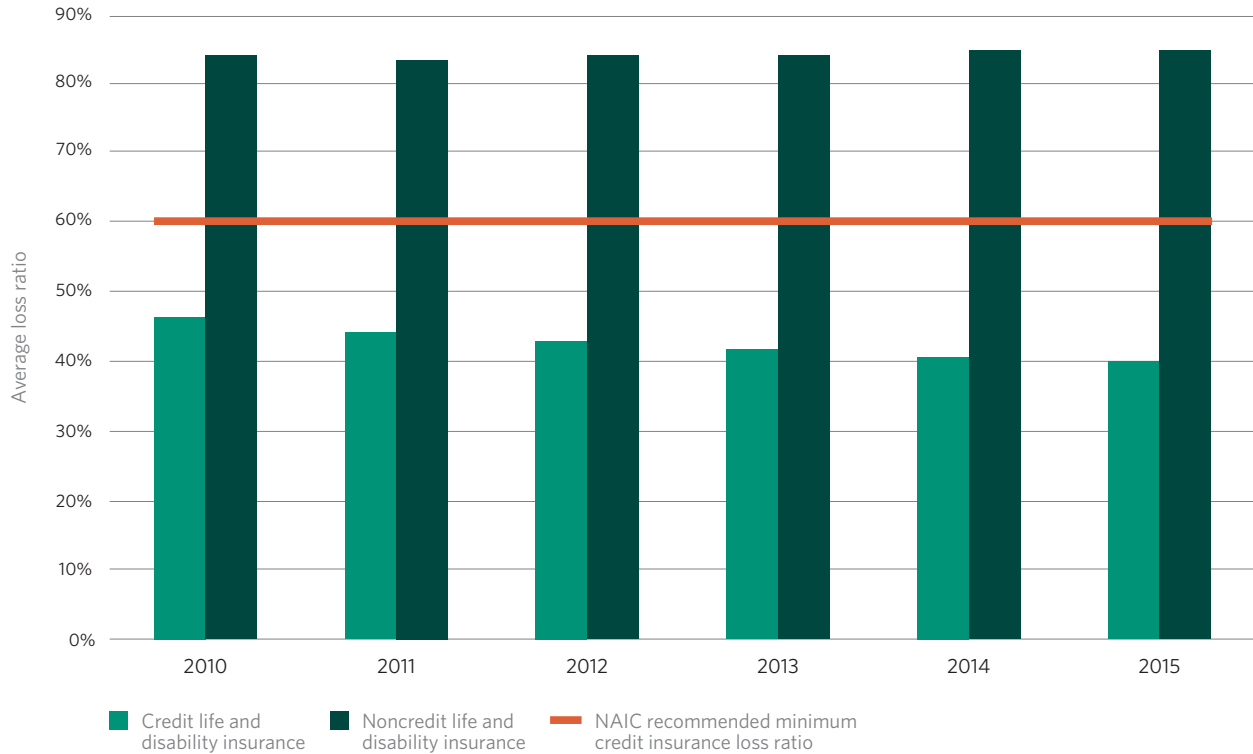
Low loss ratios indicate low value to borrowers

Credit insurance products have extremely low average loss ratios—the share of insurance premium dollars that are paid out as benefits—compared with other forms of insurance.⁵⁷ Such figures indicate that insurance policies are overpriced and have less value to consumers because companies pay out few benefits relative to the premiums they receive. Insurance with a high loss ratio is considered more beneficial and fairly priced. The National Association of Insurance Commissioners (NAIC), which comprises chief state insurance regulators and sets best-practices for insurance companies, recommends a minimum credit insurance loss ratio of 60 percent.⁵⁸ But the national averages for credit life and disability insurance are 45 and 42 percent, respectively.⁵⁹ (See Figure 10.)

Figure 10

Credit Insurance Less Beneficial to Borrowers Than Other Life, Disability Products

Average loss ratios and recommended minimum, by insurance type



Source: National Association of Insurance Commissioners, "Credit Life Insurance and Credit Accident & Health Insurance Experience 2011-2015" (2016), 4; National Association of Insurance Commissioners, "2015 Accident and Health Policy Experience Report" (2016), 5, https://www.naic.org/prod_serv/AHP-LR-16.pdf

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Some insurers have unusually low loss ratios even by credit insurance industry standards. (See Table 4.) For example in 2015, Life of the South Corp., a provider for one of the installment lenders, reported loss ratios of only 53 and 16 percent for credit life and disability insurance, respectively.⁶⁰ With regard to disability insurance, a proportion of these low loss ratios can be explained by the fact that some claims can be denied later if the borrower is found to have a pre-existing condition or other policy restrictions apply.⁶¹

Table 4

Credit Insurance Loss Ratios Are Often Lower Than NAIC's Recommended 60% Minimum

Reported annual loss ratios, by company and credit insurance type, 2015

Loss ratio for ...	Life of the South Corp.	Merit Life Insurance Co.	American Health & Life Insurance Co.	American Federated Life Insurance Co.
Credit life insurance	53%	56%	52%	43%
Credit accident and health insurance	16%	49%	35%	27%

Notes: These credit insurance companies underwrite policies for installment lenders.

Source: National Association of Insurance Commissioners, "Credit Life Insurance and Credit Accident & Health Insurance Experience 2011-2015" (2016), 15, 63

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Some state regulators set minimum required loss ratios for credit life and disability insurance, but even in these states loss ratios are often lower than the required minimum.⁶² For example, the minimum ratios in Texas are already low—43 and 44 percent, respectively, for credit life and disability insurance—but policies in that state still have average five-year loss ratios of 35 and 28 percent, respectively. (See Table 5.) These data suggest that states are frequently lax in enforcing their requirements, and they reinforce the earlier finding that credit insurance products are overpriced and artificially increase the cost of the loan to the benefit of insurance companies and lenders, and the detriment of borrowers.

Table 5

Credit Insurance Loss Ratios Often Lower Than State Regulatory Minimums

Ratios in 6 states with required minimums and widespread installment lending

	Credit insurance loss ratios			
	Life		Disability	
	5-year average	State minimum	5-year average	State minimum
Texas	35%	43%	28%	44%
Illinois	44%	*	34%	50%
Tennessee	44%	*	37%	50%
South Carolina	47%	*	43%	50%

Continued on next page

	Credit insurance loss ratios			
	Life		Disability	
	5-year average	State minimum	5-year average	State minimum
Missouri	53%	35%	31%	35%
Georgia	59%	60%	20%	60%

* No minimum loss ratio is available for these states.

Source: National Association of Insurance Commissioners, “Credit Life Insurance and Credit Accident & Health Insurance Experience 2011-2015” (2016), 21-22, 69-70, 107-13

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Upfront fees, front-loaded interest charges harm consumers who refinance or repay early

Refinancing an installment loan may make sense for a consumer in some instances, but some market practices such as charging large upfront fees and front-loading finance charges disproportionately harm those who do so. Nonrefundable origination fees make the first months of the loan the most expensive for the consumer and the most profitable for the lender if the loan is repaid earlier. Many state laws allow and even encourage these practices rather than requiring that monthly fees be spread evenly over the life of the loan and better align lenders’ and borrowers’ interests. Front-loaded fees give lenders a strong incentive to refinance loans to generate more of these lucrative early months.

Among the refinanced loans examined in this study, a third had cash disbursements of less than the monthly payment amount, meaning that borrowers received less cash than they paid per month before refinancing. Another 14 percent received an amount that was less than two monthly payments. This indicates that these loans were refinanced before borrowers had repaid a substantial share of principal—that is, most of the money they had paid to that point was applied to fees and interest.⁶³ As a result, frequent refinances are harmful to consumers because they substantially increase the cost of borrowing and prolong indebtedness.

Lenders charge maximum allowable fees

Most states permit lenders to charge borrowers a fee to cover the cost of originating a loan, and some allow additional fees, such as monthly maintenance, recording, and administrative. In the contracts Pew analyzed, lenders generally charged the maximum allowed under state law, with origination fees and related charges ranging from 1 to 46 percent of loan proceeds for loans under \$1,500.⁶⁴ One reason for this substantial variation is that some state regulations allow fees in fixed-amount terms rather than as a percentage of the amount financed. Therefore, those fees can represent a disproportionately large share for small loans. For example, Louisiana lenders can charge \$50 origination and \$10 documentation fees for any loan under \$3,000;⁶⁵ thus a \$130 loan contract reviewed by Pew carried fees that amounted to 46 percent of the proceeds. Those same fees would be just 6 percent of a \$1,000 loan.

This also explains the more moderate variation of origination fees and related charges for loans greater than \$1,500, which range from 1 to 12 percent of proceeds. For example, the highest origination and maintenance fees in this study totaled \$240 on a \$2,049 loan, or 12 percent of proceeds, and were paid by a borrower from Georgia. The same lender, however, issued loans in other states, such as Kentucky and Alabama, with loan fees constituting only 3 and 2 percent of proceeds, respectively, suggesting that fees are driven by state limits rather than lender costs.

By allowing front-loaded fees, states encourage refinancing

Although most state laws prohibit prepayment fees, certain clauses effectively penalize borrowers for repaying early or refinancing. For example, at least 25 states allow lenders to use the “rule of 78s,” also called the “sum of digits,” as their rebate method—that is, the process for calculating how much of a loan’s total finance charges they will receive from borrowers who repay early.⁶⁶ The rule permits lenders to collect a disproportionate share of interest and fees for loans repaid in the early months, enabling lenders to earn more than 70 percent of the loan’s total revenue, when a loan is refinanced halfway through the term, rather than the 50 percent they would receive by that point if all costs were spread evenly over the loan term.⁶⁷ This creates a strong incentive for lenders to encourage borrowers to refinance.

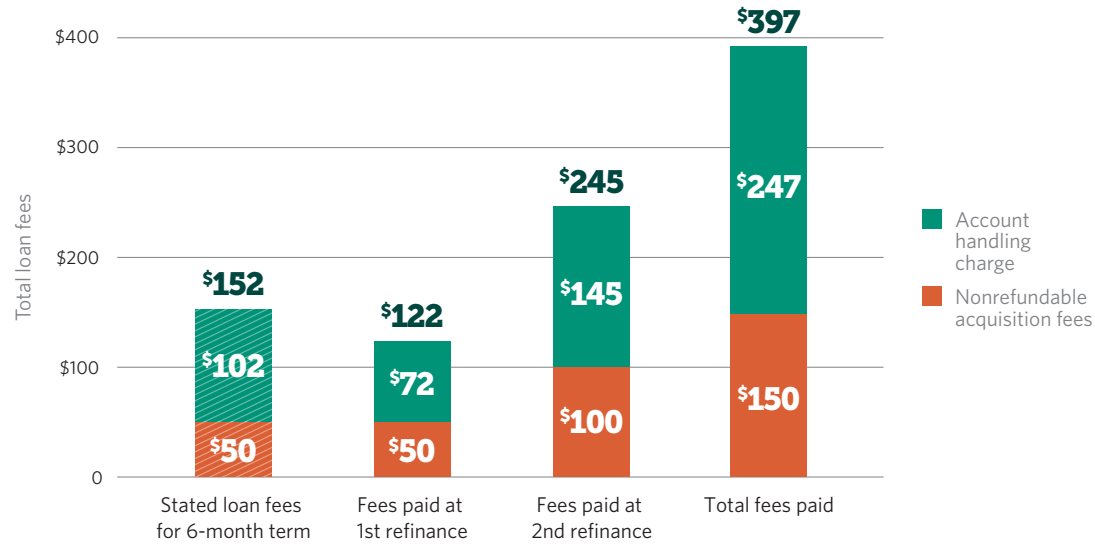
Lenders earn more than 70 percent of finance charges when loans are prepaid or refinanced halfway through the term.

Origination or other upfront fees also give lenders a strong incentive to refinance loans because they can charge these fees every time the loan is issued or refinanced. For example, origination fees in Alabama are 10 percent of the amount financed and are not refundable upon prepayment, so a lender that issues a \$500 loan can collect a \$50 origination fee each time the loan is refinanced, substantially increasing the costs for borrowers. (See Figure 11.)

In addition to generating more revenue by prolonging a borrower’s indebtedness and collecting front-loaded fees, refinancing provides lenders with a more predictable revenue stream than acquiring new customers, which entails added risk and acquisition costs.⁶⁸

Figure 11

Borrowers Who Refinance Pay Disproportionately More in Fees Assessment of fees on a \$500 loan after refinancing twice



Notes: This is a hypothetical six-month, \$500 loan that is refinanced twice, each time after three months, and includes a 10 percent nonrefundable acquisition fee and a \$17 monthly fee, as permitted by Alabama law. The lender is allowed to use the “rule of 78s” and thus earns about \$72 each time the loan is refinanced (71 percent of the stated loan handling charge of \$102). Therefore, after just two refinances, the lender would have collected \$397 in fees instead of the originally stated \$152—a 161 percent increase. Alternatively, if the original loan had a 12-month rather than a six-month term and was not refinanced, the borrower would pay \$254 in interest and fees.

Source: Ala. Code §§ 5-18-15(m)

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Lender-driven refinancing is widespread

The incentive to refinance is so strong that companies have policies requiring employees to actively market refinancing. For example, Colorado officials found that one firm instructed its employees to encourage customers to refinance 60 days after a loan was issued,⁶⁹ and one loan in Oklahoma was renewed 37 times.⁷⁰ Similarly, a borrower from Texas who refinanced 16 times ended up paying more than \$1,980 in fees on a \$200 loan.⁷¹ Focus group participants confirmed that marketing of renewals was widespread, and some described it as intrusive.

Some executives have been explicit about the importance of renewals to their business.⁷² Similarly, one lender disclosed in federal filings that it “actively markets the opportunity for qualifying customers to refinance existing loans prior to maturity.”⁷³ The internal operations manual for one of the consumer finance companies stated: “The bulk of company profits are obtained from renewals,” “Renewals are SOLD, not bought,” and “The majority of [your] loans are to be renewals if your office is to obtain the percent collections and turnover that is required for a substantial profit.”⁷⁴

St. Louis Customers Are Repeatedly Asked, 'Would You Like to Refinance?'

"[T]hey will call you like every two weeks. ... 'You have this much on your equity. Would you like to refinance?' But I asked them not to call me and ask me that, but that is their policy. That's what they do."

"The way that they push, you can tell it's commissionable. But they have a goal to meet. Because they push it all the time."

"Every two months, you can refinance it. ... So it's like you just dig you a bigger and bigger hole, but they're so nice about it."

"And they make it sound so tempting like, 'Hey, we'll just give you a check like right here,' you know? And you're thinking, wow, what can I do with \$900 then?"

"When I was getting down to the end of it, they were starting to talk about how I could refinance and you can get this much."

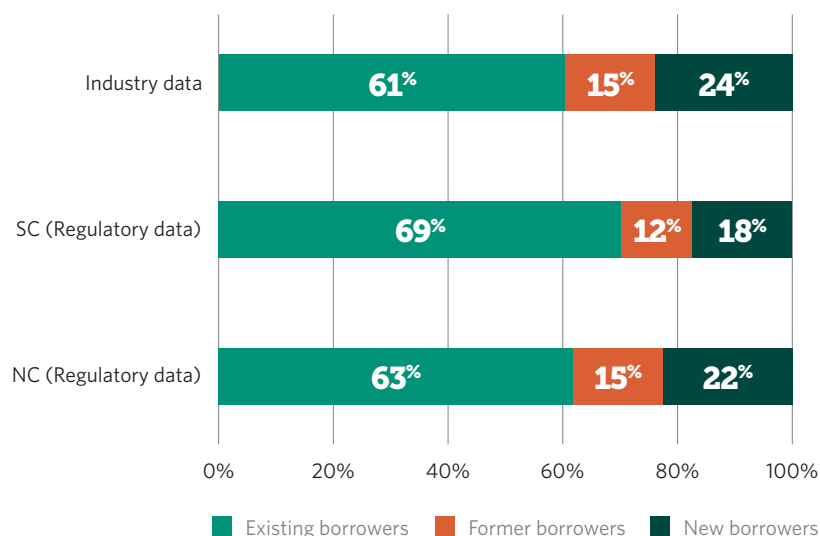
"They still call us and write us all the time: 'Borrow more money. Refinance and borrow extra, we'll hook you up.'"

Lenders' filings show that most of their revenue comes from refinancing. The top three consumer finance companies report that on average, almost two-thirds of loan originations were refinances, about a fifth were issued to new borrowers, and the rest were new loans made to existing customers.⁷⁵ (See Figure 12.) These findings are consistent with regulatory data from North and South Carolina, which show that 63 and 69 percent of existing loans, respectively, were refinanced.⁷⁶ Similarly, the Colorado attorney general's office determined during an investigation of one installment lender that at least 85 percent of the company's loans were refinanced.⁷⁷ In the contracts Pew analyzed, 73 percent of loans were refinanced, which is consistent with state regulatory data and company reports.⁷⁸

Figure 12

About Two-Thirds of Installment Loans Are Refinanced

Percentage of loans issued, by borrower type and data source



Notes: "Industry data" is the average for World Acceptance, OneMain, and 1st Franklin disclosed in financial statements. The percentages for Regional Management were not included because this company discloses only the number of existing loans being refinanced (63 percent in 2016).

Source: 1st Franklin Financial Corp., "2016 Annual Report," 6; World Acceptance Corp., "2016 Annual Report," fiscal year ending March 31, 2017, 18; OneMain Financial Holdings Inc., Form S-1, fiscal year ending Dec. 31, 2013, 90; North Carolina, "Consumer Finance Annual Report" (2015), 15; South Carolina Board of Financial Institutions, "Annual Report 2011-2012," 63

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Policy recommendations

To alleviate the problems identified in this report and improve outcomes for consumers who use installment loans, lenders and policymakers should embrace sensible safeguards that align the interests of borrowers and lenders:

- **Spread costs evenly over the life of the loan.** To minimize lenders' incentives to refinance loans and avoid harm to borrowers who refinance or repay early, ensure that origination or acquisition fees are nominal, proportional to the amount financed, and pro rata refundable.
- **Require that credit insurance function like other standard insurance policies.** Prohibit upfront assessment of premiums and require instead that they be charged on a monthly basis. Extend to all loans the existing federal regulation that bars the financing of credit insurance for transactions secured by dwellings,⁷⁹ allowing lenders to offer insurance but requiring that premiums be paid monthly. These changes would improve the accuracy of disclosures and reduce inappropriate charges when loans are refinanced.
- **Require that the sale of ancillary products be a separate transaction from the issuance of credit.** Ensure that credit insurance and products unrelated to the loan transaction are offered only after a loan contract is completed and the borrower has received the proceeds or has been notified that the loan has been approved. State regulators should strictly enforce minimum loss ratios for credit insurance, where applicable.⁸⁰

In states without them, regulators should introduce a minimum loss ratio of 60 percent for credit insurance, as recommended by the NAIC. If minimum loss ratios are not met, regulators should require lenders to refund excess premiums to borrowers.

- **Continue to set maximum allowable charges.** Policymakers may reasonably prohibit high-interest credit. But if they choose to allow finance charges that are higher than those for mainstream loans in order to provide liquidity to people with low credit scores, they should embrace research-based price limits, such as those in states that have alternative rate structures and prohibit the sale of credit insurance, to promote reasonable costs while enabling efficient lenders to operate profitably.

Conclusion

Consumer finance companies serve borrowers who in many cases have limited access to credit. The installment loans they offer generally have affordable payments and lower prices than do other subprime credit products, such as lump-sum payday and auto title loans and the installment loans issued by many payday and title lenders.⁸¹ However, this analysis indicates that many state regulatory regimes have led to unsafe installment lending practices, preventing consumers from easily comparing prices or evaluating the cost of borrowing, and creating incentives for lenders to refinance loans frequently. In particular, many state laws enable the three practices that contribute the most to consumer harm: charging front-loaded fees, selling credit insurance and low-value ancillary products with upfront premiums, and issuing loans with stated APRs that do not reflect the true cost of borrowing.

Appendix A: Methodology

Installment loan locations

The largest national providers were defined as those that operate in at least four states and have more than 50 stores. In all, 20 lenders fit these criteria. Exact store addresses, including ZIP codes, were downloaded from the companies' websites. For four companies that did not list this information in downloadable form, the researchers used Google Maps to determine the precise locations and reconciled those findings with information from public filings and state regulatory data.

Store density is a ratio of the total number of stores operated by the largest national installment lenders per state to the total adult population in that state and is expressed as the number of stores per 100,000 people.

Focus groups

In May 2014, Pew conducted four focus groups with installment loan borrowers: two each in St. Louis and Houston. Participants were recruited by employees of the focus group facilities. Groups were conducted in person, lasted two hours, and included eight to 11 participants in each. All borrower quotations in this report are drawn from the focus groups.

Installment lending contract analysis

Contracts from loans issued by the 14 largest national installment lenders were randomly selected and downloaded from the Public Access to Court Electronic Records (PACER) portal, a bankruptcy records database. The final sample consisted of 296 contracts from 26 states and was drawn to be approximately proportionate to each company's share of branches in the national market. Contract information, including stated APR, total finance charges, amount financed, number of payments, and monthly payment amount, were logged into a spreadsheet for further analysis. Additional information—such as cash disbursed; prior loan balances; insurance products sold (credit life, disability, involuntary unemployment, auto, property, accidental death and dismemberment, and miscellaneous insurance); motor club memberships sold; and origination, acquisition, and handling fees—was recorded along with total interest. The researchers did not conduct complex statistical analyses of the data because loan contracts were randomly selected from bankruptcy records, which could differ from a larger pool of contracts. However, the sample did support the identification of common market practices that were consistent with findings from complete regulatory data, company filings, and other research. A summary of the analyzed contracts is presented in Tables A.1 and A.2.

Table A.1
 Number of Analyzed Contracts, by Company

Company	Number of contracts
1st Franklin	8
Credit Central	3
Lendmark Financial Services	5
OneMain Financial	31
Regency Finance	4
Regional Management	24
Republic Finance	4
Security Finance	38
Southern Management	2
Springleaf Financial	67
Sun Loan	6
Tower Loan	13
Western Shamrock	3
World Acceptance	88

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Table A.2
Descriptive Summary of Loans Included in the Analysis

Average loan characteristics	Small loans (under \$1,500)	Large loans (\$1,500 or more)
Loan proceeds	\$742	\$4,281
Range	\$129-\$1,449	\$1,500-\$10,000
Amount financed	\$806	\$4,732
Range	\$163-\$1,690	\$1,500-\$11,061
All-in APR	90%	40%
Range	31%-367%	16%-93%
Stated APR	70%	29%
Range	31%-210%	16%-73%
Costs	\$339	\$2,929
Costs as share of proceeds	45%	65%
Finance charge	\$276	\$2,478
Finance charge as share of amount financed	34%	47%
Monthly payment	\$97	\$198
Range	\$49-\$171	\$64-\$391
Term	11 months	35 months
Range	4-26 months	15-84 months
Number of contracts analyzed	142	154

Source: Pew analysis of contracts for 2005-15 obtained from Public Access to Court Electronic Records, a database managed by the Administrative Office of the U.S. Courts, <https://www.pacer.gov/pcl.html>

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Endnotes

- 1 National Defense Authorization Act for Fiscal Year 2013, Pub. L. 112-239, § 662(b), 126 Stat. 1786, <https://www.gpo.gov/fdsys/pkg/PLAW-112publ239/html/PLAW-112publ239.htm>.
- 2 OneMain Financial Holdings Inc., Form S-1, fiscal year ending Dec. 31, 2013, 2, <https://www.sec.gov/Archives/edgar/data/1619573/000119312514366223/d793139ds1.htm>; OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 60, <https://www.sec.gov/Archives/edgar/data/1584207/000158420717000008/omh-20161231x10k.htm>; Thomas A. Durkin, Gregory Elliehausen, and Min Hwang, "Findings From the AFSA Member Survey of Installment Lending" (2014), American Financial Services Association, 23, http://www.masonlec.org/site/rte_uploads/files/Manne/11.21.14%20JLEP%20Consumer%20Credit%20and%20the%20American%20Economy/Findings%20from%20the%20AFSA%20Member%20Survey%20of%20Installment%20Lending.pdf; Compass Point Research & Trading LLC, "Don't Stop BeLEAFing," Sept. 8, 2015, 5, on file with Pew; North Carolina Office of the Commissioner of Banks, "The Consumer Finance Act: Report and Recommendations to the 2011 General Assembly" (2011), 19, 24, http://www.nccob.gov/public/docs/Financial%20Institutions/Consumer%20Finance/NCCOBReport_Web.pdf. The remaining six states have low interest rate limits that make these loans unprofitable. OneMain disclosed in 2013 that its customers have an average FICO credit score of 630 and average income of \$45,000, and in 2016 it stated that half of its borrowers had scores below 620. The review of AFSA member installment loans by Durkin and his colleagues found that 67.9 percent of borrowers have FICO scores below 620 and 20.5 percent have scores between 620 and 659. Twenty-four percent of borrowers had subprime credit scores of 550 or lower. In North Carolina, the Office of the Commissioner of Banks surveyed consumer finance borrowers and found that more than half had credit scores below 620 and most had estimated annual personal income of \$20,000 to \$40,000. The office also found that 83 percent of consumer finance borrowers had some type of bank relationship and 88 percent had at least one auto loan on their credit records. More than 50 percent had three or more credit card accounts and only 15 percent had no credit card accounts.
- 3 National Consumer Law Center, "Installment Loans: Will States Protect Borrowers From a New Wave of Predatory Lending?" (2015), <https://www.nclc.org/images/pdf/pr-reports/report-installment-loans.pdf>. The center analyzed and published summaries of state regulatory data.
- 4 Durkin, Elliehausen, and Hwang, "Findings From the AFSA Member Survey," 13; 1st Franklin Financial Corp., "Annual Report" (2014), 4, https://www.sec.gov/Archives/edgar/data/38723/000137647415000067/ff_ex13.htm; Compass Point Research & Trading LLC, "Don't Stop BeLEAFing," 5; OneMain Financial Co., "What is an Installment Loan?" accessed Oct. 16, 2018, <https://www.onemainfinancial.com/resources/loan-basics/what-is-an-installment-loan>. 1st Franklin discloses that its "loans are generally repayable in 6 to 60 monthly installments and generally do not exceed \$10,000 principal amount."
- 5 Based on data from public filings in 2016, an average loan for World Acceptance was \$1,165 with a 13-month term; for Regional Management, \$1,536 and 17 months for small loans; for OneMain, \$6,182; and 1st Franklin, \$2,134. Missouri makes regulatory data on loan sizes by company publicly available, and those records show an average loan size for Sun Loan Co. of \$610; Security Finance, \$802; and Tower Loan, \$1,921. Sun notes on its website that its loans "range from \$100 to a maximum of \$5000."
- 6 National Consumer Law Center, "Installment Loans"; John Hecht, "Alternative Financial Services: Innovating to Meet Customer Needs in an Evolving Regulatory Framework," Stephens Inc. (2014), on file with Pew. An analysis of state regulatory data and store locations for large national providers shows that they operate in every state except Alaska, Arkansas, Connecticut, Massachusetts, Rhode Island, and Vermont, as well as the District of Columbia. The largest national providers were identified as lenders that operate in at least four states and have more than 50 store branches in the U.S. Regulatory data from North and South Carolina, Tennessee, and Texas (states where lenders issue small and large loans) indicate that, on average, large national providers operate about 45 percent of all consumer finance branches. This report uses actual store counts for these four states. In 11 states, where lenders are allowed to offer both small and large loans, Pew used that 45 percent and the number of large national providers to calculate the total number of branches. In the remaining 29 states where state laws generally enable lenders to issue only large loans, Pew counted only the actual number of branches operated by the large national providers. Using this methodology yields an estimate of just over 14,000 stores in 44 states. Industry analysts have previously estimated the total number of individually licensed installment loan branches at 8,000 to 10,000, although this appears to undercount smaller operators. Pew's analysis of store locations found that as of September 2015, the 20 largest national lenders owned almost 7,000 branches.
- 7 OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 6.
- 8 Alabama, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Missouri, Nevada, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Utah, and Wisconsin.
- 9 North Carolina Commissioner of Banks, "Consumer Finance Annual Report" (2014), 15, http://www.nccob.org/Public/docs/Financial%20Institutions/Consumer%20Finance/2014_Annual_Report.pdf; South Carolina Board of Financial Institutions, "Annual Report 2011-2012" (2012), <http://www.bofi.sc.gov/Annual%20Reports/BOFI2012AnnualReport.pdf>; Tennessee Department of Financial Institutions, "2014 Annual Report" (2015), https://www.tn.gov/content/dam/tn/financialinstitutions/documents/2014_TDFL_Annual_Report.pdf; Texas Office of Consumer Credit Commissioner, "Regulated Lender Consolidated Volume Report: Calendar Year 2013," last modified Nov. 10,

- 2015, <http://occc.texas.gov/sites/default/files/uploads/reports/reg-lender-consolidated-2013-12-1-15.pdf>; Virginia Bureau of Financial Institutions, “2014 Annual Report: Consumer Finance Licensees,” <https://www.scc.virginia.gov/bfi/annual/ar03-14.pdf>; Missouri Division of Finance, “2014 Consumer Finance Filings,” on file with Pew; Center for Financial Services Innovation, “2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents” (2015), <https://cfsinnovation.org/research/2014-underserved-market-size-financial-health-opportunity-in-dollars-and-cents>. Based on regulatory data from Missouri, North and South Carolina, Tennessee, Texas, and Virginia, each store serves an average of 726 unique customers a year. There are just over 14,000 storefronts in the U.S., resulting in a total of about 10 million customers nationwide. In 2016, OneMain, whose revenue per store is substantially different from other lenders, reported a total \$3.4 billion in annual revenue. Average revenue per store for consumer loans for three publicly traded companies—World Acceptance, 1st Franklin, and Regional Management—is about \$589,000. This is consistent with regulatory data from Missouri, where World Acceptance, Security Finance, Sun Loan, and Tower Loan reported average per-store revenue of about \$591,558 in 2014. With average revenue of about \$590,000 per store, the roughly 12,221 stores not operated by OneMain earned about \$7.2 billion in 2016. When the revenue for small and larger lenders is combined, it totals about \$10.6 billion in borrower spending on finance charges for consumer installment loans each year. (Where possible, this estimate was calculated using revenue related only to consumer lending.) The Center for Financial Services Innovation also estimated revenue of \$10.9 billion for installment lenders. This figure excludes the share of payments that cover ancillary products and insurance premiums and are earned by third parties, such as insurance companies not owned by installment lenders.
- 10 The Pew Charitable Trusts, “From Payday to Small Installment Loans” (2016), http://www.pewtrusts.org/-/media/assets/2016/08/from_payday_to_small_installment_loans.pdf.
 - 11 OneMain Financial Holdings Inc., Form S-1, 90; Security Finance Corp., “Frequently Asked Questions,” accessed July 31, 2018, <https://www.security-finance.com/frequently-asked-questions/>; North Carolina Office of the Commissioner of Banks, “The Consumer Finance Act.” OneMain disclosed that all of its loans “are self-originated through our branch network and require a face-to-face meeting with the customer prior to closure.”
 - 12 1st Franklin Financial Corp., “2016 Annual Report,” 4, https://www.1ffc.com/wp-content/uploads/2017/12/2016-Annual-Report_complete_rev2.pdf; OneMain Holdings Inc., Form 10-K, fiscal year ended Dec. 31, 2017, 59, <https://www.sec.gov/Archives/edgar/data/1584207/000158420718000009/omh-20171231x10k.htm>. 1st Franklin states that its loans “are generally secured by personal property (other than certain household goods), motor vehicles and/or real estate.” OneMain notes that its loans “are typically non-revolving with a fixed-rate and a fixed, original term of three to six years and are secured by consumer goods, automobiles, or other personal property or are unsecured. At December 31, 2017, 43% of our personal loans were secured by titled collateral.”
 - 13 North Carolina Office of the Commissioner of Banks, “The Consumer Finance Act”; Center for Financial Services Innovation, “A Snapshot of Quality and Innovation Among Small-Dollar Credit Installment Lenders” (2015), 26, <https://cfsinnovation.org/research/a-snapshot-of-quality-and-innovation-among-small-dollar-credit-installment-lenders-2>; OneMain Financial Co., “But First, What Exactly Is a Personal Loan?”; Springleaf Holdings Inc., “2014 Annual Report,” <http://www.snl.com/interactive/newlookandfeel/4405478/2014AnnualReport.pdf>. In interviews, North Carolina installment lenders said that “most decisions are made within the hour, often as quickly as 15 minutes.” CFSI reported that all 16 lenders it surveyed “typically fund borrowers within one business day or less.”
 - 14 Regional Management Corp., “Fiscal Year 2014 Annual Report on Form 10-K” (2015), 13, <http://www.regionalmanagement.com/phoenix.zhtml?c=246622&p=irol-reportsannual>. Regional Management discloses that it doesn’t keep large amounts of cash at its stores and that any proceeds over \$200 are disbursed by check.
 - 15 Consumer Financial Protection Bureau, “CFPB Consumer Laws and Regulations: Truth in Lending,” http://files.consumerfinance.gov/f/201306_cfpb_laws-and-regulations_tila-combined-june-2013.pdf.
 - 16 Bill Himpler, “Installment Loans Work,” *Roll Call*, Feb. 11, 2015, http://www.rollcall.com/news/a_message_to_congress_regulators_installment_loans_work_commentary-240032-1.html; Durkin, Elliehausen, and Hwang, “Findings From the AFSA Member Survey,” 1. In the Durkin study, almost 80 percent of the loans examined had monthly payments below \$150.
 - 17 The Pew Charitable Trusts, “Payday Lending in America: Policy Solutions” (2013), 29, http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayPolicySolutionsOct2013pdf.pdf; Regional Management Corp., “Fiscal Year 2014 Annual Report.” Regional Management states in disclosures that its focus is “customers’ ability to affordably make loan payments out of their discretionary income.” Pew previously reviewed a sample of loans from installment lenders and found that 76 percent had monthly payments that consumed less than 5 percent of a borrower’s monthly income. In 2016, Pew obtained from one of the largest credit bureaus a national random sample of several hundred thousand installment loans ranging from \$100 to \$3,000 issued primarily by finance companies to subprime and near-prime customers. The analysis of those loans refers to this data set.
 - 18 Consumer Financial Protection Bureau, “What’s the Difference Between a Simple Interest Rate and Precomputed Interest?” updated June 8, 2016, <http://www.consumerfinance.gov/askcfpb/841/my-contract-says-precomputed-interest-it-whats-difference-between-simple.html>.
 - 19 Consumer Financial Protection Bureau, “CFPB Consumer Laws,” 12.

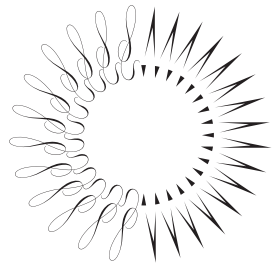
- 20 See 32 C.F.R. Part 232, <https://www.ecfr.gov/cgi-bin/text-idx?SID=1ceda8054d0a5d26a34acf03f1f83650&mc=true&node=pt32.2.232&rgn=div5>. The all-in APR calculation is based on the Military Lending Act, meaning that annual interest, membership, and application fees, as well as the cost of ancillary products such as credit insurance, are included.
- 21 Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, NJ: Princeton University Press, 1999), 111-155; Bruce G. Carruthers, Timothy W. Guinnane, and Yoonseok Lee, "Bringing 'Honest Capital' to Poor Borrowers: The Passage of the U.S. Uniform Small Loan Law, 1907-1930," *The Journal of Interdisciplinary History* 42, no. 3 (2012): 393-418, https://www.mitpressjournals.org/doi/abs/10.1162/JINH_a_00256?journalCode=jinh. Although several state installment loan laws have been updated in recent decades, many were written in the first half of the 20th century.
- 22 South Carolina Board of Financial Institutions, "Annual Report 2011-2012," 62.
- 23 World Acceptance Corp., "South Carolina Rate Chart, Effective April 1, 2013," on file with Pew.
- 24 Oklahoma Department of Consumer Credit, "3-508B Rates/Refunds: Effective July 1, 2008, & July 1, 2009," <https://www.ok.gov/okdocc/documents/B-RateChart.pdf>; Ala. Code §§ 5-18-15 (m), http://www.banking.alabama.gov/pdf/Laws/Small_Loans_Act.pdf; Tenn. Code Ann. §§ 45-5-403(b)(1), <https://law.justia.com/codes/tennessee/2010/title-45/chapter-5/part-4/45-5-403>; Tex. Fin. Code Ann. §§ 342.259 (2), <https://statutes.capitol.texas.gov/SOTWDOcs/Fl/htm/Fl.342.htm>.
- 25 Durkin, Elliehausen, and Hwang, "Findings From the AFSA Member Survey," 24.
- 26 California Department of Business Oversight, "Annual Report: Operation of Finance Companies Licensed Under the California Financing Law" (2017), 14, http://www.dbo.ca.gov/Licensees/Finance_Lenders/pdf/2017%20Annual%20Report%20CFL%20Aggregated%20Final.pdf.
- 27 Arizona Department of Financial Institutions, "Consumer Loan Standard Rate of Charge Report: Quarterly Report as of 6/30/2017," <http://azdfi.gov/Consumers/PublicRecords/Forms/CLSROC/2nd%20Qtr%202017%20Consumer%20Loan%20Standard%20Rate%20of%20Charge%20Report.pdf>.
- 28 Compass Point Research & Trading LLC, "Don't Stop BeLEAFing," 7.
- 29 16 C.F.R. Part 444, <https://www.law.cornell.edu/cfr/text/16/part-444>; Springleaf Finance Corp., Form 10-K, fiscal year ended Dec. 31, 2014, 30, <https://www.sec.gov/Archives/edgar/data/25598/000002559815000013/sfc-20141231x10k.htm>; World Acceptance Corp., Form 10-K, fiscal year ending March 31, 2015, 12, <http://secfilings.nasdaq.com/filingFrameset.asp?FilingID=10738783&RcvdDate=6/2/2015&CoName=WORLD%20ACCEPTANCE%20CORP&FormType=10-K&View=html;1st> Franklin Financial Corp., "2016 Annual Report," 4; OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 40; Federal Trade Commission, "Complying With the Credit Practices Rule," updated March 2018, <https://www.ftc.gov/tips-advice/business-center/guidance/complying-credit-practices-rule>. The Credit Practices Rule prohibits creditors from taking a nonpurchase money security interest in certain household goods deemed essential. In the past, half of Springleaf's personal loans were secured by titled personal property, such as automobiles, and another 36 percent were secured by household goods or other items of personal property. In 2014, World Acceptance disclosed that 20 percent of its portfolio by gross loan volume was vehicle-secured.
- 30 World Acceptance Corp., Form 10-K, fiscal year ending March 31, 2015, 12; OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 40.
- 31 North Carolina Commissioner of Banks, "Consumer Finance Annual Report" (2015), 15, <https://www.nccob.org/public/docs/Financial%20Institutions/Consumer%20Finance/2015CFSAAnnualReport.pdf>.
- 32 12 C.F.R. Part 1041, <https://www.law.cornell.edu/cfr/text/12/part-1041>. The CFPB's 2017 rule for payday, vehicle title, and certain high-cost installment loans addresses the core problems with most payday and auto title loans lasting up to 45 days by requiring lenders to assess applicants' ability to repay or imposing other safeguards, including limiting payday loans to \$500, restricting total indebtedness to 90 days within a given 12 months, and requiring consecutive loans to decrease in size.
- 33 Regional Management Corp., "Fiscal Year 2014 Annual Report," 1; Springleaf Holdings Inc., "2014 Annual Report," 7; Paul Kiel, "The 182 Percent Loan: How Installment Lenders Put Borrowers in a World of Hurt," *ProPublica*, May 13, 2013, <http://www.propublica.org/article/installment-loans-world-finance>; Mitchell Hartman, "How World Finance Makes a Killing Lending on the Installment (Loan) Plan," *Marketplace*, <http://www.marketplace.org/2013/05/14/wealth-poverty/beyond-payday-loans/how-world-finance-makes-killing-lending-installment-loan-plan>. In 2014, Regional Management disclosed that "nearly all loans, regardless of origination channel, are serviced and collected through our branch network, providing us with frequent in-person contact with our customers." The same year, Springleaf disclosed that it relied on a "high touch" servicing approach that required customers to close their loans in person and allowed the company to maintain close relationships with its customers.
- 34 1st Franklin Financial Corp., "2016 Annual Report," 6; World Acceptance Corp., Form 10-K, fiscal year ending March 31, 2015, 1; North Carolina, "Consumer Finance Annual Report" (2015), 15; South Carolina Board of Financial Institutions, "Annual Report 2011-2012," 63.
- 35 According to public filings, companies reported the following overhead and provision for losses amounts in 2016: World Acceptance, 54 and 24 percent, respectively; 1st Franklin, 62 and 35 percent; OneMain, 62 and 28 percent; Regional, 58 and 26 percent.

- 36 North Carolina Commissioner of Banks, "Consumer Finance Annual Report" (2014), 15; South Carolina Board of Financial Institutions, "Annual Report 2011-2012"; Texas Office of Consumer Credit Commissioner, "Regulated Lender Consolidated Volume Report"; Tennessee Department of Financial Institutions, "2014 Annual Report"; Virginia Bureau of Financial Institutions, "2014 Annual Report"; Missouri Division of Finance, "2014 Consumer Finance Filings"; The Pew Charitable Trusts, "Payday Lending in America," 18; The Pew Charitable Trusts, "Auto Title Loans: Market Practices and Borrowers' Experiences" (2015), 5, <http://www.pewtrusts.org/-/media/assets/2015/03/autotitleloansreport.pdf>. State regulatory data indicate that on average, installment lenders serve about 726 unique borrowers per branch annually: 816 in North Carolina, 610 in South Carolina, 805 in Texas, 738 in Tennessee, 637 in Virginia, and 750 in Missouri.
- 37 Durkin, Elliehausen, and Hwang, "Findings From the AFSA Member Survey," 23; OneMain Holdings Inc., Form 10-K, fiscal year ending Dec. 31, 2016, 60; North Carolina Office of the Commissioner of Banks, "The Consumer Finance Act," 24; Neil Bhutta, Paige Marta Skiba, and Jeremy Tobacman, "Payday Loan Choices and Consequences," Vanderbilt Law and Economics Research Paper No. 12-30, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2160947. Durkin's study found that 67.9 percent of installment borrowers have credit scores below 620, and 20.5 percent have scores of 620 to 659. OneMain discloses that half of its customers have a FICO score below 620. In North Carolina, more than half of borrowers have credit scores below 620.
- 38 North Carolina Office of the Commissioner of Banks, "The Consumer Finance Act"; The Pew Charitable Trusts, "Fraud and Abuse Online: Harmful Practices in Internet Payday Lending" (2014), 4, http://www.pewtrusts.org/-/media/assets/2014/10/payday-lending-report/fraud_and_abuse_online_harmful_practices_in_internet_payday_lending.pdf; National Installment Lenders Association, "Fundamentals," accessed July 31, 2018, <http://nilaonline.org/fundamentals>. The Consumer Finance Act report states that consumer finance companies reject 70 percent of new applicants. In Pew's conversations with industry representatives, some stated that they deny about 75 percent. Available data indicate that storefront payday lenders reject approximately 20 percent of applicants.
- 39 Hartman, "How World Finance Makes a Killing"; Truth in Lending Act, 15 U.S.C. 1601 et seq., <https://www.law.cornell.edu/uscode/text/15/chapter-41/subchapter-I>. In accordance with TILA requirements, credit insurance must be included in finance charges unless it is disclosed to be a voluntary product. For example, in Georgia, where some lenders require borrowers to purchase credit life and disability, premiums were part of the finance charge and were not added to the amount financed.
- 40 Kiel, "The 182 Percent Loan." The all-in APR was 182 percent for a borrower who signed a loan contract with a 90 percent APR.
- 41 Ky. Rev. Stat. Ann. §§ 286.4-530(1), <http://www.lrc.ky.gov/statutes/chapter.aspx?id=38632>. For loans under \$3,000, lenders are allowed to charge up to 36 percent.
- 42 National Consumer Law Center, "Installment Loans." Although some states establish a minimum amount financed or a minimum property value for insurance to be sold in conjunction with the loan, most states allow various types of insurance products. Only in five states—Alabama, Colorado, Oklahoma, Tennessee, and Texas, where lenders can choose to offer loans under \$2,000 with an alternative fee structure that permits higher finance charges—is the sale of credit insurance for these loans explicitly banned.
- 43 National Association of Insurance Commissioners, "Consumer Credit Insurance Model Regulation" (1994), 370-4, <http://www.naic.org/store/free/MDL-370.pdf>.
- 44 1st Franklin Financial Corp., "2016 Annual Report," 15; Mary Griffin and Birny Birnbaum, "Credit Insurance: The \$2 Billion a Year Rip-Off," Center for Economic Justice and Consumers Union (1999), 2, <http://www.cej-online.org/report.pdf>. 1st Franklin reported about \$4 million in revenue from commissions earned on sales of auto club memberships (or about 2 percent of total revenue) during 2016. Contract analysis shows that for loans under \$1,500, about 10 percent of contracts had an auto club membership where state laws allowed it.
- 45 Griffin and Birnbaum, "Credit Insurance."
- 46 Kiel, "The 182 Percent Loan." This is consistent with Kiel's finding that in states with regulatory rate caps, all-in APRs were often higher than in states that allowed higher interest charges.
- 47 According to public filings, 21 percent of 1st Franklin's revenue derived from selling insurance and other ancillary products; it was 12 percent of World Acceptance's, 8 percent of Regional Management's, and 10 percent of OneMain's.
- 48 Adam Rust, "The Rate Does Not Reflect the Risk: A Report on the High Cost of Credit Insurance Sold With Consumer Installment Loans," Reinvestment Partners (2017), 12, https://reinvestmentpartners.org/file_download/inline/4d975253-9a3d-489e-bfcb-ba03a515adab; Fortegra Financial Corp., Form 10-K, fiscal year ending Dec. 31, 2013, 26, <https://www.sec.gov/Archives/edgar/data/1495925/000149592514000029/a10-k2013.htm#s23EF3C47ADFC0A7A806F718D4325DD74>. In 2013, Fortegra (aka Life of the South Corp.), which provides insurance products to World Acceptance, reported that 44 percent of its revenue was spent on commissions.
- 49 According to public filings, companies reported the following net insurance revenue in 2016: OneMain, \$352 million; 1st Franklin, \$41 million; World Acceptance (fiscal year ending March 31, 2017), \$63 million; and Regional Management, \$20 million.
- 50 National Association of Insurance Commissioners, "Credit Life Insurance and Credit Accident & Health Insurance Experience 2011-2015" (2016), 113, https://www.naic.org/prod_serv/CRE-ZB-17.pdf. Some states allow lenders to issue credit insurance on total indebtedness (loan proceeds plus insurance premiums, interest, and other fees). For example, a borrower in Georgia who received \$5,330 in proceeds

had to pay insurance premiums on \$14,209, which included financed insurance premiums (\$1,854), origination fees (\$297) and interest (\$6,728). In Georgia, credit life insurance premiums are 45 cents per \$100 on a loan repayable over 12 months. In this case, the premiums increase from \$162 to \$320 because the borrower does not pay just to ensure that the lender recovers the loaned principal (\$5,330) but rather all payments due (\$14,209).

- 51 Most states allow origination fees or other finance charges that are calculated as a percentage of the amount financed. For example, in Nebraska an origination fee is 7 percent of the amount financed—\$35 on a \$500 loan. But if the amount financed increases to \$685 because of added insurance premiums, the origination fee rises to \$47.95 and interest is charged on the additional \$185.
- 52 Hartman, “How World Finance Makes a Killing”; Gary Fagg, “An Introduction to Credit-Related Insurance,” Creditre Corp. (1997), http://creditre.net/Data/Sites/1/media/downloads/Introduction_to_Credit_Related_Insurance.pdf.
- 53 In Georgia, some companies disclosed that credit life and disability insurance were mandatory.
- 54 Kiel, “The 182 Percent Loan”; Griffin and Birnbaum, “Credit Insurance,” 32; Hartman, “How World Finance Makes a Killing”; OneMain Financial Holdings Inc., Form S-1, 61. Kiel reports that “former World employees say they were instructed not to tell customers the insurance is voluntary.” According to a public filing from OneMain, “approximately 65% of our personal loan customers purchased at least one optional product.”
- 55 North Carolina, “Consumer Finance Annual Report” (2015), 16; South Carolina Board of Financial Institutions, “Annual Report 2011-2012.”
- 56 Rust, “The Rate Does Not Reflect the Risk,” 13; National Consumer Law Center, “Installment Loans.” In North Carolina, on average, 1.53 insurance policies were sold with every loan. Pew’s finding is higher because it includes every type of insurance and other ancillary product sold and accounts for contracts from additional states. The analysis was based on 247 loan contracts from states that allow credit insurance, of which only 36 contracts did not have any insurance.
- 57 National Association of Insurance Commissioners, “Credit Life Insurance.”
- 58 National Association of Insurance Commissioners, “Consumer Credit Insurance Model Regulation,” 370-4.
- 59 National Association of Insurance Commissioners, “Credit Life Insurance,” 4.
- 60 *Ibid.*, 15, 63.
- 61 Wisconsin Office of the Commissioner of Insurance, “Fact Sheet on Credit Insurance” (2015), 2, http://ocidev.wi.gov/pub_list/pi-205.pdf. The office notes that credit disability insurance claims may be declined if the insurer believes the disability is a result of a pre-existing condition.
- 62 Rust, “The Rate Does Not Reflect the Risk,” 13.
- 63 See also Kiel, “The 182 Percent Loan.”
- 64 This range is calculated only for loans in states with regulatory rate caps and excludes states with alternative rate structures that allow only acquisition and handling charges.
- 65 These are the maximum fees allowed in accordance with the Consumer Credit Law statute. La. Rev. Stat. Ann. §§ 9:3519(A), <https://law.justia.com/codes/louisiana/2011/rs/title9/rs9-3519>.
- 66 Generally, if closed-end loans are repaid before the contracted date, there are two possible rebate methods: the rule of 78s and the actuarial. Using the rule of 78s, the lender calculates the share of finance charges the borrower must pay depending on the number of months the loan was outstanding, a figure that can exceed what the borrower paid to date. Under the actuarial method, borrowers pay off only the remaining principal balance and lenders get to keep all finance charges received to date. The rule of 78s method allows lenders to calculate the refund upon early repayment by assigning 12/78 of the loan’s finance charges to the first month of a 12-month loan, 11/78 of the loan’s interest to the second month, and so on, dividing the sum of numbers for each month the loan is outstanding by the sum of numbers in the stated loan term. For example, a lender earns 71 percent of finance charges in the first three months of a loan with a six-month term because a sum of digits for the first three months (6, 5, and 4) equals 15, and a sum of all digits for six months equals 21 (15/21=71%). Similarly, lenders earn 73 and 74 percent of finance charges if they refinance 12- and 18-month loans halfway through their terms, respectively. Lenders generally earn a somewhat higher share of finance charges compared with a conventional actuarial rebate method if borrowers refinance after one or two months. For example, a lender collects 29 percent of the loan’s finance charges if a 12-month loan is refinanced after just two months, even though just 17 percent of the loan term has elapsed.
- 67 See previous endnote.
- 68 World Acceptance Corp., “2016 Annual Report,” 18, http://www.annualreports.com/HostedData/AnnualReportArchive/w/NASDAQ_WRLD_2016.pdf. World Acceptance disclosed that loans made to new borrowers had higher charge-off rates than those made to current and former borrowers.
- 69 *State of Colorado v. Security Finance Corp. of Colorado*, Case No. 2008CV 4892 (District Court of Denver, June 9, 2008). Colorado regulators concluded that “Security Finance’s business model is to continually flip (refinance) loans after or as close as possible to sixty days.”

- 70 David Humphreys (a lawyer practicing in Oklahoma, in cooperation with the Oklahoma Coalition of Consumer Advocates), written statement to the Kansas House of Representatives (Feb. 16, 2008), https://archive.org/stream/697120-testimony-by-david-humphreys-attorney-about/697120-testimony-by-david-humphreys-attorney-about_djvu.txt.
- 71 Ima Jean Robinson Springs v. Security Finance Corp. of Texas, Cause No. 10-11-001 96CVK (218th District Court, Karnes County, Texas, 2011), 15, <https://assets.documentcloud.org/documents/699457/security-tx-debtor-suit-good-details-complaint.pdf>.
- 72 Humphreys, testimony.
- 73 World Acceptance Corp., Form 10-K, fiscal year ended March 31, 2014, 7, <https://research.investors.com/et/dfs/2014/108385/0000108385-14-000020/wrld-331201410xk.HTM>.
- 74 Humphreys, testimony.
- 75 World Acceptance Corp., “2016 Annual Report,” 18. World Acceptance refers to loans to existing borrowers as refinances.
- 76 North Carolina, “Consumer Finance Annual Report” (2015), 15; South Carolina Board of Financial Institutions, “Annual Report 2011-2012,” 63.
- 77 State of Colorado v. Security Finance Corp. of Colorado.
- 78 Analysis is based on 272 contracts, because 24 contracts did not have information about cash amounts disbursed and previous balances. Of the 272 contracts, 199 were refinances.
- 79 See 32 C.F.R. Part 1026.36(i), <https://www.law.cornell.edu/cfr/text/12/1026.36?page=1>.
- 80 Suzanne M. Kirchoff, “Medical Loss Ratio Requirements Under the Patient Protection and Affordable Care Act (ACA): Issues for Congress” (2014), Congressional Research Service, <https://www.fas.org/sgp/crs/misc/R42735.pdf>. For example, the 2010 ACA requires at least an 80 percent medical loss ratio for small group insurance plans and an 85 percent ratio for large group plans. In 2013, insurance companies owed 6.8 million consumers \$332 million in rebates.
- 81 The Pew Charitable Trusts, “From Payday to Small Installment Loans.”



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