

From Payday to Small Installment Loans

Risks, opportunities, and policy proposals for successful markets

Overview

All of the largest payday lenders now offer installment loans, which are repayable over time and secured by access to the borrower's checking account, in addition to conventional payday loans that are due in a single lump sum.¹ This shift toward installment lending has been geographically widespread, with payday or auto title lenders issuing such loans or lines of credit in 26 of the 39 states where they operate.²

Research by The Pew Charitable Trusts and others has shown that the conventional payday loan model is unaffordable for most borrowers, leads to repeat borrowing, and promotes indebtedness that is far longer than advertised.³ To address these problems, the Consumer Financial Protection Bureau (CFPB) in June 2016 proposed a rule for regulating the payday and auto title loan market by requiring most small loans to be repayable in installments. In Colorado, a structure requiring that loans be payable over time—combined with lower price limits—was shown to reduce harm to consumers compared with lump-sum loans, after that state passed legislation in 2010 requiring all payday loans to become six-month installment loans.⁴

Further, national survey data show that 79 percent of payday borrowers prefer a model similar to Colorado's, in which loans are due in installments that take only a small share of each paycheck.⁵ Seventy-five percent of the public also supports such a requirement.⁶

To get ahead of the CFPB's regulation and avoid state-level consumer protections, and in response to these consumer preferences, the trend toward payday installment lending is accelerating.⁷ However, as it exists today,

Four practices particularly threaten the integrity of the subprime small-dollar loan market: unaffordable payments, front-loaded charges, excessive durations, and noncompetitive prices.

in the absence of sensible regulatory safeguards, this installment lending, as well as that in the traditional subprime installment loan market that has existed for a century, can be harmful.⁸

This brief describes practices that are unique to the payday installment loan market and others that exist primarily in the traditional subprime installment loan market, focusing on four that threaten the integrity of subprime small-dollar loan markets: unaffordable payments, front-loaded charges that add costs for borrowers who repay early or refinance, excessive durations, and unnecessarily high prices.⁹

Federal and state policymakers should act now to establish policies that benefit consumers and encourage responsible and transparent lending. Pew's research shows that regulators can address harmful practices by containing payment sizes, requiring that all charges be spread evenly over the term of the loan, restricting most loan terms to six months, enacting price limits that are sustainable for borrowers and lenders that operate efficiently, and providing a clear regulatory path for lower-cost providers, such as banks and credit unions, to issue small loans.

The CFPB can implement many of these protections. However, it does not have the authority to limit interest rates, so although lump-sum lending will be largely curtailed after the bureau's rule takes effect, high-cost installment loans will probably continue to be issued unless states act to regulate them. As the transition toward longer-term lending continues, policymakers should address problems wherever payday installment loans and subprime installment loans exist.

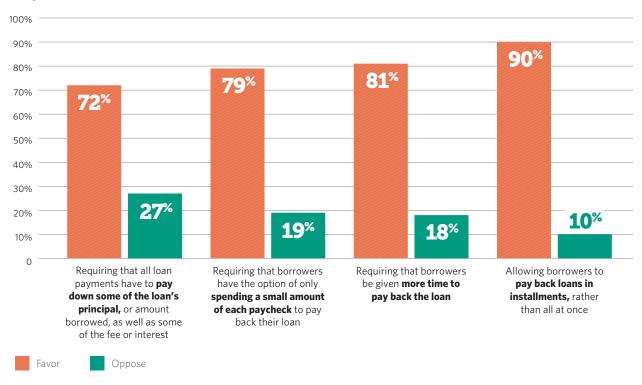
Why lenders are moving away from lump-sum products

The trend among payday and auto title lenders toward offering installment loans is being driven by three factors: consumer preference, regulatory pressure, and lenders' effort to avoid consumer protections put in place for lump-sum payment loans.

Consumer preference

Pew's research shows that, compared with the conventional lump-sum model, payday loan customers overwhelmingly support requiring an installment payment structure that gives them more time to repay loans in smaller amounts that fit into their budgets. One lender explained, "I learned in Colorado that our consumers like the affordability," and noted the industry's probable shift in that direction.¹⁰ The head of the primary trade association for online lenders said her members have mostly changed their products from two-week lump-sum loans to installment loans in response to consumer demand.¹¹ (See Figure 1.)

Figure 1
Overwhelming Borrower Support for Requiring Installment
Payment Structure



Note: Data represent percentage of payday borrowers who gave the listed answer. Results are based on 703 interviews conducted from December 2011 through April 2012. Respondents were asked: "Now I'm going to read you some ideas for how payday loans could be changed or modified. After I read each idea, tell me whether this sounds like something you would favor or oppose. How about ...? Do you favor or oppose this?" Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

Source: The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (October 2013), http://www.pewtrusts.org/en/research-and-analysis/reports/2013/10/29/payday-lending-in-america-policy-solutions

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Regulation

In 2013, federal banking regulators issued guidance strongly discouraging banks from issuing lump-sum "deposit advance loans," which mimic the structure of conventional payday loans. The CFPB's proposed rule for payday and similar loans emphasizes the need for affordable monthly payments, and if finalized, the bureau's rule would expedite the transition toward installment loan structures.

In response, payday lenders have supported bills in several states, including Arizona, Indiana, Mississippi, and Tennessee, to allow the types of high-cost installment loans and lines of credit that would be permitted under the CFPB's proposal. Industry consultants have also observed that the CFPB's pending rule encourages a shift to installment lending. One noted that "many of today's payday consumers can likely handle an installment loan, at yields that emulate a payday loan," and encouraged the industry to lobby to change state laws to facilitate "high-yield" installment products. In

Consumer protections

Some lenders have switched to installment loans to avoid consumer protection laws.¹⁶ For example, after a Delaware law took effect in 2013 and restricted to five the number of short-term consumer loans that payday lenders in that state may make to a given borrower in any 12-month period,¹⁷ companies began offering installment loans of more than two months alongside conventional two-week payday loans. This allowed them to avoid triggering the new limit because the law defined "short term" as less than 60 days.¹⁸ In another case, the Military Lending Act of 2007 limited interest rates on loans to military service members of 91 days or less, so lenders began making loans of 92 days or more in order to charge higher rates.¹⁹ Lenders have used similar tactics in Wisconsin, Illinois, and New Mexico.²⁰

High-Cost Installment Loans Could Proliferate Under CFPB Rule

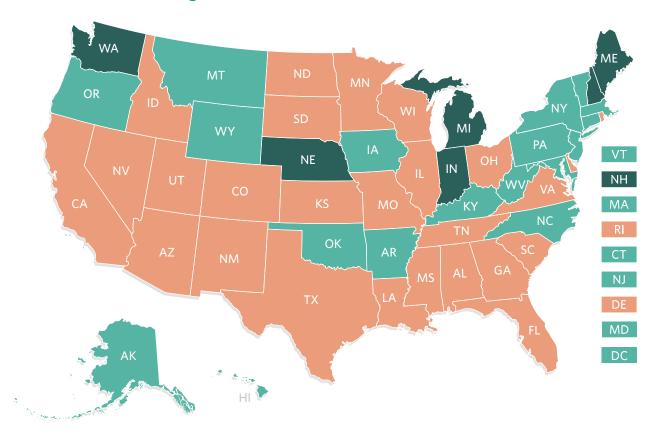
Payday and auto title lenders are already issuing high-cost installment loans or lines of credit in 26 of the 39 states where they operate. The CFPB issued a proposed rule in June 2016. Once it is finalized and lump-sum lending is more restricted, lenders will probably accelerate their efforts to expand high-cost installment loans to other states, and they are likely to do that in two ways. First, they will probably attempt to modify laws in the states that do not yet allow installment lending. Until now, lenders have had little incentive to advocate for such change because they could issue lump-sum payday and auto title loans, but as that market becomes more restricted, they will be motivated to try to increase the number of states that permit high-cost installment lending.

Secondly, they may try to take advantage of credit services organization (CSO) statutes, which allow the brokering of loans, in states that have such laws. Payday and auto title lenders in Ohio and Texas already act as brokers under such laws, meaning that they charge large fees to borrowers to arrange loans and guarantee those loans for other lenders. Functionally, this brokering is an evasion of low interest rate limits because the fees charged are in addition to the interest paid to the third-party lender and significantly increase borrowers' costs. Some of the states where payday and auto title lenders operate but do not issue installment loans or lines of credit also have CSO statutes that lenders may try to use to circumvent consumer protections. In total, at least 32 of the 39 states where payday and auto title lenders operate could be vulnerable to high-cost payday or auto title installment loans. Table 1 shows the types of payday installment loans being issued under Ohio's CSO statute.

^{*} National Consumer Law Center, *Installment Loans: Will States Protect Borrowers From a New Wave of Predatory Lending?* (July 2015), 41-42, http://www.nclc.org/images/pdf/pr-reports/report-installment-loans.pdf.

[†] Mark Huffman, "Consumer Group Charges Loophole Allows Continued Payday Lending in Ohio," Consumer Affairs, Nov. 11, 2015, https://www.consumeraffairs.com/news/consumer-group-charges-loophole-allows-continued-payday-lending-in-ohio-111115.html.

Figure 2
At Least 32 States Could Be Vulnerable to High-Cost Installment Lending



- Lenders are issuing high-cost payday or auto title installment loans or lines of credit
- Lenders could try to use CSO statutes to issue high-cost payday installment loans
- Lenders would need to change state laws to issue high-cost payday or auto title installment loans or lines of credit

Notes: Several states have regulatory interpretations that prevent payday lenders from using these CSO statutes, but those could be altered without a law change. Some states only allow payday installment loans of amounts above a set threshold, such as Alabama (\$2,000), California (\$2,500 for both payday and auto title installment), North Dakota (\$1,000), and South Carolina (\$600).

Sources: Pew's analysis of existing market practices and state laws; The Pew Charitable Trusts, *Auto Title Loans: Market Practices and Borrowers' Experiences* (2015)

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Table 1

Payday Lenders Use Ohio's Credit Services Organization Statute to Issue High-Cost Installment Loans

New loans are larger, longer-term

Loan amount	Biweekly payment	Duration in weeks	Total due	APR
\$500	\$85	26	\$1,105	360%
\$1,000	\$132	52	\$3,432	328%
\$2,000	\$258.29	34	\$4,390.93	275%

Notes: In 2008, Ohio changed its law to impose a 28 percent interest rate limit on payday loans under the state's Short-Term Loan Act. However, payday lenders took advantage of the state's CSO law to make lump-sum and longer-term loans that have rates far in excess of that limit, and auto title lenders used the same approach to begin making high-cost loans in Ohio for the first time. Costs and features shown are for the \$500 and \$1,000 loans offered by Cash America (Cashland) stores. Costs and features for the \$2,000 loan are from Rise Credit.

Sources: Cash America and Rise Credit

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How regulators can address the 4 key problems with installment loans

Unaffordable payments

Most installment payday loans have payments that exceed what typical borrowers can afford. Unaffordable payments can lead to the same types of problems that exist in the conventional lump-sum loan market: frequent re-borrowing, overdrafts, and the need for a cash infusion to retire debt.

Payday installment loan payments are usually much more than the 5 percent of income that borrowers can afford. And because lenders have access to borrowers' checking accounts, either electronically or with postdated checks, they can collect the installments regardless of the borrowers' ability to afford the payments. Similarly, in the auto title loan market, lenders' ability to repossess borrowers' vehicles can pressure customers to make loan payments they cannot afford, which in turn can leave consumers without enough money to meet their basic needs.

Table 2 shows how payday installment loan payments in several states consume between 7 percent and 12 percent of the average borrower's gross monthly income (of just under \$2,600) and compares that with loan payments in Colorado, where strong regulations require both smaller payments and lower prices.²¹

Table 2
Payments Usually Exceed What Average Borrowers Can Afford
Installment model does not guarantee affordability

Lender (state)	Loan amount	Total cost	Loan duration	Monthly payment
ACE Cash Express (TX)	\$600	\$586	Four months	\$297
CashNetUSA (NM)	\$600	\$952	Seven months	\$222
Advance America (WI)	\$500	\$595	Five months	\$219
Plain Green Loans (multiple states)	\$500	\$578	Six months	\$180
Speedy Cash (IL)	\$500	\$542	Six months	\$174
Colorado	\$500	\$290	Six months	\$130

Notes: No specific company is listed for Colorado because the state requires all payday loans of the same size to have the same structure, and all major lenders charge the same interest and fees. Some lenders list biweekly payments rather than monthly ones. For these cases, the durations and payments are shown here in months (e.g., eight biweekly payments approximate a four-month term).

Sources: Colorado Office of the Attorney General; websites of listed companies

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To solve the problem of unaffordable payments, policymakers should require loans to be repayable in small installments that are affordable for most borrowers. Research shows that in order to fit the budgets of typical payday loan borrowers, payments must not exceed 5 percent of monthly income.

Another solution that has been proposed is to require lenders to conduct underwriting to assess the borrowers' ability to repay. However, without clear product safety standards, such as limiting loan payments to 5 percent of a borrower's paycheck, this approach carries risk. It can add substantially to the price of loans by imposing new costs on lenders. And because lenders have access to borrowers' checking accounts or car titles and can collect even if borrowers lack the ability to repay, it provides lenders with little incentive to ensure that payments are truly affordable.

Problem 1 Unaffordable Payments Summary and proposed solution



Problem: Large monthly payments often exceed borrowers' ability to repay, creating a risk of frequent refinancing or inability to pay other bills.

Some installment loans have payments of several hundred dollars a month, which is more than most borrowers can afford. Because lenders have access to borrowers' checking accounts or car titles, borrowers often make loan payments even though they are left unable to pay other bills or cover basic expenses. As a result, borrowers frequently refinance, repay loans and then quickly re-borrow, or struggle to pay for necessities.



Solution: Establish clear ability-to-repay standards, limiting loan payments to an affordable percentage of a borrower's periodic income.

For most borrowers, monthly payments above 5 percent of gross monthly income are unaffordable. Treat loans that require larger payments as potentially dangerous and subject them to stronger ability-to-repay standards. Examiners should also treat frequent refinancing or high default rates as evidence that loan payments are unaffordable.

Notes: In the banking system, regulatory examiners watch for signs of default masking, that is, refinancing loans when borrowers are unable to afford payments, in order to avoid having to treat the loan as delinquent or defaulted. See, e.g., "Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy," 65 Fed. Reg. 36903 (June 12, 2000). "A permissive policy on re-agings, extensions, deferrals, renewals, or rewrites can cloud the true performance and delinquency status of the portfolio. However, prudent use is acceptable when it is based on a renewed willingness and ability to repay the loan, and when it is structured and controlled in accordance with sound internal policies."

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Front-loaded charges

It is customary in consumer credit markets for lenders to assess an upfront fee to process an application or originate a loan. But in subprime consumer finance installment loan markets, large upfront origination fees often harm consumers by significantly increasing the cost of the loan at the time it is issued, effectively penalizing borrowers who repay early. These fees increase revenue and provide a substantial incentive for lenders to encourage refinancing in order to earn an additional origination fee. Small-loan borrowers are particularly susceptible to offers to refinance because, like many low- and moderate-income households, their income is often volatile and they have little or no savings.²²

This misalignment of incentives has led to widespread repeated refinancing, or "loan flipping," in the traditional subprime small installment loan market, with refinances accounting for about three-quarters of loan volume for one of the largest lenders.²³ One company's CEO explained on an earnings call with investors that its customer service representatives receive a bonus based on how many of their customers refinance "because encouraging renewals is a very important part of our business."²⁴

To solve this problem, finance charges, such as fees and interest, should be spread evenly over the life of the loan, rather than front-loaded. This protects borrowers against incurring large fees at the outset of the loan and aligns lenders' and borrowers' interests by ensuring profitability and affordability without discouraging early payment or providing an incentive to lenders to steer their customers toward refinancing.

When Colorado reformed its payday loan statute in 2010, it allowed an origination fee but required lenders to provide pro rata refunds whenever borrowers prepay. This was critical to the success of the state's reform because lenders did not have an incentive to steer borrowers to refinance loans.²⁵

Problem 2

Front-Loaded Fees That Lead to Refinancing

Summary and proposed solution



Problem: Front-loaded fees create an incentive for lenders to encourage refinancing—sometimes called "loan flipping."

Origination fees or other upfront charges add significant cost to a first installment loan, and the borrower pays those costs again each time the loan is refinanced. As a result, lenders earn higher profits if they encourage borrowers to refinance these loans before they are paid off, while borrowers pay higher effective interest rates than they initially agreed to.



Solution: The simplest approach is to allow only interest charges or monthly fees on the loan, with no other fees.

If other fees are permitted, require that they be spread evenly over the life of the loan (origination or other prepaid fees should be pro rata refundable in the event of early repayment). Also, require that all payments be substantially equal, and reduce the balance to zero by the end of the loan's term. Finally, borrowers must be able to prepay loans without penalty at any time.

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Excessive durations

Some high-interest installment loans have unreasonably long terms, with only a small portion of each payment reducing the loan's balance. Excessive loan lengths can double or triple borrowers' costs, ²⁶ and very long loan durations also pose risk to borrowers with volatile incomes. In lower-income months, they may struggle to afford loan payments but have little choice because lenders have access to their checking accounts or car titles. Pew's research has found that even at high interest rates, six months is generally long enough to repay a \$500 loan, and one year is typically sufficient for a \$1,000 loan.²⁷ Similarly, the public considers very short terms (less than a month) or very long terms (more than a year) to be unreasonable for a \$500 loan.²⁸

Discouraging excessive loan terms will become important as longer-term installment loans become the norm. The final CFPB rule for payday and similar loans will need to include clear guidelines for appropriate loan

durations. States that modify their existing payday or installment loan statutes should also put policies in place that discourage excessive lengths. The CFPB's proposed guidelines for certain longer-term alternative loans require terms between 45 days and six months.²⁹ This range is consistent with Pew's findings about the time borrowers need to repay loans affordably, with public opinion about reasonable durations for a \$500 loan, and with the small-dollar loan programs established by the Federal Deposit Insurance Corp., National Credit Union Administration, and National Federation of Community Development Credit Unions, which give borrowers several months to repay.³⁰

Problem 3

Excessive Durations

Summary and proposed solution



Problem: Unreasonably long repayment terms extend indebtedness and drive up the cost of borrowing.

Speedy Cash offers a \$500 auto title installment loan in Arizona with 18 monthly payments of \$90.35, for a total repayment of about \$1,626. In Illinois, an average auto title loan is for \$893, lasts more than a year, and carries \$2,030 in fees for a total repayment of \$2,923.

Online lender CashCall issues loans of \$2,525 with 47 payments of \$294.46, requiring a borrower to pay back \$13,839.62. Online lender Castle Payday offers eight-month loans that have 16 payments ranging from \$67.50 to \$105, so that a borrower who receives \$300 will pay back \$1,498.75.



Solution: Require loans to have reasonable repayment terms.

Colorado's payday loan reform has demonstrated that even at high interest rates, six months is generally long enough to pay back \$500. Alternatively, states can prevent the use of unnecessarily long durations by capping loan costs (fees and interest) at half of principal. This limit generates enough revenue for lenders to earn a profit while removing their incentive to set up loans with excessive lengths.

Sources: CashCall, "Current Rates," accessed Jan. 7, 2016, https://www.cashcall.com/rates; Big Picture Loans, "Big Picture Loans Rates," accessed March 21, 2016, https://www.bigpictureloans.com/loan-rates; Speedy Cash, "Arizona Online Installment Title Loans Rates & Terms," accessed Jan. 7, 2016, https://www.speedycash.com/rates-and-terms/arizona; Illinois Department of Financial and Professional Regulation, "Illinois Trends Report," accessed May 17, 2016, http://www.idfpr.com/News/DFI/IL_Trends_Report%20since%20Inception%20 through%209-30-12%20final.pdf; The Pew Charitable Trusts, Payday Lending in America: Policy Solutions (October 2013), 7-21, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayPolicySolutionsOct2013pdf.pdf

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Unnecessarily high prices

Prices in the payday and auto title loan markets are higher than is needed to ensure the availability of credit and the profitability of lenders. But research shows that borrowers are in financial distress and are primarily focused on how much they can borrow, how quickly they can receive the funds, and how certain they are to be approved, so lenders compete on location, customer service, and speed and do not lower prices to gain customers.³¹ As a result, prices remain far higher than is necessary for lenders to be profitable and to ensure the widespread availability of credit for consumers.³² Therefore, rate limits are necessary to reduce prices and promote safe payday and auto title loans. Forty-six states and the District of Columbia set price limits on at least one type of small-dollar loan.³³

Policymakers can employ two strategies to encourage reasonably priced credit. The first is to cap fees and interest rates. When states have enacted limits that fall below current payday loan prices but somewhat above traditional usury rate thresholds, lenders have stayed in business and continued to be profitable and credit has remained readily available. Policymakers can restrict interest rates and fees at or slightly below the level seen in Colorado, where an average \$389 payday installment loan is repaid in three months and carries an APR of 121 percent—the lowest of any state—for a total cost of \$116 in fees.³⁴

Regardless of the CFPB's final rule, however, state policymakers may reasonably choose to prohibit payday and auto title loans in their states. An effective way to do this is by limiting finance charges to 36 percent APR (inclusive of all fees), which has historically applied to loans of larger sizes and is a price point at which these lenders will not operate.

The second strategy to drive down loan prices is to enable lower-cost providers of small loans. Banks and credit unions have large competitive advantages over payday and auto title lenders because they are diversified businesses that cover their overhead by selling other products, could lend to their own customers rather than paying to attract new ones, have customers who make regular deposits in their checking accounts, and have a low cost of funds.³⁵ As a result, these financial institutions could profitably make small loans at double-digit APRs, for prices that are six to eight times lower than those offered by payday lenders. However, to offer these loans sustainably, banks' fee-inclusive rates would generally need to be somewhat higher than 36 percent APR.³⁶

Banks and credit unions would also need to use simple, clear, streamlined underwriting standards to issue small loans profitably, such as a limit on monthly loan payments of 5 percent of monthly income and on loan terms of six months as the CFPB proposed in its March 2015 framework.³⁷ Underwriting that requires staff time or extensive documentation would discourage banks from issuing small loans, because it would cost more in overhead than they could earn in revenue and make them vulnerable to increased regulatory scrutiny.

In addition, banks could take steps to screen out very poor credit risks by ensuring that applicants make regular deposits, have an account in good standing, are not using overdraft services excessively, and are not delinquent on other loans inside the bank or credit union. Pew estimates that with streamlined standards such as these, banks could profitably offer a \$400, three-month loan for about \$50 to 60, or half what Colorado's payday installment loans cost today.

Problem 4

Noncompetitive Prices

Summary and proposed solution



Problem: Payday and auto title loan prices are far higher than is necessary to ensure widely available credit.

Forty-six states and the District of Columbia set price limits on at least one type of small-dollar loan, but they vary widely. Colorado's payday loans average 121 percent APR, far lower than the average APR of 391 percent in other states. Lenders operate without any rate limits in eight states, and their prices usually exceed 450 percent APR.

Payday loans are typically priced at the highest allowable interest rate in each state because consumers in distress do not focus on price, and therefore small-dollar lenders do not compete on that metric.

Conventional payday and auto title loan stores are inefficient, serving an average of only 500 and 300 unique customers a year, respectively, and both spend two-thirds of their revenue on overhead. However, experience shows that under price limits such as Colorado's, efficient lenders remain profitable and provide widespread access to credit at much lower prices.



Solution: Enact research-based price limits and enable lower-cost providers to enter the small-dollar loan market.

When Colorado cut its permissible rates for small-dollar lenders by almost two-thirds, credit continued to be widely available.

The CFPB and other federal regulators should permit banks and credit unions to offer small installment loans at viable prices, which are sustainable for both financial institutions and consumers using simple, highly automated underwriting. Banks could profitably issue small loans at prices six to eight times lower than those charged by payday lenders, saving low- and moderate-income borrowers billions of dollars annually.

Alternatively, state lawmakers who wish to eliminate payday lending and other small credit can follow the lead of 15 states that have prohibited payday lending by setting rate caps at 36 percent APR or below (inclusive of fees) or banned it using another method. Pew recommends that states that do not allow high-interest lending continue to prohibit it.

Note: Lawmakers in Florida, Oregon, Rhode Island, and Washington have also enacted law changes that resulted in lower prices, with credit remaining widely available in their states.

Sources: The Pew Charitable Trusts, "How State Rate Limits Affect Payday Loan Prices" (April 2014), http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs/content-level_pages/fact_sheets/stateratelimitsfactsheetpdf.pdf; The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (October 2013), 39–40, http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayPolicySolutionsOct2013pdf.pdf; The Pew Charitable Trusts, "Trial, Error, and Success in Colorado's Payday Lending Reforms" (December 2014), http://www.pewtrusts.org/-/media/assets/2014/12/pew_co_payday_law_comparison_dec2014.pdf; Nick Bourke, "Regulators Should Let Banks Get Back to Small-Dollar Loans," *American Banker*, Sept. 16, 2015, http://www.americanbanker.com/bankthink/regulators-should-let-banks-get-back-to-small-dollar-loans-1076693-1.html

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Conclusion

The payday loan market is quickly moving away from lump-sum lending and toward installment loans. The shift is driven in part by consumer preference and regulatory pressure, but in some instances lenders have used installment loan models to evade consumer protections that cover only shorter-term loans.

The CFPB's proposed small-dollar loan rule will almost certainly accelerate this transition, but if it is going to benefit consumers, it must also be structured to ensure reasonable terms, affordability, and lower prices. To prevent new harm to borrowers, federal and state policymakers should take additional steps to resolve the four major problems with the small installment loan market: unaffordable payments, front-loaded charges that often lead to high rates of loan refinancing, excessive durations, and noncompetitive pricing. These issues can be solved by requiring that payments be affordable as determined by the borrower's income, mandating that all charges be spread evenly over the term of the loan, limiting terms for small-dollar loans to six months in most cases, enacting price limits that are sustainable for borrowers and lenders that operate efficiently, and allowing lower-cost providers such as banks and credit unions to issue small loans sustainably.

Methodology

To conduct this research, Pew reviewed the payday, auto title, pawn, and installment loan and credit services organization statutes of every state as well as the websites of selected payday and auto title lenders. Pew contacted state regulators and lenders in any state where it was unclear whether payday installment loans, auto title installment loans, or similar lines of credit were being issued.

Endnotes

- 1 High-interest installment loans and lines of credit are issued by storefront payday lenders and state-licensed online payday lenders in 19 states: Alabama, California, Colorado, Delaware, Idaho, Illinois, Kansas, Missouri, New Mexico, North Dakota, Ohio, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wisconsin. High-interest auto title installment loans are issued in 17 states, and lenders were allowed to start offering them in Mississippi as of July 1, 2016. In total, multipayment payday or auto title loans are available in 26 of the 39 states where payday and auto title lenders operate.
- This figure includes only state-licensed lenders. Online lenders that are not complying with state laws are offering these loans in more states. The Pew Charitable Trusts, Fraud and Abuse Online: Harmful Practices in Internet Payday Lending (October 2014), 23, http://www.pewtrusts.org/-/media/assets/2014/10/payday-lending-report/fraud_and_abuse_online_harmful_practices_in_internet_payday_lending.pdf.
- 3 The Pew Charitable Trusts, "Collection: Payday Lending in America," accessed April 19, 2016, http://www.pewtrusts.org/en/research-and-analysis/collections/2014/12/payday-lending-in-america.
- 4 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (October 2013), 12–16, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/pewpaydaypolicysolutionsoct2013pdf.pdf.
- 5 Ibid., 22.
- 6 The Pew Charitable Trusts, "CFPB Proposal for Payday and Other Small Loans: A Survey of Americans" (July 2015), 4, http://www.pewtrusts.org/~/media/assets/2015/07/cfpb_chartbook.pdf.
- The largest online lender, Enova, earned 40 percent of its revenue from installment loans in the third quarter of 2015, up from 30 percent a year earlier. Enova International, "Enova Announces Third Quarter 2015 Results," last modified Nov. 4, 2015, https://www.enova.com/newsroom/enova-announces-third-quarter-2015-results. Another large online lender, Elevate, has eliminated lump-sum credit in favor of loans that are repayable over at least a few months. Elevate Credit, "Form S-1 Registration Statement" (November 2015), https://www.sec.gov/Archives/edgar/data/1651094/000119312515371673/d83122ds1.htm.
- 8 Traditional installment lenders offer loans typically ranging from \$100 to \$10,000 from nonbank offices. These loans are underwritten and are generally secured not by a checking account but by household goods or car titles. They carry APRs that are usually higher than credit cards but much lower than conventional payday loans. The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 6;

- Paul Kiel, "The 182 Percent Loan: How Installment Lenders Put Borrowers in a World of Hurt," *ProPublica*, May 13, 2013, https://www.propublica.org/article/installment-loans-world-finance; Thomas A. Durkin, Gregory Elliehausen, and Min Hwang, "Findings From the AFSA Member Survey of Installment Lending," Oct. 18, 2014, http://www.masonlec.org/site/rte_uploads/files/Manne/11.21.14%20 JLEP%20Consumer%20Credit%20and%20the%20American%20Economy/Findings%20from%20the%20AFSA%20Member%20 Survey%20of%20Installment%20Lending.pdf.
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