Rep. Steve Helms, Chairman
Missouri House of
Representatives
201 West Capitol, Rm 203
Jefferson City, MO 65101

Rep. Dan Houx
Missouri House of
Representatives
2012 West Capitol, Rm. 201-A
Jefferson City, MO 65101

Rep. Dan Shaul
Missouri House of
Representatives
201 West Capitol, Rm 201-A
Jefferson City, MO 65101

Rep. Clem Smith
Missouri House of
Representatives
201 West Capitol, Rm. 105-C
Jefferson City, MO 65101

MISSOURI HOUSE OF
REPRESENTATIVES

Subcommittee on Short Term Financial Transactions

March 6, 2018

The Honorable Todd Richardson
Speaker of the Missouri House of Representatives
State Capitol Building – Room 308
Jefferson City, Missouri 65101

The Honorable Lyndall Fraker
Chairman, Financial Institutions Committee
State Capitol Building – Room 304
Jefferson City, Missouri 65101

Dear Speaker Richardson and Chairman Fraker,

As tasked to look into the issues involving and surrounding short-term loans across the state, your Subcommittee on Short Term Financial Transactions has met and concluded our committee hearings.

We held a total of three hearings (Feb. 6th, 13th, & 20th) and heard from a variety of witnesses representing consumer groups, short-term lenders, banking and other members of the public.

The following points of testimony are from the various groups and individuals that we heard from:

Non-profit/consumer groups:

- Missourians (typically the poor and less informed consumers) are still being taken advantage of by predatory lenders and trapped in high interest loans.
- Interest rates/fees are too high and too many rollovers are allowed.
- Many consumers aren't aware of alternatives to payday loans, their rights and/or protections.
- People deserve to be treated fair and not taken advantage of.
- Missouri should cap interest/fees on loans to a 36% annual percentage rate (APR).

Payday Lenders:

- Most of their customers are happy and satisfied with their products and how business is being conducted
- The majority of short-term lenders are ethical and follow Missouri law; many do more by following the best Practices of the Community Financial Service Association of America.

- Short-term lenders are already highly regulated at both the state and federal level.
- An APR of 36% would close brick and mortar lenders and force consumers to choose costlier or less regulated options.
- Current short-term fees are competitive credit products when compared to bounced check fees, credit card late fees and utility late/reconnect fees.

Banks/Credit Unions:

- Short-term loans are provided to customers as a service rather than a profit generating activity.
- It typically costs more to process a short-term loan than the current fees/interest bring in.
- If an APR of 36% was instituted, it would make it very difficult for markets to offer short-term loans unless they were subsidized.
- Some banks/credit unions are working with nonprofits to offer lower cost options for short-term lending.
- The Community Development Financial Institutions Fund (CDFI Fund) offers some grants to institutions to help with small dollar consumer loans to residents located in distressed communities.

Missouri Division of Finance:

- The Missouri Division of Finance licenses nine different types of consumer financial products, four could fall into "short-term" consumer loans; Payday, Installment, Title and Consumer loans.
- From the 2017 report to the General Assembly the average payday loan was $314.93, there were 1.6 loan renewals on average, fees/interest represented as an APR would equal 462.87%.
- During 2016, 98.3% of licensees examined received a satisfactory compliance evaluation.

Additional Information:

- Under Dodd-Frank, the Consumer Financial Protection Bureau (CFPB) was created to regulate consumer financial products and services in the United States.
- Rules from the CFPB governing payday, title and high-cost installment loans went into effect January 16, 2018; most provisions will not require compliance until August 19, 2019.
- On January 16, 2018, the CFPB issued a statement that says it may reconsider the Payday Rule.
- In 2014, a comprehensive bill covering payday loans was passed by the Missouri House and Senate but vetoed by the Governor.
- Among other provisions, the 2014 bill required lenders to post fee terms in dollars per hundred, eliminated renewals/extensions, created an extended payment plan, capped total fees/interest to 35% of the amount borrowed and required lenders to comply with the Fair Debt Collection Practices Act.

In Summary:

Since it is unclear what the final actions from the CFPB will be, we should tread lightly when it comes to enacting legislation at this time. However, that does not mean that we don't have any options. On the contrary, there are several strong solutions that would better protect the consumer and maintain a fairer short-term lending market. Those solutions could include…

- Require that all short-term lenders comply with the Fair Debt Collection Practices Act.

- Require that contact information for the Missouri Department of Finance is given to every loan recipient.
- Reduce renewals to two per loan for all short-term loans.
- Require that the maximum interest/fees be capped at 35% of the loan amount for Payday loans. **(This is a percentage of the loan amount, not an APR.)**
- Allow borrowers to pay outstanding loans by means of an extended payment plan (EPP). May use only once per year, per lender. Interest/fees are not accrued during the EPP. Payday loans due in four equal installments over four pay periods. Installment, Title and Consumer loans to allow double repayment time of original loan with payments divided equally to coincide with borrowers pay or income dates (length of EPP not to exceed 6 months).

Respectfully submitted,

Steve Helms, Subcommittee Chairman
House District 135

Dan Shaul
House District 113

Dan Houx
House District 54

Clem Smith
House District 85