ALL-IN APR AND OPTIONAL PROTECTION PRODUCTS

The concept of "All-In APR" (also known as "Military APR") expands the Truth in Lending Act (TILA) definition of Annual Percentage Rate (APR), to cover the cost of optional protection products that are unrelated to the cost of credit.

When the novel definition of "All-In APR" is used for rate cap purposes, it has an exclusionary effect. It exacerbates financial inequalities by severely restricting the ability of higher-risk borrowers to access safe, affordable credit, without significantly affecting the better-off.

AFSA believes that the desire to attach the cost of optional protection products to the APR rate carried by a loan stems from outdated understanding of the nature of these products, which are an invaluable enhancement to the financial capability of those that choose them.

- AFSA members offer insurance and other non-loan financial services that are entirely voluntary for our customers.
- Loan terms and conditions are offered without regard to whether credit insurance is purchased; it makes no sense, therefore, to consider the cost of non-loan products to be an additional finance charge.
- AFSA members' optional protection products complement their loans, helping customers build financial stability, security, and resilience.
- Credit insurance is accessible, affordable, and popular with customers, who understand that it plays an important role in limiting their exposure to financial risk and the consequences of financial shock, including during the COVID-19 pandemic.

"All-in APR" effectively bans protection products that consumers rely on.

Optional protection products are intended to help borrowers withstand financial shocks by helping cover payment obligations when something unforeseen occurs. Unemployment insurance was used to great effect during the COVID-19 pandemic, for example.

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- Including the credit insurance premiums in a 36% "total cost of credit" trigger for covered longer-term loans effectively bans the sale of such products in connection with any loan.

"All-in APR" laws amount to an attempt at insurance regulation.

States have the exclusive right to regulate the business of insurance through an insurance commissioner. State banking and financial services departments must not take it upon themselves to regulate credit insurance, disregarding statutory boundaries delineated by Congress.

- Including the cost of credit insurance and other products in a "total cost of credit" trigger, such as All-In APR, impedes a licensed insurance agent's ability to sell state-approved and regulated insurance products.
- This limitation on credit insurance blocks consumers with the greatest need for these products from obtaining them and has a secondary negative economic impact on:
    - AFSA members, who seek to offer it as an option for consumers to enhance consumers' ability to repay a loan after a covered occurrence;
    - Credit insurance providers and agents in every state by limiting their ability to generate revenue from the business of insurance;
    - States and municipalities by decreasing their revenue collected from premium taxes.

"All-In APR" subverts existing laws.

TILA and Regulation Z make it clear that products and services that a borrower can purchase in a comparable cash transaction are not a cost of credit. TILA specifically provides that life, accident, and health insurance premiums may be excluded from the finance charge if the products are optional and certain disclosures are provided, and Reg. Z extends this exclusion to other debt protection and debt suspension products.

- TILA was conceived to encourage the informed use of credit and to provide consumers with an "apples to apples" means of comparing the cost of different credit products, declaring in 15 U.S. Code § 1601.
- TILA states "*It is the purpose of this subchapter to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices*."

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“All-In APR” has a devastating effect in states that experiment with it.

In March 2021, Illinois passed a law that goes further than any previous law in the nation in restricting access to non-bank credit, through a Military Lending Act-style price cap for consumer loans under $40,000. We are now seeing the catastrophic consequences of Illinois’ new law for the hundreds of thousands of Illinoisans who now have nowhere to turn for safe, affordable installment credit.

- According to the FDIC, seven percent of households in Illinois are unbanked and 35.8 percent of Illinois households do not have savings they could use to meet an emergency, making access to non-bank credit an essential financial capability.
- The new law has had no effect on the demand for non-bank credit in Illinois. It is estimated that at least 30 percent of Illinois consumers have lost their capability to meet financial emergencies, smooth their spending, or consolidate debts.
- Without access to installment credit, Illinoisans who previously relied upon it have no way to build their credit scores and become financially mobile.

A study by Bolen, Elliehausen and Miller[1] found that, while the vast majority of Illinoisans who previously relied on unsecured installment loans no longer qualify for them, the small number that could notionally qualify for unsecured, non-bank installment credit, could only do so by taking out larger loans for longer periods of time.

- Credit bureau data for Illinois and its neighboring state, Missouri, a state without any legislated APR cap, was used to estimate the effects of the Illinois rate cap on unsecured installment loans. This demonstrated that:
    - The APR cap decreased the number of loans to subprime borrowers by 44 percent.
    - The APR cap increased the average loan size to subprime borrowers by 40 percent.

The welfare effects of the loss of credit access were assessed using an online survey of short-term, small-dollar-credit borrowers in Illinois. It showed that:

- Most borrowers answer that they have been unable to borrow money when they needed it following the imposition of the APR cap.

[1] Effects of Illinois’ 36% Interest Rate Cap on Small-Dollar Credit Availability and Financial Well-Being

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- 79 percent answered that they wanted the option to return to their previous lender.

The study states that other states demonstrate what can be expected in Illinois. An APR cap in Arkansas means that no small-dollar installment lenders can operate in the state, though small dollar installment borrowers still live there, relying on neighboring states to meet the demand (nearly all live on the border).

A survey of Illinois small-dollar loan borrowers[2] carried out by the Online Lenders Association (OLA) found that financial situations did not improve as promised and declined in many instances. Among the survey's key findings:

- Those making less than $50,000 per year are more likely than other groups to say that small-dollar loans helped them manage their financial situations.
- Illinois' new APR cap has failed to improve the financial well-being of Illinois residents, specifically those who relied on short-term, small-dollar loans.
- Most former short-term, small-dollar loan users struggled with paying their bills since the APR cap took effect.
- Most borrowers indicated they were unable to access credit at some point following the rate cap.
- When unable to obtain credit, consumers said they were left with poor alternatives, including late bill payments, skipping urgent appointments or vital expenses, or pawning valuables.
- Most borrowers want the option to return to their previous lender, demonstrating support for the loan options available before the rate cap.

[2] An Illinois Consumer Survey

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