



January 30, 2014

The Honorable Robert Olson
Chairman
Senate Standing Committee on Financial Institutions and Insurance
Kansas State Capitol
300 SW 10th Street
Topeka, Kansas 66612

Re: SB 282 AN ACT concerning the uniform consumer credit code; pertaining to installment loans.

Dear Mr. Chairman:

I write on behalf of the American Financial Services Association (AFSA),¹ to register our support for Senate Bill 282, which would allow the people of Kansas access to safe, affordable traditional installment loans as an alternative to less safe small-dollar loan products.

Installment loans are small-sum, relatively short-term loans. They differ from payday or title loans in that they are fully underwritten and repaid in regular equal payments of principal and interest. Many consumer activists and government policy makers see them as safer and more consumer-friendly forms of credit than payday or title loans. In 2013, both the National Black Caucus of State Legislators (NBCSL) and the National Hispanic Caucus of State Legislators (NHCSL) passed resolutions supporting the adoption of laws that enable individuals without access to bank credit to take out traditional installment loans.

Several key factors that differentiate traditional installment loans from other alternatives and that enhance the safety of installment loans over many other consumer credit products are:

- Installment loans are less expensive for the consumer than many popular but often risky products that have come on the market in recent years.
- Installment lenders do not impose pre-payment penalties on loans.
- Installment lenders rely on a borrower's creditworthiness and ability-to-pay when the loan is made – similar to the methods used by the VA in underwriting its home mortgage loans, although adjusted for the relative size of the transactions. Installment lenders analyze the borrower's residual income using monthly income/expense information provided by the prospective borrower, thereby ensuring that proposed monthly loan payments are affordable and greatly enhancing the probability that the borrower will be able to repay the loan.

¹The American Financial Services Association is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA member financial institutions offer a range of consumer credit products, including traditional installment loans, mortgages, payment cards and vehicle financing. The Association encourages and maintains ethical business practices and supports financial education for consumers of all ages.

- Installment lenders check the credit of borrowers when making loans to allow a realistic assessment of the borrower's ability to repay. What's more, unlike most other small-dollar lenders, installment lenders report to credit bureaus. This can help build or rehabilitate a consumer's credit score, which will, over time, increase the number of credit options available to them and lower their costs.
- Installment lenders structure payments as equal, fully amortizing monthly installments, rather than a single payment, interest-only payments, or a large, unmanageable final payment, in order to provide a manageable method of repayment, allowing borrowers to simultaneously pay off interest and reduce principal.

We believe that properly regulated installment lending in Kansas would be extremely beneficial to its citizenry, particularly for segments of the population typically underserved by the mainstream banking industry. By improving access to credit in Kansas, we also believe that installment lending can be a much-needed catalyst for economic growth.

We respectfully request that you give our support for SB 282 due consideration. If you have further questions, I can be contacted by phone 952-922-6500 or email dfagre@afsamail.org.

Respectfully,



Danielle Fagre Arlowe
Senior Vice President, State Government Affairs
American Financial Services Association
919 Eighteenth Street, NW, Suite 300
Washington, DC 20006-5517
Phone: 952-922-6500