



February 22, 2017

Senator William T. Ligon, Jr.
Chairman
Senate Committee on Banking and Financial Institutions
121-E State Capitol
Atlanta, GA 30334

Re: SB 198 Relating to Prohibited False Advertising of Industrial Loans

Dear Senator Ligon:

On behalf of the American Financial Services Association (“AFSA”),¹ thank you for the opportunity to comment on Senate Bill 198, relating to the use of so-called “Live Checks” in the marketing of safe and affordable Traditional Installment Loans (TILs). We appreciate your consideration of our comments on this bill, which we believe will have significant negative consequences for the very Georgians it is intended to protect.

Live checks are a popular and convenient way for people to access the credit that they need from time to time; to meet emergencies or take advantage of sales or other opportunities that benefit them. Far from being random, these checks are pre-screened prior to mailing, to help ensure that the person who has qualified to receive one has the ability to repay the loan. You will appreciate that it is not in the commercial interests of any financial institution to make loans randomly, with no effort made to ascertain whether the loans will be repaid or not.

Installment loans like these are widely considered to be a safe and affordable form of credit, particularly when compared to payday or title loans, which some say can be prone to creating the types of debt-trap that recent media stories in Georgia have attributed to Live Checks. In fact, installment loans are deliberately structured to avoid this trap, being repaid in regularly scheduled, equal installments of principal and interest, ensuring that the borrower has a roadmap to pay down the loan.

Installment loans are priced, like every other type of loan, according to the cost of making them and the risk of default. Though they carry higher Annual Percentage Rates (APR) than most people are used to seeing on say, mortgage loans (which are taken out over much, much longer periods and have much higher relative cost), this can be a misleading measure of a loan’s true cost. For example, a borrower accepting a Live Check offer for a \$700 loan taken out over 12 months would expect to make monthly payments of about \$75, with interest and fees averaging almost \$18 per month. When one considers the work that goes into underwriting and servicing that loan (including reporting loan performance to credit bureaus, which allows borrowers to build or rehabilitate credit) most would agree that these loans are reasonable and affordable.

¹ Founded in 1916 and based in Washington, DC, the American Financial Services Association (AFSA) is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many types of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, and payment cards. AFSA members do not provide payday or vehicle title loans.

We note that SB 198 would put “Live Checks” into Georgia’s false advertising statute. This is ironic for two reasons: 1) If properly disclosed, these are not misleading or “false adverting” in any way; 2) if such a check were offered in an unfair or misleading way, it would already be run afoul of Georgia’s Fair Business Practices Act², which prohibits unfair and deceptive acts and practices in the marketplace.

In conclusion, the danger of upsetting the business model for these types of loans by laws which proscribe the ways in which they can be marketed is that by reducing efficiencies and increasing marketing costs, lenders will be forced to offer fewer small dollar credit options for Georgia borrowers—something that hits those with fewer credit options hardest. Without these kinds of loans—and bearing in mind that the demand for credit is unlikely to diminish—borrowers will be condemned to look to less safe loan types to satisfy that demand and will forgo the chance to rehabilitate or build their credit that traditional installment loans offer.

Thank you in advance for your consideration of our comments on SB 198. If you have any questions or would like to discuss this further, please do not hesitate to contact me at 952-922-6500 or dfagre@afsamail.org.

Sincerely,



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CC:

Senator Emanuel Jones
Senator Elena Parent
Senator Rick Jeffares
Senator Chuck Hufstetler
Senator Steven Henson

² O.C.G.A. Sections 10-1-390 et seq.