**Testimony of Danielle Fagre Arlowe**
**Before the Senate Committee on Commerce and Labor**
**Re. Assembly Bill 477**
**May 8, 2019**

My name is Danielle Fagre Arlowe, and I am Senior Vice President of the American Financial Services Association.[i]

I would like to thank the Committee for the opportunity to speak today regarding our significant concerns relating to AB 477. Although we have concerns about several of the contract provisions in the bill, today I limit my testimony to discussing the negative unintended consequences consumers will face as a result of the bill's restrictions on the accrual of interest following default. We note that to our knowledge no other state legislature has passed a similar law, and we believe there are serious constitutional implications to prohibiting a creditor from collecting interest upon consumer default.

While on its face this restriction may at first seem consumer-friendly, it discriminates against responsible consumers who meet their repayment obligations and will leave borrowers who miss even a single payment more likely to have their vehicles repossessed, elevating what could have been a temporary default into a permanent one.

Consumers who finance the purchase of a vehicle using a retail installment sale contract agree to repay the amount financed plus interest that accrues at a rate set forth in the contract by making regular payments over the term of the loan. AB 477, immediately upon default by a borrower, would stop the accrual of interest at the contract rate and only provide for recovery of any such interest upon award by a court, potentially at a much lower rate. However, the bill fails to define "default," a broad term that could refer to: the date a borrower first misses a payment, or sometime thereafter; the date a vehicle is repossessed; or even the date a finance company first initiates an action in court. If these restrictions are put in place, the definition of default will make a significant difference in how vehicle finance companies manage a past due account.

In Nevada, all sales finance companies use a single form contract approved by the state, and the form contract sets forth that default occurs when a borrower is at least 30 days past due on a payment. It would be an immense mistake to tie any restriction on interest accrual to this contractual definition of default. Consumers in contractual default have full access to and use of their vehicles before repossession occurs. It is common for borrowers to temporarily enter a state of default by missing a

payment but not lose their vehicles because financial institutions put a considerable amount of time and effort into proactively reaching out to their customers experiencing financial difficulty to work with them to resolve account issues and avoid repossession.

By limiting interest accrual on delinquent accounts, this bill would make it significantly more costly for vehicle finance companies to spend time working with borrowers who fall behind and cannot immediately bring their accounts current, leaving prompt repossession as the only alternative to waiting for a court to award any interest owed. Nevada's form contract does not include a right to cure, which is an opportunity to make only the payments owed up through the repossession, so even borrowers who have the means to bring their account current may face difficulty doing so as a result of the interest restrictions.

Vehicle finance companies must consider the added costs due to the risk that all interest owed may not be recovered, which will lead to tightening of credit for all borrowers in the state, particularly those with limited credit history and lower credit ratings, likely the very borrowers the bill seeks to protect.

It is further problematic that the legislation excludes from the bill's requirements large segments of the vehicle finance industry, including credit unions and banks. By excluding such a large portion of the market, the bill would create a two-tiered vehicle finance market where captive and other independent Nevada-licensed sales finance companies are subject to significant restrictions and left on an uneven playing field with the rest of the industry. These uneven restrictions would raise costs for certain companies, limiting competition in the state and leaving consumers with fewer choices and worse off as a result.

For these reasons, we respectfully request that you oppose AB 477 as proposed. Thank you again for the opportunity to speak to you today. I am happy to address any questions you may have.

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