

April 26, 2019

The Honorable Al Green
Chairman
Subcommittee on Consumer Protection and
Financial Institutions
Committee on Financial Services
House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Subcommittee on Consumer Protection and
Financial Institutions
Committee on Financial Services
House of Representatives
Washington, DC 20515

Dear Chairman Meeks and Ranking Member Luetkemeyer:

On behalf of the American Financial Services Association (AFSA)¹, I am writing in strong support of the traditional installment loan industry in advance of your hearing, “Ending Debt Traps in the Payday and Small Dollar Credit Industry.” For more than a century, installment lending has proven an affordable and responsible form of consumer credit for working Americans.

Many consumers use traditional installment loans as a thoughtful process to manage their finances. These consumers may use traditional installment loans in the same way other Americans use home equity lines of credit or credit cards. After some consumers struggled to get out of credit card debt, they may simply prefer the more structured nature of traditional installment loans. Regardless, they still have a common need for small-dollar credit. Because many traditional installment lenders report to one or more of the credit reporting agencies, consumers can use traditional installment lenders as a way to build or repair their credit.

Unlike payday loans, installment loans are the best way for consumers to manage credit and build a positive payment history with credit bureaus. In fact, former Consumer Financial Protection Bureau Director Richard Cordray, in his testimony before the full Financial Services Committee, expressed his desire to “make sure there is room for responsible lending ... room for installment lenders who are traditional and have responsible products...” As a result, Cordray’s CFPB excluded traditional installment loans from its final Payday Loan Rule in October 2017.

Though it varies by lender, the average loan is for \$1,500, the average monthly payment is \$120, and the average term is 15 months. Because traditional installment lenders engage in underwriting, traditional installment loans are designed to be affordable and to allow borrowers to budget their finances. Traditional installment lenders underwrite loans based on consumers’ credit reports and other factors. At the time of origination, each and every loan is made with the highest confidence and expectation that it will be paid back in full and on time. Installment lenders determine customers’ ability to repay so that consumers do not fall into a cycle of debt.

¹ Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, mortgages, direct and indirect vehicle financing, payment cards, and retail sales finance.

Both the National Black Caucus of State Legislators and the National Hispanic Caucus of State Legislators ratified resolutions in recent years supporting small-dollar closed-end credit in the form of traditional installment loans, emphasizing that they are an affordable means for borrowers to establish and secure small-dollar credit while preventing cycle of debt issues.²

Traditional installment loans are a responsible means of obtaining credit for many Americans, including those individuals and families who may be un- or underbanked, credit invisible, or those with impaired credit histories who need access to credit to meet an immediate need. The most common uses for traditional installment loans are vehicle repairs (transmission, tires), household appliances (washer/dryer, water heater), and medical expenses.

Installment loans are radically different from payday loans in their structure, price, and regulations. Installment loans do not charge penalties for early repayment or prepayment, nor do they require large one-time balloon payments. Traditional installment loans are paid off through equal monthly payments of principal and interest that provide consumers with the ability to repay and eliminate their debt. As the committee contemplates legislation on installment lending, it should also account for smaller loans when examining annual percentage rates (APR). In order to make a break-even loan at 36 percent APR, loans would have to be made for at least \$2,600.³ For a loan to be made profitably with a total cost of credit of 36 percent, the loan would have to be between \$3,500 - \$4,000. Larger installment loans can be profitable because lenders receive a larger dollar return on larger loans even though proportional costs remain the same. Many lenders' costs to originate and service loans are fixed, so lenders need to make a certain amount on each loan. Traditional installment loans should have the ability to continue to serve consumers in the marketplace without fear of an unworkable APR.

Traditional installment loans have a place in the financial sector and in the lives of American consumers. Thank you for the opportunity to comment on this important financial product. If you have any questions, please feel free to contact me at acarmichael@afsaonline.org or (202) 466-8606.

Sincerely,



Ann Carmichael
Vice President, Congressional Affairs
American Financial Services Association

² NBCSL, *Resolution BED-16-21: A Resolution Promoting Safe and Affordable Lending Practice* (Dec. 2015); NHCSL, *Resolution 2013-10: Promoting Safe and Affordable Lending Practices* (July 2013).

³ Durkin, Thomas A., Gregory Elliehausen, and Min Hwang. *Rate Ceilings and the Distribution of Small Dollar Loans from Consumer Finance Companies: Results of a New Survey of Small Dollar Cash Lenders*. 2016. Working Paper.