ISSUE BRIEF

TRADITIONAL INSTALLMENT LENDING

Traditional installment lending is a form of non-bank consumer credit for relatively small sums, which are repaid in equal installments of principal and interest. It is a form of borrowing that has been around for countless generations. Loans are generally made from store front locations in the communities they serve.

In the last 30 years or so, the rise of payday-type loans has split the non-bank, small-dollar loan market. Traditional Installment Loans (TILs) are generally considered a safer and more affordable option for borrowers than payday loans, which are repaid in a "balloon payment," comprising the entirety of the principal, plus interest and fees, due in full, on a certain date. This structure can have negative consequences for borrowers who cannot afford to make the balloon payment when it comes due and are forced to refinance the loan to avoid default. Some have come to call this the "debt-trap" or "cycle-of-debt."

TILs are radically different from payday loans in the way they are structured, priced and regulated. TILs are **fully amortized** and repaid in manageable monthly installments after the lender has assessed a borrower's **ability to** through monthly cash flow. Payday lenders do not assess this ability to repay, relying instead on a postdated check or on similar access to a borrower's bank account, as their assurance the loan will be repaid.

Traditional installment lenders **report to credit bureaus,** allowing borrowers to establish creditworthiness or repair damaged credit. Over time, this allows borrowers access to more credit options, often at even lower interest rates. Credit bureaus do not accept data from payday loan companies. Consequently, the successful repayment of a payday loan offers no benefits to a borrower's credit score.

Supporters of installment lending believe that TILs can be part of a policy solution for lawmakers and regulators who want to crack down on balloon payment loans and associated challenges with the cycle-of-debt, while maintaining a safe and affordable source of small-dollar credit in their communities.

AFSA'S POSITION

The American Financial Services Association (AFSA) counts many installment lenders among its membership and works with federal, state and local governments to serve these members in the public interest. AFSA opposes legislative efforts to impose APR caps, intended to affect payday lenders, but often ensnaring installment lenders too. AFSA is active in efforts to draw

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attention to the important distinctions between TILs and payday/title loans, and has worked closely with organizations like the Consumer Financial Protection Bureau (CFPB) to reinforce these differences and negotiate exceptions from payday regulations for installment lenders.

AFSA will continue to monitor and engage in legislative and regulatory activity relating to consumer finance in support of its installment lending members.

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