

## ZONING ORDINANCES

In recent years, policymakers at state and local levels have looked to limit the exposure of borrowers to sources of credit that they deem risky. One of the ways in which municipalities have sought to do this is through zoning ordinances that prohibit certain types of lenders from operating in particular areas.

These local ordinances are meant to target usurious or illicit activities and are usually cited as a means to keep payday or title lenders in check. Nevertheless, ordinances are often written so broadly that they have unintended consequences for other sources of small-dollar credit, such as Traditional Installment Loans. This is most common when policymakers stray from state law definitions.

As of August 2013, AFSA identified 204 ordinances targeting payday lending that are either in effect or are under consideration, and a further 26 that are no longer in effect or were considered but not adopted. Of those pending or effective, 34 percent either have a definite or potential impact on installment lenders.<sup>1</sup>

### AFSA'S POSITION

Zoning ordinances intending to tackle problems associated with predatory lending risk create “credit deserts” if they fail to exempt safe, beneficial credit options for needy borrowers. These measures are generally intended to address challenges associated with payday and title lenders, but also affect Traditional Installment Loans, which are structured in a way that is radically different from payday and title loans and offer significantly better terms and levels of safety.

By exempting Traditional Installment Lenders from zoning ordinances designed to crack down on so-called predatory lenders, policymakers can avoid creating “credit deserts” by retaining a credit option that is seen as beneficial and has long operated within a legal framework, licensed and thoroughly regulated by federal and state consumer protection agencies.

Traditional Installment Loans can be exempted from ordinances without risk. Their primary difference from payday loans is that they address the cycle-of-debt problem for borrowers by

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<sup>1</sup> American Financial Services Association, *Lending Establishment Municipal Zoning Ordinances Chart*, at [http://www.afsaonline.org/eSeries/imisAFSA/ScriptContent/memberfiles/get\\_sga\\_resource\\_file.cfm?flid=1076&fldrid=22](http://www.afsaonline.org/eSeries/imisAFSA/ScriptContent/memberfiles/get_sga_resource_file.cfm?flid=1076&fldrid=22) (accessed Aug. 26, 2013).

requiring payment plans that allow affordable monthly debt reduction without the constant renewals of single pay loans. Other differences include:

- Installment loans are less expensive for the consumer than payday loans.
- Installment lenders do not impose pre-payment penalties on loans.
- Installment lenders work out a borrower's ability to repay a loan before making it, using a monthly net income/expense budget based on information provided by prospective borrowers, thereby ensuring that proposed monthly loan payments are affordable.
- Installment lenders report data to credit bureaus, which helps borrowers build their credit histories over time.

AFSA will continue to track these ordinances and to push for installment lenders to be exempt from zoning restrictions intended for payday and title lenders.