May 5, 2023

Governor Ron DeSantis
Plaza Level 05, The Capitol
400 S. Monroe Street
Tallahassee, FL 32399

Re: HB 1267 – an act relating to consumer finance loans

Dear Governor DeSantis:

I write on behalf of the American Financial Services Association ("AFSA")[1] in support of House Bill 1267, which would enact a much-needed update to the allowable interest rate for installment loans in Florida. HB 1267's update to the currently permitted interest rate bracket would take a major step in the right direction toward opening up the state to more responsible, affordable credit for Florida consumers.

Under the current decades-old rate structure for installment loans, borrowers in Florida have limited options for well-structured, smaller loans compared to many other states; those options could further decrease due to the rising cost of doing business and recent increased costs for funds. Except for incremental increases in the tiers that have not kept up with inflation, Florida's consumer finance loan rates have remained unchanged since 1973. In fact, in the time since Florida updated its rates, 42 other states have established more competitive rate and fee structures that attract lenders to provide their services in those states. HB 1267 will allow lenders in the state to offer installment loans in amounts that more accurately reflect the cost of providing the loan and bring the state's rate closer to a level that opens Florida's credit market to more affordable credit options for consumers. Without HB 1267, consumers may be left to turn to unlicensed online payday lenders, title lenders, or pawn shops to secure credit they need; by comparison, these loans are much less preferable and less safe forms of lending than the traditional installment loans offered by AFSA members.

For over 100 years, traditional installment lenders have consistently provided consumers with reliable, community-based small-dollar credit that is accessible and affordable, giving borrowers a tried-and-tested mechanism to safely manage their household credit. For small-dollar loans, the quality, affordability, and soundness of the loan is best judged by its structure. Traditional installment loans are widely acknowledged by consumer groups and others as a safe and affordable form of credit, carrying with them significant socio-economic benefits for individuals, families, and communities. This appreciation for traditional installment loans as tools of financial capability and even mobility, hinges on the fact that they are repaid in regularly scheduled, equal payments of principal and interest. Furthermore, unlike payday loans, these loans require an underwriting process that includes a

[1] 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.

calculation of the borrower's ability to repay a loan out of their monthly budget and also report loan performance directly to credit bureaus, which is vital for Florida borrowers looking to build a credit history and increase their financial mobility.

According to the Federal Reserve, nearly four in ten adults, if faced with an unexpected expense of $400, would either not be able to cover it or would cover it by selling something or borrowing money, making access to credit critical when a financial emergency strikes. Unfortunately, because of the existing laws, 21 of Florida's 67 counties are considered credit-insecure—communities with high concentrations of residents but no or low ability for them to obtain credit at choice. In fact, three of the 50 most credit-insecure counties nationwide are in Florida (Glade, Lafayette and Union). As a result of existing laws, there are currently only 167 small loan branches around the entire state; by comparison, Georgia—a state one third of the size—has over 1,000 locations offering loans to its consumers. Florida consumers need credit but have limited access because of the current rate structure. Instead, last year, 45 percent of Florida's Consumer Finance loans were made by a handful of online lenders at rates not subject to the state's rate structure. Without access to safe affordable loans designed for repayment, these Floridians are forced to turn to less safe or even illegal sources of credit which can result in a cycle of debt.

For borrowers with lower credit scores or no credit history, banks and credit unions cannot pick up the slack from established licensed non-bank lenders. Regular attempts by private entities and government at all levels aimed at catalyzing the provision of small-dollar loans by banks and credit unions simply retread a well-worn path to the unmistakable conclusion: banks and credit unions cannot successfully balance their business models with the provision of safe and affordable credit for non-prime borrowers. Traditional installment loans are a crucial source of this non-bank credit, and HB 1267 will open this industry to more competition, benefitting Florida's credit-insecure consumers.

By making Florida's maximum allowable rate more competitive with those in other states, Florida will attract more lenders who will open more branches in Florida's communities, be licensed and regulated by the Florida Office of Financial Regulation, and make loans to Floridians who need them. For these reasons, we respectfully urge you to sign HB 1267. Thank you for your consideration of our comments. If you have any questions or would like to discuss this further, please do not hesitate to contact me at (202) 469-3181 or mkownacki@afsamail.org.

Sincerely,

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