March 24, 2021

SB 218

Testimony Before the Senate Financial Institutions and Insurance Committee

Testimony by Marlee Carpenter, Coalition for Payday Loan Reform

Mr. Chair and Members of the Committee;

Thank you for the opportunity to provide testimony on behalf of the Payday Loan Coalition. We are here in support of SB 218.

SB 218 modernize outdated Kansas codes in regards to small dollars loans in Kansas. The bill updates the law for vehicle title loans and revises the payday loan section, which was enacted over 25 years ago, to reflect modern installment loan principles. At the same time, the bill increases the allowable interest rate on installment loans, increases the size of allowable loans under the payday loan law from $500 to $2,500, and indexes allowable fees to inflation to ensure ongoing access to credit far into the future.

Similar reforms in other states have expanded the marketplace for lenders and increases safe and affordable credit options for consumers. SB 218 incorporates input from state regulators and other consumer lenders that operate in Kansas. Attached to my testimony is a packet of information that has been assembled by Pew Charitable Trusts. This information was put together for the House Financial Institutions Committee, where Pew provided technical assistance in drafting the bill based on research and extensive evidence from other states. HB 2189 and SB 218 are identical bills.

The Coalition believes that SB 218 fairly treats the current payday lenders in the state, allows them the ability to continue to lend but also opens up opportunities for new lenders in the market. Reforms have recently passed in Colorado, Virginia and Ohio. These states have seen payday lenders continue to operate in their states. The current Kansas bill allows similar or more revenue for lenders.

Thank you for your time and I am happy to answer any questions.

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United Way of Greater Topeka
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To: House Committee on Financial Institutions and Rural Development

From: Nick Bourke, Director, Consumer Finance

Re: **Technical Analysis of HB 2189, Pro-Consumer, Pro-Credit Small-Dollar Loan Reform**

Date: February 18, 2021

My name is Nick Bourke and I direct the consumer finance work at The Pew Charitable Trusts, a nonpartisan nonprofit organization that conducts research and promotes evidence-based public policy. I have spent twenty years as a market researcher, product manager, and legal advisor, mostly in the banking and consumer finance market. My testimony is informed by in-depth research and technical assistance Pew has conducted over the past ten years. This includes unique, nationally representative telephone surveys of payday loan borrowers, 22 focus groups with borrowers of high-cost credit products across the country, and extensive analysis of market and regulatory data. We have published reports, briefs, and fact sheets available at www.pewtrusts.org/small-loans. I appreciate the opportunity to discuss these findings with you at the hearing scheduled for February 22.

In short, Pew's analysis confirms that HB 2189 uses an evidence-based approach to modernize outdated Kansas codes. The bill updates the law for vehicle title loans and revises the payday loan section, which was enacted over 25 years ago, to reflect modern installment loan principles. At the same time, the bill increases the allowable interest rate on installment loans, increases the size of allowable loans under the payday loan law from $500 to $2,500, and indexes allowable fees to inflation to ensure ongoing access to credit far into the future.

As similar reforms have demonstrated in other states, this bill expands the marketplace for lenders and increases safe and affordable credit options for consumers. HB 2189 incorporates input from regulators and several types of consumer lenders, and we understand that several lenders are expressing support for this bill today. The concerns of those who opposed a prior version of this bill in 2017 have been thoroughly addressed, such as raising allowable fees, increasing allowable loan size, accommodating vehicle title lending, and much else besides.

In our analysis, HB 2189 would benefit Kansas by stopping well-documented consumer harms, saving residents money, and modernizing the law in a way that attracts new businesses and expands small-dollar credit options throughout the state. For these reasons, Pew supports HB 2189.

The Kansas Small-Dollar Loan Market

The typical APR for a standard payday loan in Kansas is 391%. Under K.S.A 16a-2-404, payday loans may not last longer than 30 days. Loans come due in a single payment. However, the typical borrower cannot afford such a large payment without becoming unable to meet other financial obligations, like mortgage or car payments. Even so, installment loans with more affordable payments are prohibited under the statute, and so it is common for consumers to borrow and repay loans consecutively. The average amount of time that a payday borrower actually spends in debt during the year is five months. In dollar terms, a borrower who takes out $300 today and is in debt for five months would repay a total of $750 ($450 in fees and $300 in principal). Pew's research shows that payday loans in Kansas carry excessive fees that take millions of dollars from residents each year.

Kansas also has some of the highest-cost open-end credit in the country. K.S.A. 16a-2-401(1) authorizes unlimited interest rates for lines of credit, while other parts of the code allow virtually unlimited additional fees. These lines of credit work somewhat like a credit card, but a small number of payday and title loan companies far surpassed traditional credit card terms, charging interest rates that are often 299% or higher. Kansas is one of only five states where payday lenders use such an unrestricted line-of-credit statute.

Over the years, the open-end credit part of the Kansas code has evolved into something unusual and unforeseen. Kansas is the only state where vehicle title lenders operate exclusively under the open-end credit code (unlike other states, Kansas does not have a statute authorizing vehicle title lending, yet title lenders operate freely under the open-end credit statute (with virtually unregulated lending practices) and the uniform commercial code (for taking a security interest in the loan). According to OSBC data, 71,754 title loans originated in Kansas between 2018 and 2020, and lenders repossessed 6,236 vehicles in connection with these loans.[1] Of these repossessed vehicles, lenders sold 95% at auction. In other words, more than one in 12 title loans ends in repossession and, usually, sale of the borrower's vehicle. Because many people use more than one title loan over time, the percentage of borrowers affected may far exceed one in 12.

According to OSBC, the small-dollar credit market in Kansas is highly concentrated:

- Payday Loans: Four companies control 68.2% of the market (the top company controls 26.4%)
- Vehicle Title Loans: The top two companies control 53.8% and 28.5% of the market, respectively
- "Other High-Rate" Loans: The largest three companies control 50.5%, 19.2%, and 15.2% of the market, respectively. (These include all loans other than payday and tittle loans with APRs exceeding 36%, such as high-rate open-end credit.)[2]

At the same time, Kansas law prohibits transparently priced small installment loans. Small installment loans have proved to be a viable, safer, and lower-cost alternative to payday loans and high-cost lines of credit in other states. As a result, lenders charge Kansas consumers far higher prices than they charge in other states (**see loan examples in Appendix 1, at page 12**). This has the effect of preventing lower-cost lenders from competing for business in Kansas, leaving the state's market in the hands of a small number of payday and title loan companies that are willing to lend at aggressive or excessive terms.

[1] OSBC data on file at The Pew Charitable Trusts.
[2] Office of the State Bank Commissioner, Testimony of Melissa Wangemann, General Counsel (February 17, 2020), available at: http://kslegislature.org/li_2020/b2019_20/committees/ctte_s_wam_1/documents/testimony/20200217_03.pdf. See pages 19-21.

What HB 2189 Does

Empirical evidence shows that states can modernize their laws both to protect borrowers and expand access to affordable credit without tradeoffs for consumers. Like other states that have enacted modern, effective consumer credit policies, HB 2189 ensures that all loans can be repaid in affordable installments, with a reasonable amount of time to repay, at prices that are fair for consumers and profitable for lenders.

Short Summary of HB 2189 (As Introduced)

Section 1 **(p. 1)**	Technical amendments	*Ensures that other sections of the bill fit within the code properly.*
Section 2 **(p. 1 – 3)**	Sets a single 36% maximum finance charge for open-end credit and closed-end installment loans.	*Increases the allowable rate on closed-end installment loans (from a tiered structure starting at 21% to a single allowable rate of 36%). Applies the same rate to open-end credit. Will expand access to closed-end installment loans; high-rate open-end credit will shift to the revised section governing "alternative small installment loans" (next section).*
Section 3 **(p. 3 – 12)**	Revises payday loan law, K.S.A.-2-404. Creates new, closed-end "alternative small installment loan" • Removes mandatory 30-day max. loan duration (lenders may choose terms up to 24 months) • No min. duration if borrowers meet income test; else 3-month min. duration w/ no income test • Simple rate and fee structure: Up to 36% annual interest, $30 monthly fee, and $25 underwriting fee (APRs 36% to 196%) • Removes $500 max. loan size (loans may be up to $2,500) • Authorizes vehicle title lending (loans may be secured by title to a car the borrower owns).	*Revises the payday loan section to remove requirements that the loans be single-payment loans lasting no longer than 30 days. Greatly expands options for lending and borrowing loans up to $2,500. Loans must be closed-end installment loans, but borrowers may repay in full within one pay period, or at any other time, at their option and without penalty.*
Section 4 **(p. 12 - 14**	Revises K.S.A. 16a-2-501 to limit additional fees charged on open-end credit to an annual fee up to $50, but applies this change only to open-end credit that is not secured by a dwelling and not made by depository institutions (i.e. HELOCs and any open-end credit from supervised banks and credit unions are exempt from this change).	*Closes a loophole allowing unlimited additional fees on open-end credit, which payday and title lenders have used to avoid intended legislative guidelines. Will have no impact on conventional open end credit services; high-rate open-end credit and open-end vehicle title loans will shift to the revised section governing "alternative small installment loans" (prior section).*
Section 5 **(p. 14)**	Technical amendments	
Section 6 **(p. 14)**	Effective date January 1, 2022	

HB 2189 builds on evidence-based, bipartisan reforms enacted in Colorado, Ohio and Virginia—and is more pro-credit than laws in Nebraska, Montana, and elsewhere

HB 2189 reflects key lessons learned from effective reforms in other states over the past decade. These reforms show that modernizing laws to eliminate mandatory single-payment terms and authorize small, closed-end installment loans leads to widespread access to credit with better outcomes for consumers and communities—if prices are higher than traditionally allowed under state usury laws but lower than conventional payday loans. (Kansas's general usury rate under K.S.A. 16-207 is 15%, while short-term payday loans under K.S.A. 16a-2-407 in Kansas have APRs of 391%.)

In 2010, Colorado lawmakers required that all payday loans be paid back in affordable installments over time at prices that were reduced by two-thirds (resulting in typical APRs of 115%; **see Appendix 2, at page 20**).[3] According to regulatory data, borrowers saved more than $40 million a year in that state, three-quarters of loans were repaid early (without penalty), and bounced check fees and defaults per borrower per year went down. Access to credit remained widely available: before Colorado's 2010 reform, 93% of residents lived within 20 miles of a payday loan store; while after reform, 91% of residents lived within 20 miles of a store. Similarly, 82% lived within 5 miles of a store before, and 77% did after. These reforms resulted in more than $400 million in savings over a decade while retaining widespread access to credit. The maximum loan size under Colorado's law is $500.

In 2018, Ohio lawmakers built on Colorado's successful model with comprehensive reform that was slightly more flexible for both borrowers and lenders. They allowed larger loans and spread costs more evenly over the life of the loan. After Ohio's 2018 reform, numerous locations remain open throughout the state, now with appropriate licenses according to the law's requirements (including several lenders that operate in Kansas today) and borrowers are saving at least $75 million annually. The legislature voted to eliminate vehicle title lending, but access to small-dollar credit remains widely available from unsecured lenders. The maximum loan size under Ohio's law is $1,000.

In Virginia, bipartisan lawmakers passed similar reforms in 2020. Virginia's approach demonstrated further that modernizing state laws could be done with additional flexibility and support from lower-cost lenders. In Virginia, the largest of the payday loan providers operating in the state, which also operates storefronts in Kansas today, adapted their product under the new law and it costs 4x less than before reform (**see loan examples in Appendix 1, page 12**) and 3x less than what they charge Kansas consumers today. The maximum loans size under Colorado's law is $2,500.

These model reforms were successful because they were designed with seven key improvements in mind, which are all reflected in HB 2189**:**

1. Affordable payments. Research shows that payments of no more than 5% are viable for efficient lenders and affordable for borrowers. After Colorado's 2010 reform, the typical loan consumed 4% of the average borrower's paycheck. Under HB 2189, lenders may choose to require payments in three

[3] Colorado reformed its payday loan statute in 2010. Payday loan companies continued operating under the revised statute until 2018, when Colorado had a ballot initiative that resulted in payday lenders switching to a different statute that still resulted in prices about 3x lower than Kansas and with loans still repayable in equal installments. Companies continue to provide credit under this statute.

months or longer, or in less than three months if each payment does not exceed 5% of a borrower's gross monthly income.

2. Prices that are fair for borrowers and viable for lenders. An annual interest rate, such as 36%, and a limited monthly fee of no more than $30, provides adequate revenue for lenders to continue making credit available, while ensuring consumers with low or no credit scores can obtain loans. HB 2189 allows APRs that range from 36-196% and loans with a typical APR of 140%. Allowable fees under HB 2189 are somewhat higher than reform laws in other states, but substantially lower than what Kansas borrowers pay today.

3. No incentives for refinancing. Borrower and lender interests are better aligned when revenue is earned over time, rather than through large, upfront fees. HB 2189 allows a maximum origination fee of $25 for loans larger than $400 and longer than 4 months. This limits incentives for lender-driven refinancing while compensating lenders for appropriate costs of origination.

4. **Enough time to repay (and compatibility with federal regulation)**. Colorado hard-coded six-month minimum loan durations. Ohio lawmakers designed a more flexible model so that lenders could set shorter durations for customers that can afford larger monthly payments. HB 2189 uses Ohio's flexible approach. Borrowers would still have the option to repay in just two weeks or at any time, without penalty, if they wish to do so. Enacting HB 2189 would make Kansas law compatible with potential federal payday loan regulations: because it removes the existing 30-day maximum term and enables loans that last up to 24 months, HB 2189 enables a wide variety of lending that would have to comply if the Consumer Financial Protection Bureau reinstates its ability to repay rule (which only governs loans lasting 45 days or less; **see Appendix 5, page 23**).

5. Limits on long-term indebtedness. Limiting loan costs to no more than sixty percent of the loan principal prevents loans with unreasonably long terms and excessive costs, without being too prescriptive about how loans are structured. HB 2189 allows any loan term up to 24 months, as long as total finance charges do not exceed sixty percent of the loan amount (for example, total fees and interest on a $500 loan could not exceed $300, a total repayment of $800). HB 2189 increases the potential revenue for lenders compared to Ohio by raising this threshold to 75% for loans above $1,500 (for example, total fees and interest on a $2,000 could not exceed $1,500, a total repayment of $3,500).

6. Efficient lenders—large and small—are able to provide access to credit. When Colorado required affordable payments and cut prices by two-thirds, some stores closed, but the remaining stores each served twice as many customers (**see Appendix 2, page 20**). In Ohio, after their 2018 reform, existing lenders got new licenses and consolidated, and new, lower-cost providers also entered the state to provide credit. In Virginia, reforms garnered support from lower-cost lenders that makes loans of a couple hundred dollars or more; these lenders are currently expanding in the state.

7. Ensuring all lenders are licensed appropriately. For effectiveness, states can deem loans made without a license "null, void and uncollectable," so the state attorney general and regulator can prevent lenders from collecting on illegal loans. It's also prudent to close off unintended statutes, such as a brokerage statute where lenders can charge unlimited fees using a "credit services" license. Yet under effective reform, a variety of lenders, including online lenders, can obtain a license and lend profitably and safely throughout the state.

These pro-credit improvements are distinct from an "all-in" APR rate cap of 36 percent, which is what some states have chosen to do to effectively eliminate payday lending. That approach—which has been adopted in Nebraska (2020), South Dakota (2016), Montana (2010) and elsewhere—does not allow enough revenue for lenders who offer loans to borrowers with damaged credit. **Instead, HB 2189 would allow annual interest up to 36 percent interest, plus additional fees including a maintenance fee up to $30 per month, resulting in "all-in" APRs that range from 36% to 196%.** This approach is substantially more favorable to lenders than prior Kansas proposals, such as HB 2267. Payday, vehicle title, and traditional installment lenders have provided small-dollar credit to low-income borrowers under similar but more restrictive rules in other states.

HB 2189 adopts an evidence-based approach to preserve access to credit—and would be the most pro-credit reform adopted to date

Policy Option	Nebraska Law (enacted 2020)	Prior KS reform proposal (HB 2267, 2017)	Ohio Law (enacted 2018)	Pro-credit, pro-consumer compromise (2021, HB 2189)	Kansas Law (current, enacted 1993)
Cost to borrow $400 for 5 months	**$37** (but not available – stores closed)	**$137**	**$176**	**$212**	**$600**
Context and net impact	2020 ballot measure capped rates at 36%, passed by wide margin, 83-17%. Rates too low to enable payday or other small loans, so stores closed.	Designed using Colorado model to allow loans up to $500 with fair prices & affordable payments; did not seek to enable competition from traditional installment or fintech lenders.	Bipartisan, evidence-based reforms enable payday installment lending up to $1,000 with fair prices & affordable payments. Credit remains available throughout the state from installment and fintech lenders.	Enables loans up to $2,500 with prices slightly higher than OH & affordable payments; Expands options and competition from installment and fintech lenders.	Lenders charge Kansas consumers 2-4X higher prices than necessary for widespread access. Lower-cost small installment loans are locked out of the market by law.

Note: ***See Appendix 3 (page 21) for an expanded comparison****. Compared to HB 2189, Colorado reform had lower allowable revenue and smaller allowable loan size ($500 max. compared to $2,500 under HB 2189), and Virginia reform had lower allowable revenue.*

Credit continued to flow after reforms in other states—and HB 2189 adds additional assurance of that

When Colorado, Ohio, and Virginia debated their law changes, high-cost lenders argued the changes would put them out of business and eliminate borrowers' access to credit. But after reforms took effect, it turned out those concerns were unfounded. The Colorado state regulator's reports showed that there was somewhat *more* payday loan credit issued after the 2010 reform than under the previous law, but with lower prices, affordable payments, and reasonable time to repay. As Colorado's former Democratic

House speaker and Republican Senate majority leader wrote after reform, that "solution strikes a balance, providing consumers with greater protections and ensuring that credit remains widely available. … Lenders maintain a restructured and successful business model." A finance professor who examined Colorado's 2010 payday lending reform found that consumers experienced large savings "with no evidence of a reduced access to funds."

The loan examples provided in Appendix 1 (page 12) prove the point: many of the same companies that operate in Kansas today also operate in states that have reformed their laws—but they charge Kansas residents three times more. The reason that Kansas customers pay so much more is straight-forward: Kansas law allows Kansans to be charged more, and prevents competition from lower-cost installment loans; but the laws in other states do not, and so customers elsewhere still get loans, but they pay much less for them.

It might seem surprising that high-cost lenders would continue claiming that reform would eliminate access to credit, when it is easy to demonstrate that credit continues to flow in states that modernized their laws. But they continued to make this claim recently in Ohio, which passed a payday and title loan reform bill in 2018, and during the legislative process in Virginia in 2020. Numerous storefronts remain in communities throughout Ohio, offering small loans at prices three times lower than Kansas. And several lower-cost lenders—because of the newly level playing field—have entered the Ohio market, too. This is also what is occurring in Virginia as we speak: some providers choose not to compete, others remain and transform their products, and new companies enter the market to offer loans on a level playing field.

Following reform in Ohio, the Republican bill sponsor noted, "One of the biggest arguments against payday lending reform was that if we imposed actual fairness constraints on lenders, they would shut down and leave Ohio. Instead, what we see is the first license being issued in the 11 long years since the Legislature first tried to address payday lending."

To be clear, proper reform of the law will lead some existing stores to close. In Colorado, some stores closed, but the remaining stores each served twice as many customers (**see Appendix 2, page 20**). In Ohio, some stores closed, and vehicle title lenders left the state (lawmakers voted to require the loans to be unsecured, making title loans illegal). Virginia is experiencing a similar consolidation. Yet in each state, remaining stores serve more customers per store, and credit is available throughout the state. New lenders have also entered the market, including both online and storefront lenders. HB 2189 includes additional assurances that credit will continue to be widely available in Kansas, such as authorizing loans to be secured with vehicle titles and allowing larger loan sizes and higher cost thresholds, allowing lenders to earn more revenue compared to other reform states—plus indexing allowable fees to inflation.

HB 2189 fairly addresses the concerns of payday and title lenders, has the support of mainstream lenders and local stakeholders

HB 2189 is a pro-consumer reform bill that would enhance consumer protections. But it is also a pro-credit bill that would expand options and facilitate more competition in this market. Contrary to the testimony you may hear from incumbent payday and title lenders who are charging Kansas consumers higher prices than necessary, HB 2189 incorporates the interests of all types of small-dollar lenders—including payday and title lenders—and other businesses, consumers, community and faith leaders, and regulators. Because of our role in supporting the design of HB 2189, we had the opportunity to synthesize input from these stakeholders, as explained below. The bill also incorporates numerous technical adjustments based on extensive feedback from the OSBC.

We understand that at least five non-bank lenders support HB 2189, along with the Kansas Financial Services Association. This is likely because HB 2189 is drafted in a way that responds to the concerns of *all* lenders in the small-dollar loan market (not just those of a handful of payday and title loan companies that control the market today)**.** HB 2189 speaks to the concerns of *all* lenders by offering more flexibility and revenue compared to prior reform proposals in Kansas and reform laws enacted in other states. HB 2189:

- Increases the code's allowable rate on mainstream, closed-end installment loans (from a tiered structure starting at 21% to a single allowable rate of 36%).
- Creates a new type of closed-end installment loan, the "alternative small installment loan," authorizing loans up to $2,500
- Increases revenue for lenders compared to reform in other states and prior Kansas proposals (HB 2267, 2017):
    - Higher maximum monthly fee of $30 (50% higher than the $20 fee proposed in Kansas HB 2267, 2017, and higher than fees allowed in comparable laws in Virginia and Colorado); adds an "underwriting fee" of up $25 dollars (which was not authorized in previous Kansas proposals). This increases by $75 the amount of revenue a lender can charge for a typical $500, four-month loan.
    - The total cost cap is increased from 50% (in Kansas HB 2267, 2017) to 60% for loans under $1,500 and to 75% for loans of $1,500 to $2,500.
- Enables loan sizes up to $2,500, larger than Colorado ($500), Ohio ($1,000), and prior Kansas reform proposals (HB 2267, 2017 proposed a maximum $500 loan size).
- **See Appendix 3 (page 21)** for a comparison chart showing how HB 2189 creates a middle-ground approach with additional pro-credit concessions compared to prior Kansas proposals and other state reform laws.

Payday and title loan company concerns are also reflected in HB 2189. Unfortunately, payday and title loan companies have categorically opposed every reform bill or proposal that would substantially reduce the revenue they receive from each customer or erode the barrier to competition from lower-cost installment lenders that existing law provides them. We understand that this is also the case with HB 2189. This is understandable, because proper reform will reduce overall revenue accrued by these companies as Kansas residents save money and reap the benefits of enhanced competition. But it is important to note that these companies can and do continue to operate under laws elsewhere that are similar but more restrictive than HB 2189 (see Appendix 1, page 12).

HB 2189 includes several concessions that respond to the concerns of payday and title loan companies operating in Kansas, as demonstrated in their testimony on prior reform bills (such as HB 2267, 2017) and otherwise.

- *Consumers can make their own choices, including if they want to repay a loan after only a couple weeks*. HB 2189 allows consumers to repay at any time, from one day to 24 months, at their option and without penalty (although, based on feedback from payday lenders, HB 2189 does not give borrowers a way to avoid monthly fees if they pay off the loans in the first two months, as Colorado's reform law did). Further, HB 2189 expands options by eliminating the 30-day minimum loan term in the payday loan statute and expanding installment loan options from lower-cost lenders.

- *Loans should have straight-forward fee structures.* HB 2189 sets a simple pricing formula for any loan. It eliminates the tiered rate structure for traditional installment loans (setting a 36% maximum rate for any loan), and pricing for the new alternative installment loans is based on a monthly maintenance fee up to $30 and annual interest up to 36%.
- *Title loans should continue to be allowed and regulated by the OSBC.* Unlike Ohio's reform law and prior Kansas proposals (HB2267, 2017)—which did not authorize title lending—HB 2189 specifically authorizes the taking of car titles as security for a loan. The bill allows secured lenders to charge as much as unsecured lenders and allows title lenders to earn more revenue compared to Virginia. Title lenders would be able to continue making title loans under HB 2189, under licenses and supervision from OSBC.
- *If revenue is too tight, access to credit will be eliminated and consumer options will be limited.* HB 2189 allows more revenue and larger loans compared to prior Kansas proposals (HB 2267, 2017) and reform laws in others states where small-dollar credit has remained widely available (**see Appendix 3, at page 21)**. The bill allows annual interest up to 36% *plus monthly and other fees*, resulting in APRs ranging from 36% to 196% (a major distinction from the 2020 Nebraska law that set a 36% APR cap with no fees, resulting in all stores closing). HB 2189 expands consumer choice by enabling longer repayment periods (with optional prepayment at no cost), and it has the support of a broad group of lenders who will expand competition and choice under HB 2189.
- *Consumers are satisfied with payday and title loans and there are very few complaints filed with OSBC.* Pew's research confirms that borrowers appreciate receiving loans when they need money, but by overwhelming margins both borrowers and the public support the types of reforms reflected in HB 2189—installment loan structures w/ optional prepayment at no additional cost, affordable payments and paying down the principal with each payment, access to larger loans, and so on. HB 2189 expands consumer borrowing choices. The bill also helps lenders serve low-income consumers and ensure repayment by accommodating title lending (authorizing the taking of a car title to secure a loan) and allowing the taking of a check to secure a loan, as with payday loans today—all with interest and fees that surpass traditional installment loans and similar reforms enacted in other states.
- *Working families benefit from having reliable sources of short-term credit to manage their cash flow and weather financial shocks*. HB 2189 shares this goal and would achieve it, as demonstrated throughout this letter.
- *The payday and title loan industry makes contributions to the state, including jobs*. HB 2189 allows these lenders to continue operating and expands the types and sizes of loans allowable under their licenses. Further, it provides incentives for competition from a broader range of companies by creating a new type of alternative installment loan and raising the allowable rate on traditional installment loans (under a single unified rate cap). Kansas residents will save money by gaining access to lower-cost loans from a wider variety of lenders, making them better able to spend in their communities and less reliant on external sources of support.

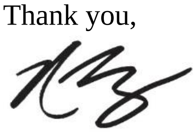
HB 2189 is compatible with proposed federal regulations

We recently received a question about whether HB 2189 would be compatible with proposed federal regulation of payday loans. The answer is yes. HB 2189 would be compatible with federal regulation because the Consumer Financial Protection Bureau's (CFPB) proposed ability to repay rule would apply only to loans that last up to 45 days or have balloon payments. Under HB 2189, the 30-day maximum term on payday loans would be removed and loans under the statute would be installment loans lasting up to 24 months, where the CFPB rule does not apply. Obviously, lenders using the payday loan law in Kansas today, with its 30-day maximum loan term, would have a problem under the proposed federal regulation *if you do not enact HB 2189*. But if you enact HB 2189, the 30-day maximum loan term in the statute will be lifted and installment loans will be able to last up to 24 months, far beyond the scope of proposed federal regulation. For more information, see **Appendix 5, at page 23**.

In conclusion: This careful approach to finding balance between the interests of lenders and consumers explains why, for the first time in Kansas, various market participants support this year's legislation. (We understand that at least five lenders support HB 2189, along with the Kansas Financial Services Association.) The proposal allows providers—new and old—to expand lending options in Kansas and serve consumers, but on terms that are much more transparent, competitive, and beneficial than the costly choices available to Kansas residents today.

My colleagues and I have testified in Kansas several times over the past six years or so. I have spent considerable time in Kansas discussing this issue over the years. And though I regret not being able to return to Kansas right now we appreciate that Kansas lawmakers and stakeholders have asked for our input. We have heard the views and concerns of a very broad range of stakeholders, including consumer groups, community and faith groups; payday and title loan companies; mainstream installment lenders; fintech companies; bank and credit union representatives; local regulators; and of course, members of the legislature and the community at large. I have no doubt that HB 2189 would be beneficial to Kansas, to Kansas consumers and communities, and to responsible lenders everywhere. Compared to prior reform bills in this state, HB 2189 also provides much more favorable terms to the payday and title loan companies operating in Kansas today. They will oppose reform because it will necessarily promote competition that decreases their bottom lines; but HB 2189 will give them ample opportunity to compete for customers and lend profitably in the state. This legislation strikes the appropriate balance between borrowers and lenders. We are happy to answer any questions that you may have.

Thank you,



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Appendix 1: Lenders Charge More in Kansas for Similar Loans

CashNetUSA

Kansas Line of Credit

What It Costs

With a line of credit, interest is calculated based on outstanding principal, while minimum payments are calculated based on outstanding principal, interest and fees. These numbers can change from payment to payment. **That means your minimum payment will usually change from one payment period to the next.**

Below, you can see an example of what it might cost to draw **$600 once from a $1,000 line of credit** and make different kinds of repayments.

If you make only your **minimum payment bi-weekly**, your repayment will look like this:

Number of Bi-Weekly Payments	Total Repayment Time	APR	Fees and Interest Paid	Total Repayment
15	7.5 months	299%	$853.11	$1,453.11

If you were to repay more than the minimum each billing cycle, the time it would take to pay off your balance would go down, as would your repayment total. If you made four bi-weekly payments of **$200** and one payment of **$174.21**, your repayment would look like this:

Number of Bi-Weekly Payments	Total Repayment Time	APR	Fees and Interest Paid	Total Repayment
5	2.5 months	299%	$374.21	$974.21

With an actual line of credit, your repayment might look different than the examples above. For instance, you could draw more money in the middle of a billing period, increasing your total repayment. Or you might repay a large sum all at once, reducing the cost and length of your repayment period.

Ohio Installment Loan

The chart below represents illustrative examples of the **cost of a $600 loan**. Rates and terms vary based on loan amount. Please see your loan agreement for the annual percentage rate (APR) and other terms applicable to your loan. If you have any questions or would like more information, please ask. Make certain the questions that you ask are answered. Make certain you understand the terms and costs of your loan.

If you repaid **once a month**, you would make seven (7) payments of $114.18 and one (1) final payment of $114.17:

APR	Finance Charge	Amount Financed	Total of Payments
121.40%	$313.43	$600	$913.43

If you repaid **biweekly**, you would make 16 payments of $53.13 and one (1) payment of $53.02:

APR	Finance Charge	Amount Financed	Total of Payments
126.97%	$303.10	$600	$903.10

With an actual installment loan, your repayment might look different than the examples above. For instance, you may be able to borrow mor money, or have a longer or shorter repayment period. Or your APR might be different, affecting the total cost of credit.

Requirements to Apply for a CashNetUSA Loan

https://www.cashnetusa.com/rates-and-terms.html#rates_terms
Accessed 2.12.21

OPEN-END BANKLINE LOAN PRICE DISCLOSURE
KANSAS

FINANCE CHARGES | Generally, your loan payments will be scheduled around your paydays. Your interest ("Finance Charge") each billing cycle equals the sum of the following for each day in the cycle: the daily balance (which includes principal only) times the daily periodic rate (equal to the Annual Percentage Rate divided by 365). Your minimum payment each billing cycle equals the finance charge, 2% of the principal and any past due amount.

The following examples show the total Finance Charge over the life of the loan if you borrow the specified Amount Financed in a lump sum, do not borrow any additional amounts and pay the Amount Financed back at the end of the terms shown below. The examples presume that you make interest payments twice a month every 14 days.

ADVANCE AMOUNT (Amount Financed)	ANNUAL PERCENTAGE RATE	FINANCE CHARGE		
		1 mo.	6 mos.	12 mos.
$100.00	360%	$27.34	$148.63	$265.27
$500.00	360%	$136.70	$743.17	$1,326.35
$750.00	360%	$205.05	$1,114.75	$1,989.52

*__ANNUAL PERCENTAGE RATE__ *The APR is the cost of your loan expressed as a yearly rate. The APR will increase if the actual loan term is shorter than this example, and will decrease if your loan term is longer.*

https://www.speedycash.com/rates-and-terms/kansas
Accessed 2.12.21

INSTALLMENT LOAN PRICE DISCLOSURE
COLORADO

FINANCE CHARGES
You will pay a 10% acquisition fee and a monthly maintenance fee of $12.50 per month on loans up to $300 and $15.00 per month on loans from $301 - $500.

The following examples demonstrate how finance charges are imposed on our loans. In the $100 example, the customer makes 3 payments of $36.88 per month with a final payment of $36.86. In the $200 example, the customer makes 3 payments of $64.38 per month with a final payment of $64.36. In the $300 example, the customer makes 3 payments of $91.88 per month with a final payment of $91.86. In the $500 example, the customer makes 4 payments of $148.75 per month.

ADVANCE AMOUNT (Amount Financed)	FINANCE CHARGE (Cost of Loan)	TOTAL PAYMENT	APR** LOAN TERM (103 Days)
$100.00	$47.50	$147.50	278.38%
$200.00	$57.50	$257.50	170.67%
$300.00	$67.50	$367.50	134.25%
$500.00	$95.00	$595.00	113.71%

**__ANNUAL PERCENTAGE RATE__ *The APR is the cost of your loan expressed as a yearly rate. The above APR is based on example loan term of 4 installment payments. Payment amounts are estimated for illustration purposes and not based on an actual loan agreement.*

https://www.speedycash.com/rates-and-terms/colorado
Accessed 2.12.21

SPEEDY CASH
INSTANT

Introducing *Instant Funding* to Debit Cards†

Rates and Terms > Ohio

It looks like you are in Ohio
To select a different state Click Here

Ohio Rates & Terms

Online Installment Loans

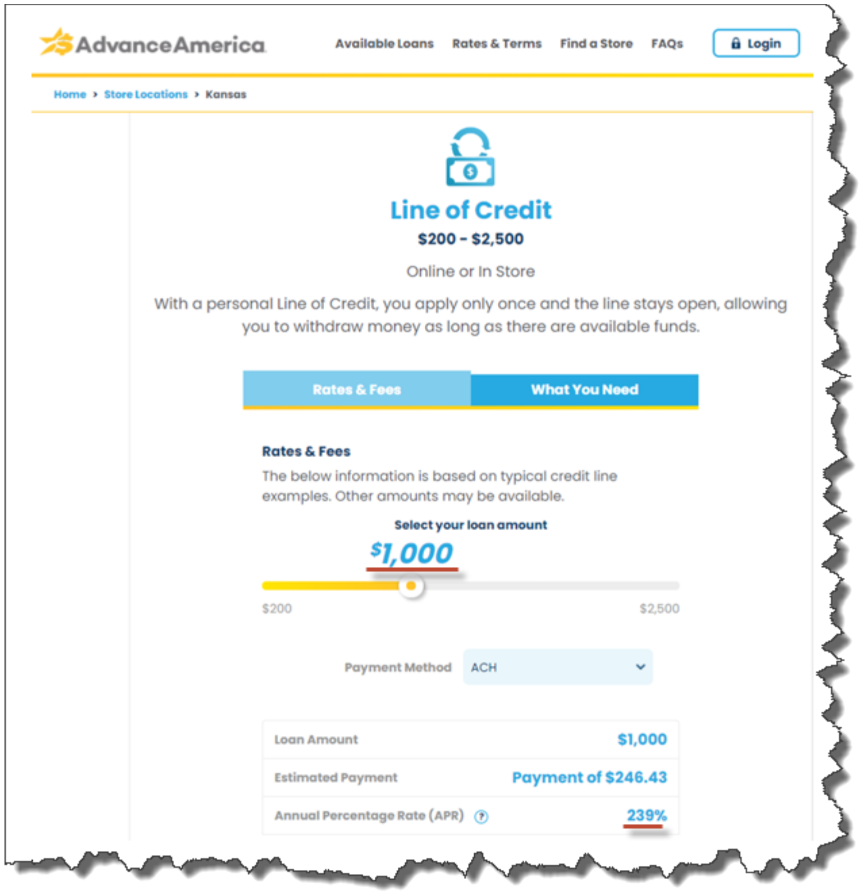
View example finance charges.

Advance Amount: (amount financed)	$100	$200	$300
Finance Charge: (cost of loan) *Assuming all payments are made as scheduled	$46.52	$92.94	$139.55
Number of Payments:	4	4	4
Payment Amount:	4 payments of $36.63	3 payments of $73.23 with a final payment of $73.25*	3 payments of $109.89 with a final payment of $109.88*
Total Payment:	$146.52	$292.94	$439.55
Loan Term:	130 Days	130 Days	130 Days
APR**	185.545%	185.355%	185.536%

** Annual Percentage Rate: The APR is the cost of your loan expressed as a yearly rate. The above APR is based on example loan terms of 4 installments due over 130 days. The APR will increase if the actual loan term is shorter than these examples, and will decrease if your loan term is longer.

https://www.speedycash.com/rates-and-terms/ohio
Accessed 2.12.21

KANSAS



Calculated Term: **9.09 months**

Calculated Finance Charges: **$1,242.45**

Source: http://advanceamerica.net/

Accessed 2.12.21, Finance Charges and Term Computed

OHIO

AdvanceAmerica

Available Loans | Rates & Terms | Find a Store | FAQs | Login

Home > Store Locations > Ohio

Installment Loan

$200 - $1,000

Online or In Store

An installment loan provides money quickly with the ability to repay over multiple payments.

Loan Rates & Terms | **What You Need**

Loan Rates & Terms

The below information is based on typical loan examples.
Other loan amounts may be available.

Select your loan amount

$1,000

$700 — $1,000

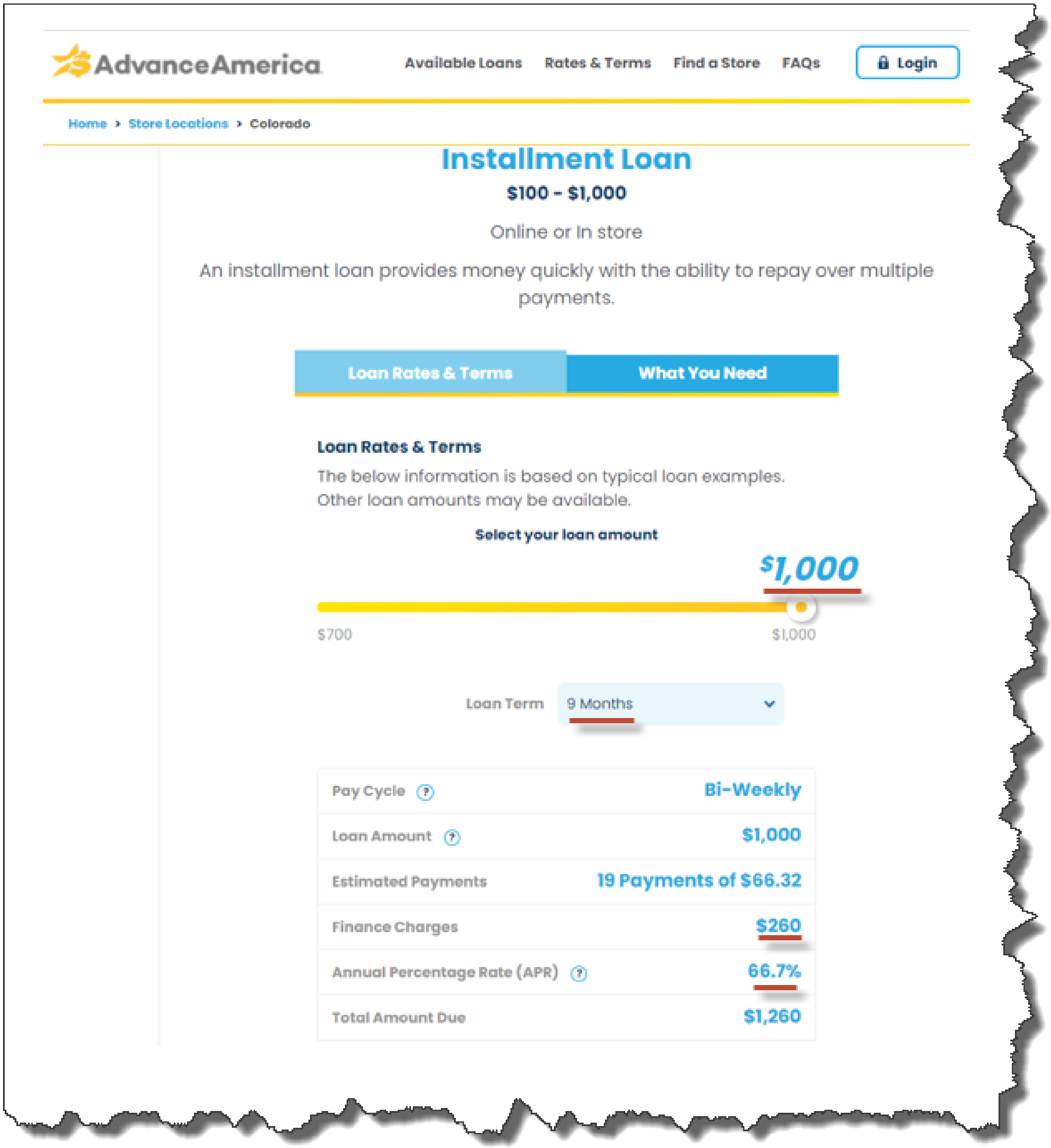
Pay Cycle: Monthly

Loan Term: 9 Months

Loan Amount	$1,000
Estimated Payments	9 Payments of $156.54
Finance Charges	$408.85
Annual Percentage Rate (APR)	89.58%
Total Amount Due	$1,408.85

https://www.advanceamerica.net/loans
Accessed 2.13.21

COLORADO



AdvanceAmerica

Available Loans | Rates & Terms | Find a Store | FAQs | Login

Home > Store Locations > Colorado

Installment Loan

$100 - $1,000

Online or In store

An installment loan provides money quickly with the ability to repay over multiple payments.

Loan Rates & Terms | What You Need

Loan Rates & Terms

The below information is based on typical loan examples.
Other loan amounts may be available.

Select your loan amount

$1,000

$700 $1,000

Loan Term 9 Months

Pay Cycle	Bi-Weekly
Loan Amount	$1,000
Estimated Payments	19 Payments of $66.32
Finance Charges	$260
Annual Percentage Rate (APR)	66.7%
Total Amount Due	$1,260

https://www.advanceamerica.net/loans
Accessed 2.13.21

KANSAS

ACE CASH EXPRESS®

Payday Advance Fees and Examples

Fee is $15 per $100 advanced
Term is 9 days to 30-days based on pay date
Amounts from $100 to $500 in $25 increments
APR (Annual Percentage Rate) varies based on advance term

Advance Amount	Advance Fee	Total Amount	APR (Assumes 14-day term)
$100	$15.00	$115.00	391.07%
$200	$30.00	$230.00	391.07%
$300	$45.00	$345.00	391.07%
$400	$60.00	$460.00	391.07%
$500	$75.00	$575.00	391.07%

COLORADO

ACE CASH EXPRESS

Installment Loan Fees and Examples

- **Acquisition Fee is 10% of the loan amount**
- **Monthly Installment Account Handling Charge is:**
  - **$12.50 per month for loan amounts of $100 - $300**
  - **$15.00 per month for loan amounts of $310 - $500**
  - **$17.50 per month for loan amounts of $510 - $750**
  - **$20.00 per month for loan amounts of $760 - $1,000**
- **155-day term, fully amortized in 5 substantially equal payments**
- **Amounts from $100 to $1,000 in $10 increments**
- **Annual Percentage Rate (APR) varies based on loan term and amount**

Loan Amount	Acquisition Fee	Monthly Installment Account Handling Charge	Finance Charge*	Total of Payments	5 Equal Installments**	APR
$100.00	$10.00	$62.50	$72.50	$172.50	$34.50	252.32%
$200.00	$20.00	$62.50	$82.50	$282.50	$56.50	149.94%
$300.00	$30.00	$62.50	$92.50	$392.50	$78.50	113.99%
$400.00	$40.00	$75.00	$115.00	$515.00	$103.00	106.67%
$500.00	$50.00	$75.00	$125.00	$625.00	$125.00	93.36%
$750.00	$75.00	$87.50	$162.50	$912.50	$182.50	81.41%
$1,000.00	$100.00	$100.00	$200.00	$1,200.00	$240.00	75.38%

ALTHOUGH STATE LAW PERMITS RENEWALS, ACE CASH EXPRESS, INC. DOES NOT OFFER RENEWALS. BORROWERS MAY BE ABLE TO OBTAIN RENEWALS FROM OTHER LENDERS.

***Total of Acquisition Fee and Monthly Installment Account Handling Charge.**
****Installments due every 31 days.**

https://www.acecashexpress.com/
Accessed 2.11.21

OHIO

Ohio Installment Loan Fees and Examples

License # ST.760164.000

Term varies based on pay date. Amounts range from $100 to $1,000 in $10 increments. Annual Percentage Rate (APR) may vary based on loan term and amount borrowed.

Examples below assume a bi-weekly pay schedule without odd days.

The finance charge includes a Monthly Maintenance Fee (the lesser of 10% of the amount financed or $30), Periodic Interest Rate (not to exceed 28% per annum), and an Origination Fee (2% of the amount financed when the amount financed is $500 or greater).

Loan Amount	Components of the Finance Charge			Total Finance Charge	Payments 1-12	Payments 13	Total of Payments	APR (assumes a 182-day term)*
	Origination Fee	Monthly Maintenance Fee	Interest					
$100.00	N/A	$50.81	$7.70	$58.51	$12.19	$12.23	$158.51	190.70%
$500.00	$10.00	$182.00	$38.50	$230.50	$56.19	$56.22	$730.50	153.73%
$1,000.00	$20.00	$182.00	$77.00	$279.00	$98.38	$98.44	$1,279.00	96.61%

*The APR calculation is based on a transaction with a 182-day term and the consumer paying on time. The APR may be different if the transaction term is not 182 days. The APR for your transaction will be disclosed in the Federal Truth-In-Lending Act Disclosures contained in your contract. Other fees that may be charged include a dishonored item charge of $20 if a check, negotiable order of withdrawal, share draft, or other negotiable instrument is returned. Before entering into a transaction, you should read the disclosure statements and contracts that are provided to you for more information.

Virginia

Virginia Installment Loan Fees and Examples

Term varies based on pay dates. Amounts range from $100 to $1,000 in $10 increments. Annual Percentage Rate (APR) varies based on loan term and amount borrowed.

Examples below assume a bi-weekly pay schedule without odd days.

The finance charge includes a Monthly Maintenance Fee (the lesser of 8% of the amount financed or $25), and Periodic Interest Rate (not to exceed 36% per annum).

Loan Amount	Components of the Finance Charge		Total Finance Charge	Number of Payments	Payment 1-12	Payment 13	Total of Payments	APR (assumes a 182-day term)*
	Monthly Maintenance Fee	Interest						
$500.00	$146.77	$49.53	$196.30	13	$53.56	$53.58	$696.30	132.69%
$1,000.00	$146.77	$99.09	$245.86	13	$95.84	$95.78	$1,245.86	85.77%

*The APR calculation is based on a transaction with a 182-day term and the consumer paying on time. The APR may be different if the transaction term is not 182 days. The APR for your transaction will be disclosed in the Federal Truth-In-Lending Act Disclosures contained in your contract. Before entering into a transaction, you should read the disclosure statements and contracts that are provided to you for more information.

Examples below assume a monthly pay schedule without odd days. (ACE Cash Express does not offer loans with a term of 3 months or 10 months but is required by Va. Code Ann. § 6.2-1816(18) to disclose the following examples.)

https://www.acecashexpress.com/
Accessed 2.11.21

Appendix 2: Colorado's Payday Loan Reform Before and After

	Before Reform	After Reform
Avg. loan size	$368*	$393
Avg. APR	319%	115%
Avg. loan duration	18.91 days (does not count rollovers or repeat borrowing)	98.62 days
Total annual number of days of payday loan credit used	29.60 million days	47.45 million days
Share of borrower's paycheck need for next loan payment	38%	4%
Number of borrowers	279,570**	259,000
Number of stores	505	235
Efficiency (borrowers per store)	554	1,102
Revenue per store	$188,292	$233,027
Consumer spending on payday loan fees & interest	$95.1 million***	$54.8 million
Borrowers' median annual income	$26,388	$27,024

*$400 in inflation-adjusted terms.
**The small 7% decline in borrower count is largely attributable to customers who were counted multiple times because they borrowed from multiple stores before reform, but no longer needed to after reform, as well as customers who gained a clear pathway out of debt under the new law so once they retired their loan they stopped borrowing.
***$103.3 million in inflation-adjusted terms.
Additional note: Colorado had a ballot initiative in 2018 that resulted in payday lenders switching to a different statute that still resulted in prices about 3x lower than Kansas and with loans still repayable in equal installments.

Sources: https://coag.gov/office-sections/consumer-protection/consumer-credit-unit/uniform-consumer-credit-code/general-information/annual-report-composites/; https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/12/trial-error-and-success-in-colorados-payday-lending-reforms

Appendix 3: HB 2189 is a Pro-Credit, Pro-Consumer, Balanced Approach

	Nebraska Law (enacted 2020)	**Prior KS reform proposal (HB 2267, 2017)**	**Ohio Law (enacted 2018)**	**Pro-credit, pro-consumer compromise (HB 2189, 2021)**	**Kansas Law (current, enacted 1993)**
Pricing and APR	- 36% annual interest - Monthly fees and origination fees prohibited	- 36% annual interest + $20 max monthly fee - no underwriting fee - Typical APR: 120%	- 28% interest + $30 max. monthly fee - 2% origination fee for loans greater than $500 - APRs generally range from 88-198%, typically 140% APR	- 36% annual interest + $30 max. monthly fee - $25 max. underwriting fee for loans greater than $400, 4 mos. - APRs range from 36-196%, typically 140% APR	- 391% APR typical for two-week $300 payday loan used repeatedly - No limits for open-end loans, range from 240-360% APR, plus fees
Maximum loan size	$500	$500	$1,000	$2,500	$500 limit for payday. Unlimited for open-end credit.
Cost to borrow $400 for 5 months	**$37** (but not available – stores closed)	**$137**	**$176**	**$212**	**$600**
Size of typical payment	N/A – stores closed	5% of paycheck	6% of paycheck, unless lender gives at least three months to repay	5% of paycheck unless lender gives at least three months to repay (then no income requirement)	36% of paycheck for typical payday loan; no affordability safeguards for open-end loans
Context and net impact	2020 ballot measure capped rates at 36%, passed by wide margin, 83-17%. Rates too low to enable payday or other small loans, so stores closed.	Designed using Colorado model to allow loans up to $500 with fair prices & affordable payments; did not seek to enable competition from traditional installment or fintech lenders.	Bipartisan, evidence-based reforms enable payday installment lending up to $1,000 with fair prices & affordable payments. Credit remains available throughout the state from installment and fintech lenders.	Enables loans up to $2,500 with prices slightly higher than OH & affordable payments; Expands options and competition from installment and fintech lenders.	Lenders charge Kansas consumers 2-4X higher prices than necessary for widespread access. Lower-cost small installment loans are locked out of the market by law.

Appendix 4: Loan Examples Under HB 2189—Options for Consumers

Kansans today often pay about three-times what lenders charge similar customers in other states, with APRs of 300% or more on small loans. And because of outdated laws, Kansans have limited borrowing options that are safe. Under House Bill 2189, Kansas residents will have better protections and a lot of borrowing options. Just a few examples of the proposed loan options are shown below. Whether they choose unsecured installment loans from stores or online, or secured vehicle title loans, the bill ensures access to fair financial products for borrowers.

Borrow $500

	Repayment (months)*	Total Cost (fees+interest)	APR	
Consumer finance loan	6	$65	43%	← *OK / thin credit*
Small installment loan (unsecured - payday)	6	$259	161%	← *Damaged credit, banked*
Small installment loan (secured - vehicle title)	6	$259	161%	← *Damaged credit, secured*

Borrow $1,000

	Repayment (months)*	Total Cost (fees+interest)	APR
Consumer finance loan	12	$230	40%
Small installment loan (unsecured - payday)	12	$591	96%
Small installment loan (secured - vehicle title)	12	$591	96%

Borrow $2,500

	Repayment (months)*	Total Cost (fees+interest)	APR
Consumer finance loan	21	$974	38%
Small installment loan (unsecured - payday)	21	$1,561	59%
Small installment loan (secured - vehicle title)	21	$1,561	59%

HB 2189 gives lenders and borrowers flexibility to choose from a variety of repayment terms based on the borrower's creditworthiness and needs. Typical examples shown. Rev 2/5/21

Appendix 5: HB 2189 is compatible with potential federal regulations and would not need to be revisited

The key points

- HB 2189 revises Kansas law to expand access to installment loans that last up to 24 months, where the CFPB ability to repay rule does not apply.
- If a loan lasts 45 days or fewer, the CFPB ability to repay rule applies.
- If the loan lasts longer than 45 days, the CFPB ability repay rule does NOT apply.

Background

In 2017, the Consumer Financial Protection Bureau (CFPB) finalized federal regulations for payday and auto title loans. The final rule was subsequently rescinded (2020) but may be reinstated in the coming years. It covers loans that have terms up to 45 days or carry a balloon payment. It does not apply to installment loans lasting longer than 45 days. Importantly, that rule does not limit rates and fees; state legislatures have the authority to limit the fees of state-licensed lenders.

300% APR payday "line of credit" or "flex loan" products and vehicle title installment loans will continue to harm Kansas residents—even under potential federal regulations—unless Kansas lawmakers act.

Kansans would only be protected from high-cost, longer-term open-end lines of credit and gain access to better credit options by taking action at the state level.

Kansans are being overcharged and the law prohibits competition from closed-end installment loans. Only Kansas lawmakers can fix that.

- Consumers in Kansas pay **2-4X more** in fees than what people pay for the same loan in other states. That will not be addressed by federal regulation.
- HB 2189 is consistent with the CFPB's 2017 final payday loan rule. Kansas lawmakers would not need to revisit state reform if federal regulations are reenacted.
    - The CFPB cannot, and has not tried to, limit prices.
    - The CFPB's 2017 rule would result in most payday loans being repaid over longer than 45 days.
    - HB 2189 is compatible with that approach, requiring that most loans be repayable over 90 days or more.

Kansas lawmakers have the power to decide how loans with terms of longer than 45 days are treated under state law.