# New 50-State Survey Finds Gains and Losses for Consumers in Larger, Longer High-Cost Predatory Loans

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***NCLC's Review of State Consumer Protection Laws for a $2,000 Two-Year Installment Loan and $500 Six-Month Loan***

**View the full report**, with maps for the District of Columbia and each state's APRs for two types of installment loans, tables outlining changes since the 2020 report, and a complete list of recommendations at: https://nclc-old.ogosense.net/issues/high-cost-small-loans/predatory-installment-lending-in-the-states.html

Boston – A high-cost predatory loan is only made worse when the loan is larger and longer, but residents in some states are gaining protections while others are paying even more than before the COVID-19 crisis, according to a new report from the National Consumer Law Center.

"Since the pandemic, Illinois stepped up to assist struggling families by decreasing rates on consumer loans while several other states welcomed predatory lenders by increasing loan rates or excessive fees," **said National Consumer Law Center Deputy Director Carolyn Carter**, author of the report. "To avoid trapping residents in long-term debt, we encourage a 36% interest rate, including all fees."

*Predatory Installment Lending in the States* tracks installment loan changes in the states since January 2020, including Illinois, Indiana, Minnesota, Virginia, and Tennessee.

**Illinois:** On March 23, 2021, **Illinois** Governor J.B. Pritzker signed S.B. 1792, which imposes a 36% APR cap on all non-bank loans made in the state. The 36% rate limit includes fees and add-on charges. This new law is a great improvement for Illinois residents. Formerly, a non-bank lender could charge an APR as high as 99% for a $500 six-month installment loan, and as high as 80% for a $2,000 two-year loan.

**Indiana** enacted a law, S.B. 395, that increases the already excessive fees that lenders can charge and distorts the interest rate. The result is that non-bank lenders in the state can now charge an APR of 89% for a $500 six-month loan, increased from 71%. For a $2,000 two-year loan the increased fee pushes the APR cap up to 40% from 39%.

**Minnesota:** The maximum APR for a $2,000 two-year loan increased from 31% to 32% due to adjustments for inflation that the state's lending laws require every two years.

**Virginia** overhauled its non-bank lending laws in 2020 by enacting H.B. 789. The law closes loopholes that high-cost lenders were using to evade the state's rate caps through open-end loans, but also authorizes much higher APRs for installment loans: 129% instead of 36% for a $500 six-month loan and 50% instead of 36% for a $2,000 two-year loan.

**Tennessee** made its already-bad lending laws worse in early 2021 by passing S.B. 344. Effective

July 1, 2021, the bill increases the junk fees that non-bank lenders can charge for small loans. Under the new law, a $500 six-month loan can have an APR as high as 121% (up from 94%), and a $2,000 two-year loan can have an 43% APR (up from 42%).

**Key Recommendations**

- **Cap APRs at 36%** for smaller loans, such as those of $1,000 or less, with **lower rates** for larger loans.
- **Prohibit loan fees or strictly limit them** to prevent fees from being used to undermine the interest rate cap and acting as an incentive for loan flipping.
- **Prevent loopholes for open-end credit.** Rate caps on installment loans will be ineffective if lenders can evade them through open-end lines of credit with low interest rates but high fees.
- **Ban the sale of credit insurance and other add-on products**, which primarily benefit the lender and increase the cost of credit, or require their cost to be included in the APR cap, as the Military Lending Act does for loans made to servicemembers.
- **Examine consumer lending bills carefully.** Predatory lenders often propose bills that obscure the true interest rate, for example, by presenting it as 24% per year plus 7/10ths of a percent per day instead of 279%. Or the bill may list the per-month rate rather than the annual rate. Get a calculation of the full APR, including all interest, all fees, and all other charges, and reject the bill if it is over 36%.

**Related Resource**
State Rate Caps for $500 and $2,000 Loans, March 2021

This report builds on NCLC's extensive work on predatory lending. For more information, please visit: https://nclc-old.ogosense.net/issues/usury.html.