50-State Survey: State Predatory Lending Laws Show Significant Changes

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NCLC's Review of State Consumer Protection Laws Sees States Gaining, Losing Protections for Popular $2,000 Two-Year and $500 Six-Month Installment Loans

WASHINGTON – A **new report** from the National Consumer Law Center finds progress toward a 36% APR cap for common short-term and longer-term loans in some states. In states that allow high-cost loans, exorbitant interest rates can trap borrowers in a cycle of debt. Two states – **New Mexico** and **North Dakota** – enacted new laws that dramatically reduce the APRs and fees allowed for a $500 six-month and $2,000 two-year installment loan. On the other hand, several states went in the opposite direction, allowing predatory loans to carry even higher APRs.

"We applaud the actions that states like New Mexico and North Dakota took to protect residents from high-cost debt-trap installment loans," **said Carolyn Carter, deputy director of the National Consumer Law Center and author of the report**. "And we thank Louisiana Governor John Bel Edwards for his decision to veto a bill that would have allowed an APR of almost 300% on a $500 6-month loan."

Predatory Installment Lending in the States includes maps and tables for annual percentage rate caps in every state and the District of Columbia, tracks installment loan changes in the states since mid-2021, and provides key recommendations for states to protect residents from predatory high-cost lending.

In 2021, the state legislature in **North Dakota** imposed a 36% APR cap on all non-bank installment loans–previously there had been no cap at all for loans over $1,000. (High-cost, short-term payday loans continue to be available in North Dakota.) The **New Mexico** legislature reduced its APR cap from a predatory 175% to 36% for a $2,000, two-year loan and 52% for a $500, six-month loan. Also on the plus side, **Maine** tightened its anti-evasion provision.

On the other hand, the **Oklahoma** legislature authorized another junk fee, just three years after another bad bill that increased the allowable per-month fees for small loans, continuing its practice of chipping away at consumer protections. **Mississippi** extended its highly abusive "Credit Availability Act," which allows APRs as high as 300% for 4 to 12-month loans of $2,500 or less, and **Wyoming** repealed special protections that had formerly applied to loans at the high end of the rates it allows. Finally, **Hawaii** repealed its payday loan law, making progress on short-term payday loans, but replaced that law with a new law that allows an APR of 146% for a $500, six-month installment loan.

The recommendations for states to protect residents from predatory high-cost lending include:

- **Capping APRs, including fees, at 36%** for smaller loans, such as those of $1,000 or less, with **lower rates** for larger loans;
- **Prohibiting 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;
- **Preventing 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;
- **Banning the sale of credit insurance and other add-on products**, which primarily benefit lenders and increase the cost of credit; and
- **Examining 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 as 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%.

"In the absence of rate limits at the federal level, state interest and fee caps are the primary bulwarks against predatory lending," **said Carter.** "By following these guidelines, states can ensure that their laws are effective at protecting consumers."

Related Resources

- NCLC's High-cost Loans online content
- Brief: After Payday Loans: Consumers Find Better Ways to Cope with Financial Challenges, August 2021
- Brief: Why Cap Interest Rates at 36%?, August 2021
- State Rate Caps for $500 and $2,000 Loans, March 2021