Wisconsin's Debt Trap

A Look at High-Cost Lending in America's Dairyland

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High-Cost Lending

High-cost lending flourished in America in the late 1800s and early 1900s, spurring the implementation of state rate caps on small dollar loans.[i] We first documented an industry strategy to expand by exempting payday lending from state interest rate caps.[ii] The elimination of many state usury caps during the push for financial deregulation in the 1970s and 80s paved the way for the industry to take hold in the 1990s. In 2000, we reported that the payday industry, which had grown to 12,000-14,000 storefronts, sought to evade remaining state usury laws by laundering their loans through banks, in a scheme known as "Rent-a-Bank."[iii]

Payday lending, and some installment and car title lending make up "high-cost lending." Payday loans, which are short term loans using uncashed checks as collateral, traditionally last two weeks (the length of a pay period) and carry high interest rates with them.

Recently, there has been a shift to evade payday loan regulations by redefining loan terms towards less-regulated "installment lending," which includes terms longer than two weeks but can also carry high interest rates. Some states have regulations that make certain types of installment lending responsible, but longer-term, larger loans with lower interest rates than payday loans can still create just as predatory a debt trap.

Car title, or auto title lending, involves putting up a car as collateral should a loan be defaulted on. Title lenders often charge triple digit interest rates.[iv] If a consumer defaults on their loan, they could lose their car, making car title lending high-cost and dangerous.

These products push consumers into a debt trap. With interest rates in the triple digits and exorbitant fees, payday loans are incredibly difficult for consumers to pay back. As of 2020, the Wisconsin Department of Financial Institutions (WDFI) found that the current average APR on a payday loan in Wisconsin is 516.53%.[v]

Consumers often take out more loans to pay off their first loan; the Consumer Financial Protection Bureau (CFPB) found that more than one-third of payday loans in Wisconsin were reborrowed on the same day of a previous loan being repaid. 71% were reborrowed within a month.[vi]

Nationally, 48% of borrowers took out more than ten loans in a 12 month period, accounting for 75% of all loan fees generated by payday borrowers.[vii] In short, payday lenders take advantage of consumers and keep them borrowing loans that are next to impossible to repay.

Thirty-six percent has long been established as the ceiling for prudential interest rate caps at the state and federal levels. Eighteen states and the District of Columbia now have rate caps of 36% or less. Rate caps are popular; most recently in the 2020 general election, Nebraska had a 36% rate cap on the ballot where it passed with 82.8% of the vote.[viii] In 2006, Congress passed

a 36% rate cap for loans sold to active duty military service members.[ix] The Federal Deposit Insurance Corporation (FDIC) announced in its Small Dollar Loan Guidelines that lenders should offer loans at 36% or less, saying that it would "meet the goal of safe and sound small-dollar credit programs, which is to provide customers with credit that is both reasonably priced and profitable".[x]

When loans become larger and come with longer terms, the interest rates really matter. In its 2018 paper, the National Consumer Law Center summarized the problem, saying "even when the interest rate is lower than for a short-term payday loan, a larger, longer high-cost loan can be a deeper, longer debt trap."[xi]

There are 39 states that impose rate caps on $10,000 five-year installment loans.[xii] Although 36% is an acceptable cap for small dollar loans, it becomes a burden when applied to large dollar loans. 36% on a five-year, $10,000 dollar loan can mean that a consumer will pay $21,679.20.[xiii] 25% is on the high end of reasonable rates for larger, longer-term loans, such as $10,000 five-year installment loans. It represents the median APR of the 39 states that have established rate caps on $10,000 five-year installment loans.[xiv]

Rate caps on these high-cost, predatory loans remain popular and bipartisan. National polling from Lake Research Partners and Chesapeake Beach Consulting consistently confirms that regulating financial institutions and high-cost lending is a bipartisan issue.[xv] For the states with little to no protections against high-cost lending, however, high interest rates and fees continue to drain communities and target vulnerable populations.

The State of Wisconsin

Wisconsin has no rate cap against payday lending or installment lending. In 2011, a Wisconsin statute changed the definition of a payday loan, making a payday loan one that lasts 90 days or less.[xvi] The statute requires that all lenders who meet the definition of a payday lender must be licensed by the WDFI; all licensees must provide annual reports of their transactions, including the APR on the loans they provide and the number of loans that result in defaults. In addition, all licensed lenders have to provide disclosures as to the total amount that a borrower will pay in fees and interest, the APR on the loan, and what payment requirements may apply if the loan is not paid back at the end of the loan term.[xvii]

Even though the statute did not set a rate cap, these added rules prompted lenders to change their products to "installment loans," which are high-cost loans that last longer than 90 days. This allowed them to adhere to fewer rules than payday lenders. Installment lenders also have to be licensed through the WDFI but are subject to fewer reporting requirements.[xviii]

Findings

The WDFI keeps lists of licensed payday lenders[xix] and other loan companies[xx] that provide loans with APR over 18%. We researched the companies with the most licensed locations on both lists to compile a list of ten high-cost lenders with the most licenses in Wisconsin. See Figure 1 and Methodology.

Figure 1. High-Cost Lenders with the Most Licenses in Wisconsin

Lender Name	**Number of Licenses**	**Loan Products**
Security Finance Corporation of Wisconsin	44	Installment
Check 'n Go	40	Installment
The Cash Store	37	Installment, Title
Advance America	37[xxi]	Payday, Installment, Title
OneMain Financial Group LLC	30	Installment
World Finance Corporation of Wisconsin	30[xxii]	Installment
Check into Cash	24	Payday, Installment, Title
Heights Finance Corporation	20	Installment
Wisconsin Auto Title Loans Inc	19	Installment, Title
LoanMax	15[xxiii]	Title

The top ten high-cost lending companies with the most locations in Wisconsin have a total of 296 licenses. Nine of these ten companies offer installment loans.

A sampling of example APRs and payment schedules found using loan calculators on some lender websites shows how interest and fees can add up.

The Cash Store's loan calculator indicates an APR of 520% for a $300 installment loan, with 13 payments of $66.19 due every 14 days.[xxiv] That adds up to a total of $860.47, or 2.9 times the amount borrowed.

Advance America's loan calculator shows that a $1,500 installment loan paid back monthly in cash for a year at 264.83% APR would cost a total of $4,822.05.[xxv] That is 3.2 times the original amount borrowed.

OneMain Financial's calculator shows that a $10,000 five year loan at 36% APR comes with estimated monthly payments of $361.[xxvi] [xxvii] That adds up to $21,660, or 2.2 times the amount borrowed.

Understanding why consumers take out predatory loans sheds more light on why they are especially dangerous. Most consumers take out these high interest loans not for unexpected emergency expenses, but for recurring expenses such as rent and utility payments.[xxviii] 69% of first time borrowers take out loans to “cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food.”[xxix] Additionally, American households making less than $40,000 a year are 62% more likely to take out a payday or high-cost loan.[xxx] Taking out high-cost loans will only make a bad financial situation worse for consumers who are already having trouble making ends meet.

Wisconsin is not immune to these economic hardships, and high-cost lenders take advantage of this. In fact, payday and car title fees drain $111,154,821 from Wisconsinites annually.[xxxi]

Recommendations

Recommendation: Protect all Wisconsinites, including military veterans, from predatory payday lenders by establishing a 36% rate cap.

Status: There is overwhelming evidence that rate caps work, and work well. In the 18 states and District of Columbia that have rate caps of 36% or lower, consumers are still able to receive access to credit but at responsible rates.

Bipartisan legislation that would cap payday loans at 36% was introduced in the Wisconsin State Senate and Assembly in March 2021.[xxxii]

Federal bipartisan legislation that would cap car title, payday, and installment loans at 36% was introduced in the 116th Congress by Congressman Glenn Grothman (WI-6) and cosponsored by Congressman Mark Pocan (WI-2)[xxxiii]

Recommendation: The CFPB should halt implementation of its 2020 payday lending rule and fix it. In 2017, the Obama CFPB issued a rule on payday loans;[xxxiv] this rule would have established basic underwriting requirements for payday lenders to ensure that their borrowers could afford to repay the loan. After previous acting director Mick Mulvaney had slowed implementation of the CFPB's Payday Lending Rule, Director Kathy Kraninger in July 2020 "revocated" important provisions, including the rule's core requirement that lenders determine a consumer's ability to repay.[xxxv]

Status: CFPB Acting Director Dave Uejio published a blog post in March 2021 signaling the CFPB's intention to use its authority to address the harms of payday lending.[xxxvi]

Recommendation: Reverse the Office of the Comptroller of the Currency's 2020 'True Lender' rule, allowing predatory lenders to evade state usury laws by laundering loans through banks.[xxxvii] This rule is harmful, as it allows high-cost lenders access to consumers who should be protected under state laws.

Status: A resolution to overturn the OCC's rule passed in the Senate on March 11, 2021 and is expected to be voted on in the House of Representatives.[xxxviii]

Methodology

The Wisconsin Department of Financial Institutions keeps lists of licensees for financial services, including payday and other loan companies.[xxxix] A different license is issued for each location a loan company has.

We compiled our list of the top ten high-cost lenders for Figure 1 in this report by researching lenders with the most locations on the WDFI's payday and loan company lists.

We included on our list high-cost lenders, which we define as companies that offer payday loans with more than 36% APR, or installment or title loans with more than 25% APR for larger, longer term loans, such as $10,000, five-year loans.

If a lender had a location licensed outside of Wisconsin, we did not count that location. For some companies, the location listed outside of Wisconsin was their headquarters, or where their customer service was located.

Endnotes

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[xvii] Ibid.
[xviii] Loan companies in Wisconsin are only required to "make an annual report to the division for each calendar year on or before March 15 of the following year. The report shall include business transacted by the licensee under the provisions of this section and shall give all reasonable and relevant information that the division may require." The payday loans statue, on the other hand, lists nine items the annual report must include. See note 14. For the WDFI's 2020 annual report form that licensed loan companies are required to fill out, see WDFI, *Loan Company Annual Report*, accessed at https://web.archive.org/web/20210131224343/https://www.wdfi.org/_resources/indexed/site/fi/lfs/lc/dfi-lfs-330.pdf, 12 May 2021.
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[xxvii] OneMain Financial's personal loan calculator provided the estimated monthly payment for four different loan terms, including a 60 month term, after we selected a 36% APR and typed in a $10,000 loan amount. See OneMain Financial, *Personal Loan Calculator*, accessed at https://www.onemainfinancial.com/resources/financial-calculators/personal-loan, 12 May 2021.
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