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To: Senator Andy Zay and members of the Indiana Senate Insurance and Financial Institutions Committee and other Interested Parties
From: Alex Horowitz, The Pew Charitable Trusts (*Delivered Electronically)*

RE: Pew Analysis of SB 352 Payday Installment Loan Expansion Proposal

Dear Chair Zay and members of the committee:

Thank you for your inquiry this fall to discuss your interest in high-cost lending policies in Indiana. As Indiana lawmakers consider expanding payday installment lending, Pew's research can provide insight into the markets and experiences in other states.[1] Over the past ten years, we have studied small-loan laws and markets in all 50 states, conducted four nationally representative surveys of borrowers and 22 focus groups with borrowers, and held hundreds of conversations with lenders, policymakers, and stakeholders. Our reports, briefs, fact sheets, and videos are available at pewtrusts.org/small-loans.

As explained below, after reviewing SB 352 and comparing it to legislation enacted or proposed in other states[2], we find that the bill would expose Indiana consumers to financial harms, rather than create an affordable loan market like the ones seen in states that have successfully reformed their payday loan laws.

For example, the bill would allow a $2,500 loan with $2,269 in finance charges– a total repayment of $4,769 in six monthly installments of $794.83 (267% APR). The total loan costs proposed in SB 352 are far higher than in other states that have enabled widespread access to credit.

Pew's research has focused on how small-dollar credit can work best for borrowers and be profitable for efficient lenders if lawmakers wish for it to be widely available. Empirical research on the impact of these laws has found that states can effectively align the interests of lenders and borrowers, fostering a transparent and lower-cost small-dollar loan market. Of states that allow payday lending, Colorado[3],

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[1] The Pew Charitable Trusts, "Payday Lending in America: Policy Solutions" (2013), https://www.pewtrusts.org/en/research-and-analysis/reports/2013/10/29/payday-lending-in-america-policy-solutions.
[2] The Pew Charitable Trusts, "How State Rate Limits Affect Payday Loan Prices" (2014), https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2014/04/10/how-state-rate-limits-affect-payday-loan-prices.
[3] In 2010, Colorado eliminated balloon-payment loans and replaced them with lower-cost, amortizing installment loans paid back over six months. These successful reforms resulted in declines in defaults and lender-charged bounced check fees, borrowers saved more than $50 million annually, and payday lenders remained in business in rural, suburban, and urban areas. See: The Pew Charitable Trusts, "Trial, Error, and Success in Colorado's Payday Lending Reforms" (2014), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/12/trial-error-and-success-in-colorados-payday-

Ohio[4], and Virginia[5] have implemented the most successful policies, passing comprehensive reforms that took effect in 2010, 2018, and 2020 respectively. Credit is widely available in those states, but many of the same lenders who operate in those markets charge prices that are two to three times lower than in Indiana today and as much as four to five times lower than those proposed in SB 352. Those laws resulted in affordable credit without a cycle of debt. Hawaii lawmakers similarly followed suit in 2021 with small-loan reforms that are being implemented today.[6] Recently, Kansas lawmakers have begun considering a similar proposal that garnered support from faith leaders, consumer advocates, and installment lenders.[7] Elsewhere, Pew has identified harmful market practices as lenders shift to high-cost payday installment loans, as would be allowed under SB 352.[8]

At their core, reforms like Ohio's have fostered access to transparent products while ensuring that loans are manageable for the typical consumer. They do so by eliminating unaffordable balloon-payment products and shielding enough of the consumer's paycheck to cover essential expenses and financial obligations. They allow borrowers enough time to repay loans and have pricing policies that provide ample revenue for efficient lenders, while being manageable for consumers.

SB 352 would authorize a new type of small installment loan in Indiana that does not contain the core components of effective reforms in other states. The bill does not reflect Pew's policy recommendations. Most notably, SB 352 does not effectively address problems with Indiana's current payday loan statute. The bill would enable high-rate and larger installment loans with payments that exceed what research has found most borrowers can afford and that have been shown to replicate the core problems that exist in the payday loan market, where lenders maintain a strong ability to collect payments despite borrowers' inability to repay. Such large payments make it difficult for consumers to

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lending-reforms. As Colorado payday lenders' trade association wrote in 2016: "We have worked hard over the past 6 years to formulate a lending model that has been beneficial to both lenders and consumers. Colorado borrowers are currently paying dramatically less in fees and interest while still having the ability to walk into a reputable licensed lender's store." Colorado had a ballot initiative in 2018 that resulted in payday lenders switching to a different statute that still resulted in prices about three times lower than Indiana and with loans still repayable in equal installments.

[4] In 2018, Ohio passed comprehensive payday loan reform like Colorado that balances access to credit with strong consumer safeguards including affordable payments and prices that are three to four times lower than before. Loans in Ohio are typically repaid over several months, have payments that take up a small share of a borrower's paycheck, and have total costs capped at sixty percent of principal. As a result, consumers are saving more than $75 million each year with widespread access to credit. See: The Pew Charitable Trusts, "Ohio a National Model for Payday Loan Reform" (2018), https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2018/ohio-a-national-model-for-payday-loan-reform.

[5] Virginia enacted bipartisan reforms in 2020 that replicated Ohio' and Colorado's approach, while allowing larger loan sizes up to $2,500. See: The Pew Charitable Trusts, "How Virginia's 2020 Fairness in Lending Act Reforms Small-Dollar Loans" (2020), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2020/10/how-virginias-2020-fairness-in-lending-act-reforms-small-dollar-loans.

[6] The Pew Charitable Trusts, "Hawaii Adopts Comprehensive Payday Lending Reform"(2021), https://www.pewtrusts.org/en/research-and-analysis/articles/2021/06/17/hawaii-adopts-comprehensive-payday-lending-reform.

[7] http://www.kslegislature.org/li/b2021_22/measures/hb2189/

[8] The Pew Charitable Trusts, "From Payday to Small Installment Loans: Risks, Opportunities, and Policy Proposals for Successful Markets" (2016), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/08/from-payday-to-small-installment-loans.

cover other expenses, drive high rates of repeated refinancing, and do not result in meaningful consumer savings.

Indiana SB 352 Analysis

	Colorado	**Ohio**	**Indiana SB 352 (Sec. 508.1)**
Maximum loan size	$1,000	$1,000	$2,500
Allows balloon-payment payday loans	No	No	Yes
Cost to borrow $1,000 for 5 months	$200 (77% APR)	$241 (92% APR)	$750 (265% APR)
Typical share of each paycheck consumed by a $400, 4-month loan	5%	6%	7%
Payments that research finds most borrowers can afford	Yes	Yes	No
Risk of repeat refinancing	Low	Low	High

In contrast to the laws adopted in Virginia, Ohio, Colorado, and recently enacted in Hawaii, high-cost lending companies have proposed adding new installment loans and lines of credit in other states without evidence-based safeguards for affordability. In states that have allowed both balloon-payment and payday installment products, as proposed in this legislation, the balloon-payment versions continue to dominate the market.

In summary, our review of SB 352 concludes that if enacted, the bill would likely result in consumers spending more than today in the high-cost loan market in Indiana, rather than establishing an affordable, safer market like Ohio's, where many payday loan companies operate today at prices that are two to three times lower than Indiana.

If there is interest in reviewing more of Pew's research or learning about policies that have achieved the goals of affordable payments, pricing that is sustainable for lenders and borrowers, and effective product safety standards, please be in touch.

Regards,

Alex Horowitz
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The Pew Charitable Trusts