
**Proposition 111
Limitations on Payday Loans**

ANALYSIS

Proposition 111 proposes amending the Colorado statutes to:

- ◆ reduce the total cost for a payday loan to a 36 percent annual percentage rate; and
- ◆ expand what constitutes unfair or deceptive trade practices for payday lending.

Summary and Analysis

Background. Payday loans are small, easy-to-access short-term loans that do not require a credit check. In 2016, about 207,000 individuals in Colorado secured over 414,000 payday loans. These loans totaled over \$166 million, and consumers paid an estimated \$50 million in loan costs (any combination of fees and interest), with a default rate of 23 percent. The Department of Law licenses and establishes rules for payday lenders and conducts compliance examinations of their loans. The department also investigates and litigates cases involving payday lenders.

Annual percentage rate (APR). The APR is the total loan cost expressed as a yearly rate and includes the interest on the loan amount, origination fees, and monthly maintenance fees. The APR varies on a daily basis and, because of the way maintenance fees are structured in Colorado, tends to increase over the life of the loan. In 2016, the average APR on payday loans in Colorado was 129 percent.

Current payday loan regulations. Colorado law limits payday loans to \$500 with a minimum repayment term of six months, no maximum repayment term, and no penalty for early repayment. The law allows lenders to charge an origination fee of up to 20 percent of the first \$300 loaned, plus 7.5 percent of any amount in excess of \$300. In addition, lenders may charge an interest rate of 45 percent per year per loan and a monthly maintenance fee of \$7.50 per \$100 loaned, up to a total of \$30 per month. If the borrower repays the loan early, the lender must refund a prorated portion of the fees. Current law defines unfair and deceptive trade practices as making loans disguised as personal property sale and leaseback agreements or as a cash rebate.

Changes under the measure. The measure reduces the loan costs on a payday loan to a maximum APR of 36 percent and eliminates the current fee structure. In addition, regardless of whether payday lenders have a physical location in the state, they may not offer higher cost loans via electronic or U.S. mail, the internet, or telemarketing.

Table 1 below provides an example of the total cost, including interest and any fees, of a \$500 loan that is repaid in six months under current law and under Proposition 111.

Table 1. Comparison of Estimated Cost of a Six-Month Payday Loan*

	Current Law	Proposition 111
Loan amount	\$500	\$500
Total cost of loan	\$293	\$53
Total amount paid	\$793	\$553
APR	180%	36%

**The actual costs may vary by lender.*

*For information on those issue committees that support or oppose the measures on the ballot at the **November 6, 2018**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information: <http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>*

Argument For

- 1) Coloradans are paying too much to borrow small amounts of money from payday lenders. The APR for these loans can exceed 180 percent. Some consumers borrow money to pay off other payday loans, which leads to a cycle of debt. Because the measure reduces the high cost of payday loans, consumers may be better able to repay their loans and avoid further financial stress.

Argument Against

- 1) This measure may eliminate the payday lending business in Colorado. Payday loans provide options for consumers who may not qualify for other types of credit. With limited or no access to these loans, consumers may pay higher costs to other creditors for late payment, bounced check, overdraft, or utility disconnect fees, or turn to unregulated lenders for higher-cost loans. This measure is unnecessary because the state legislature passed reforms in 2010 that led to reduced loan costs and fewer defaults, while ensuring that consumers have access to a well-regulated source of short-term credit.

Estimate of Fiscal Impact

State revenue and spending. If Proposition 111 results in payday lenders choosing not to renew their licenses, there will be a reduction in fee revenue to the Department of Law.