Colorado Legislative Council Staff

Initiative # 126

INITIAL FISCAL IMPACT STATEMENT

Date: February 19, 2018 **Fiscal Analyst:** Todd Herreid (303-866-3521)

LCS TITLE: PAYDAY LOANS

Fiscal Impact Summary	FY 2018-19	FY 2020-21	FY 2021-22
State Revenue			
State Expenditures			

Note: This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

Summary of Measure

Under current law, a lender may impose a finance charge for each deferred deposit loan (or payday loan) up to 20 percent of the first $300 lent plus 7.5 percent of any amount lent in excess of $300. A lender may also charge a monthly maintenance fee for each outstanding loan, not to exceed $7.50 per $100 loaned, up to a maximum of $30 per month and impose an additional annual interest charge of 45 percent. This measure limits the finance charge to a maximum annual percentage rate of 36 percent and eliminates all other financing charges and fees associated with payday lending. The measure also broadens language that constitutes unfair or deceptive trade practices for payday lending activity.

Background

Deferred deposit or payday loans are small, unsecured loans that must be repaid quickly. Payday loans in Colorado are limited by law to $500 or less, and are due to the lender with a minimum repayment term of six months. In 2016, about 207,000 individuals in Colorado obtained 414,284 payday loans from the state's 180 licensed lenders. Over $166 million in loans were made during 2016. The average payday loan was about $392 in 2016, with a 129 percent average annual percentage rate.

State and Local Government Impact

Limiting the maximum annual percentage rate on payday loans to 36 percent and eliminating the additional financing charges and maintenance fees is expected to have no state or local fiscal impact. Currently, the Department of Law licenses payday lenders, conducts compliance examinations of their loans, and establishes rules for payday lenders. The department also investigates and litigates cases involving payday lenders under current law. If the measure is approved by voters, examinations will be modified to reflect the new rates established by statute and new rules will be promulgated by the department. However, existing resources are sufficient to continue to litigate these types of cases in the future and the department already receives money for rulemaking. Therefore, no further state or local government expenditures are required.

Economic Impact

The measure will result in smaller financing charges paid by payday borrowers and received by payday lenders. To the degree borrowers spend marginally more money on goods and services than lenders, the measure may result in additional spending in the economy.

Effective Date

The measure takes effect on February 1, 2019 if approved by voters at the 2018 general election.

Departments Contacted

Law

Abstract of Initiative 126: PAYDAY LOANS

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of February, 2018, identifies the following impacts:

The abstract includes estimates of the fiscal impact of the initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at www.ColoradoBlueBook.com and the abstract will be included in the ballot information booklet that is prepared for the initiative.

State and Local Government Impact

The measure is not expected to impact state or local government revenue or expenditures. Under current law, the Department of Law already licenses payday lenders, conducts compliance examinations of their loans, and establishes rules for their operation.

Economic Impact

The measure will result in smaller interest payments paid by payday borrowers and received by payday lenders. To the degree borrowers spend marginally more money than lenders on goods and services, the measure may increase spending in the economy.