

Date of Hearing: April 24, 2017

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 784 (Dababneh) – As Introduced February 15, 2017

**AS PROPOSED TO BE AMENDED**

**SUBJECT:** Pilot Program for Increased Access to Responsible Small Dollar Loans

**SUMMARY:** Makes changes to the Pilot Program for Increased Access to Responsible Small Dollar Loans (pilot program) contained within the California Finance Lenders Law. Specifically, **this bill:**

- 1) Removes the sections of the bill related to finders.
- 2) Increases the lending cap of the pilot program up to \$5,000.
- 3) Removes the sunset to the pilot program making the program permanent.
- 4) Expresses intent to leave intact current law governing loans between \$300 and \$2,500 outside the pilot program.
- 5) Raises the amount of an applicable bona fide loan amount from \$2,500 to \$5,000 in the California Finance Lender's Law (Financial Code Sections 22303, 22304, and 22305).

**EXISTING LAW:** Until January 1, 2023, authorizes the pilot program within the California Finance Lenders Law (CFLL), administered by the Department of Business Oversight (DBO; Financial Code Sections 22365 et seq.). Generally speaking, the pilot program authorizes lenders who have been vetted by DBO to charge somewhat higher interest rates and fees on loans of principal amounts up to \$2,500 than are allowed under the CFLL. The pilot program also authorizes pilot program lenders to use finders, as specified. Pilot program lenders must perform rigorous underwriting, provide extensive borrower disclosures, offer borrowers credit education prior to the disbursement of loan funds, and report borrower payment history to at least one major credit bureau – requirements that do not apply to CFLL licensees which are not pilot program lenders.

**FISCAL EFFECT:** Unknown

**COMMENTS:**

**Background:** Relatively few installment loans are made in California with principal amounts under \$2,500. This represents a challenge to the significant population of people in California who are unable to access affordable credit through banks and credit unions. Californians who lack credit scores, or have very thin credit files or damaged credit, currently have very few affordable options when they need to borrow money. Credit cards are often unavailable to this population, or, if available, bear very high interest rates and fees. When their spending needs outpace their incomes, these Californians commonly turn to payday loans, auto title loans, or high-interest rate, unsecured installment loans. All three of these options come with high costs, and none rewards timely loan repayment with a credit score increase.

In an attempt to increase the availability of affordable, credit-building installment loans made in California in amounts below \$2,500, the California Legislature authorized a small-dollar loan pilot program in 2010 (SB 1146 (Florez), Chapter 640, Statutes of 2010). The Legislature modified the pilot program in 2013 and again in 2015, with the aim of attracting more lenders to join the pilot program and increasing the availability of pilot program loans across the state (SB 318 (Hill), Chapter 467, Statutes of 2013; and SB 235 (Block), Chapter 505, Statutes of 2015).

Existing law requires the Commissioner of DBO to issue periodic reports regarding the pilot program, to give the Legislature and interested parties information regarding pilot program usage and informing efforts to improve the pilot program's effectiveness. The first such report was issued in June 2015, and covered the period of January 1, 2011, through December 31, 2014.

***Prior Legislation:***

SB 1146 (Florez), Chapter 640, Statutes of 2010: Authorized California's original small-dollar loan pilot program within the CFLL, named the Pilot Program for Affordable Credit-Building Opportunities. Allowed lenders approved to participate in the pilot program to charge higher interest rates and fees on loans of up to \$2,500 than those authorized under CFLL. Required pilot program lenders to rigorously underwrite their loans, offer credit education at no cost to their borrowers, and report borrower payment history to at least one major credit bureau. Required detailed reporting of loan outcomes to DBO. Originally scheduled to sunset on January 1, 2015, but was replaced by the Pilot Program for Increased Access to Responsible Small Dollar Loans, as described immediately below.

SB 318 (Hill), Chapter 467, Statutes of 2013: Replaced the Pilot Program for Affordable, Credit-Building Opportunities with the Pilot Program for Increased Access to Responsible Small Dollar Loans. Retained several aspects of the original pilot, including the underwriting requirements, offers of free credit education, reports to at least one major credit bureau, and detailed reporting of pilot program loan outcomes, but modified other aspects of the original pilot program. These modifications increased the maximum interest rates and fees that pilot lenders could charge, allowed pilot lenders to originate new loans and to refinance loans more frequently than under the original pilot, and eliminated several administrative and licensing rules that were serving as bureaucratic barriers to the success of the original pilot. Scheduled to sunset on January 1, 2018.

SB 235 (Block), Chapter 505, Statutes of 2015: Expanded the activities in which pilot program finders could engage on behalf of pilot program lenders. Authorized finders to disburse loan proceeds to borrowers, receive loan payments from borrowers, and provide notices and disclosures to borrowers, as specified, and provided pilot program lenders with greater flexibility in the ways in which they may compensate their finders.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

None on file

**Opposition**

None on file

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