

Study: Residents not short on credit

Center for Responsible Lending urges state to hold line on interest caps

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Colorado borrowers, including low-income households, continue to have plenty of loan options despite some of the strictest consumer lending laws in the country, according to a study from the Center for Responsible Lending.

"There is a regular push from the lending industry in Colorado to increase the allowed loan rate for loan products. To us, it seemed surprising that the justification for raising those rates would be that credit was insufficiently available to folks in Colorado," said Peter Smith, a senior researcher at CRL and a co-author of the report, which was released on Thursday.

Colorado has a sliding scale of interest rate caps, going from 36% on loans of \$1,000 and below to 20.18% on loans of \$10,000 or higher. The state was also an early adopter of restrictions on payday loans. Mortgages, credit cards and loans made by federally chartered banks aren't covered by state limits.

Financial industry groups argue that those restrictions, which are among the tightest in the country, limit credit to lower and middle-income borrowers and that a lack of options can cause financial shortfalls to spiral into crises. A lack of money to buy a new tire could result in a job loss, and a shortfall in the monthly rent can contribute to an eviction.

CRL dived into 3,372 bankruptcy cases in the state, analyzed anonymized checking account transactions from SaverLife, a group that assists lower-income households achieve financial stability, and reviewed consumer loan data released by the Colorado Attorney General's Office earlier in the year.

What it found was that even consumers with lower incomes and lower credit scores had access to multiple credit lines, typically four, and in some cases six. There was no instance in the datasets studied of a consumer having no credit extended to them.

The problem wasn't with a lack of borrowing options, but rather incomes that have struggled to keep pace with rapidly rising expenses, chief among them housing. About half of households in the state are considered housing burdened, meaning they spend 30% or more of their income on shelter. A quarter are severely burdened, with half or more of their income going to housing.

"You can't use a credit product to solve a structural difference between incomes and expenses," said Andrew Kushner, a senior policy counsel with CRL. "If you can't make ends meet, a credit product won't close the gap."

To the contrary, credit products often trap borrowers in a downward spiral that they can't escape from, said Rosine Bouobda, program director with NEWSED Community Development Corp., a Denver nonprofit focused on community development and financial counseling.

Borrowers who defaulted and sought bankruptcy protection listed multiple creditors. Besides traditional banks and credit unions, there were also several consumer finance companies and fintech lenders. OneMain, a leading finance company, was a creditor in a tenth of the bankruptcies examined in the study.

Kushner said Colorado consumers are struggling to make ends meet and turning to a variety of credit products. But that borrowing is more often a stopgap measure rather than a solution. It may buy time, but it leaves many borrowers worse off.

"Anybody who took a payday loan or title loan to cover rent that I worked with got evicted eventually," Bouobda adds.

Patrick Brenner, president and CEO of the Southwest Public Policy Institute in Albuquerque, said a weakness of the CRL study is that it doesn't look at the rate at which subprime borrowers couldn't obtain credit in Colorado or the financial hardships they

endured from a lack of access.

SPPI, a nonprofit group formed in response to interest rate caps launched in New Mexico, favors a free market approach. If legitimate lenders are willing to lend and borrowers are willing to borrow, then everyone else should step out of the way, he argued.

"We believe access to fair credit is a human right. Price control was a disservice to consumers here (New Mexico)," Brenner said. "When legitimate products go away, desperate borrowers turn to unscrupulous lenders."

NEWSED, which is active in assisting immigrant communities, advises its clients to find creative ways to avoid borrowing money if at all possible. One approach is to look at multi-generational living arrangements, Bouobda said. The more paychecks that can be applied to a mortgage or rent payment, the higher the disposable income each person can have available to cover other expenses.

Sometimes people are advised to take on second gig economy jobs to create extra income. Bouobda said most of the people she works with are scraping by to cover the bare necessities. It isn't a case of financial mismanagement but of inadequate incomes.

Some immigrant communities have created lending circles, where members contribute a set amount each month and then draw money out in emergencies or to meet big expenses, such as to purchase a used vehicle or make a deposit on a new apartment. They represent a better option than the heavily marketed loan products out there that are getting borrowers into trouble.

"I am not saying those high-cost products didn't help in the short-term. But they did more harm in the long run," Bouobda said.

When it comes to the push to lift interest rate caps so more products that can tolerate high default rates can enter the market, Kushner and Smith are urging state leaders to hold firm.