



Date: April 3, 2018

To: Honorable Mayor Robert Garcia and Members of the City Council

From: Vice Mayor Rex Richardson, Ninth District *RR*
Councilmember Dee Andrews, Sixth District *DA*
Councilmember Roberto Uranga, Seventh District *(R)*
Councilmember Al Austin, Eighth District *Al*

Subject: Resolution Supporting the Safe Consumer Lending Act (AB 2500)

RECOMMENDATION:

Respectfully request a resolution in support of the Safe Consumer Lending Act (AB 2500).

Discussion

Many families across California are living paycheck to paycheck. Stagnant wages, high cost housing, childcare costs, and other financial strains are contributing to this problem. Unfortunately, some lenders see this despair as an opportunity to trap borrowers into high cost loans, with exorbitant interest rates that far too often lead them into financial ruin. This type of abuse leads to damaged credit, repossession of cars, closure of bank accounts, law suits, wage garnishment, and even bankruptcy. These lenders deliberately target Latino and African American borrowers by setting up stores in minority and low-income neighborhoods around California.

Currently, California law does not have a limit on the Annual Percentage Rate (APR) that lenders can charge on loans of \$2,500 to \$10,000. According to a 2016 annual report by the California Department of Business Oversight, 58% of loans from \$2,500 to \$5,000 had an APR of 100% or higher. In 2014, according to the National Consumer Law Center, these loans had a default rate of 20% to 40%. It's a win-win situation for lenders, as they are able to recoup the loan amount and profit within 6-12 months of repayment, and obtain a tax write-off for any unpaid principal.

Furthermore, the Trump Administration is rolling back important federal consumer protection regulations, including halting the Consumer Financial Protection Bureau's final rule on payday and car-title lending. Inaction at the federal level means that California families will highly depend on the state legislature to curb predatory payday lending and abusive high-cost installment loans.



In February 2018, California State Assemblymember Ash Kalra introduced legislation, The Safe Consumer Lending Act (AB 2500), to extend California's current interest rate cap for consumer loans up to \$10,000. Under this law, a \$10,000 loan with a 12-month repayment plan would carry a maximum interest rate of 24%. Putting a limit on APRs would level the playing field for lenders that are providing access to safe and affordable loans. A resolution by the City of Long Beach will show support for protecting the financial security of its most vulnerable residents.

Fiscal Impact

There is no significant fiscal impact.