CRL
Center for Responsible Lending

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States Should Protect Consumers from Lenders' Efforts to Increase the Cost of Already Expensive Consumer Installment Loans

Background

Consumer installment loans offered by nonbank lenders can be an expensive form of credit that keeps borrowers in costly long-term debt.

Lenders offer these loans to individuals for their personal or household use. Consumers borrow between $1,000 to $25,000 or more. Many states regulate the costs and other terms of these loans, usually requiring them to be repaid monthly over at least 12 months and no more than five years. Many nonbank lenders charge interest, fees, and other costs that make these loans more expensive than personal loans banks and credit unions offer.

Some installment lenders also take advantage of state and federal laws that allow them to push additional products and services that pad their profits or use misleading tactics to keep borrowers locked into loans with higher payments.

> Lenders push credit insurance and encourage loan flipping to increase profits at borrowers' expense. These lending practices can increase the financial instability of borrowers who already may be struggling.

Credit Insurance

Many consumers are sold credit insurance products during their loan transactions. This insurance product guarantees the lender will be repaid if the borrower dies, becomes disabled, or is involuntarily unemployed. It provides no payout to the borrower or their family but causes the consumer to borrow more and pay more in interest over the life of the loan. In addition, insurance policies provide an additional source of risk-free profit for the lender. Lenders or an affiliated insurer also receive a commission payment on every policy they sell. While these insurance products are nominally optional, leading lenders sell these products on most of their loans.

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A Long History of Using Questionable Practices

Investigations into two of the nation's largest installment lenders show the industry's long history of using questionable practices to take advantage of borrowers. Attorneys general in 11 states allege that **Mariner Finance,** a billionaire-backed national consumer finance lender that offers loans through 480 branches in 28 states, uses add-on products to pad its bottom line in violation of consumer protection laws. **The attorneys general allege that the company sells at least one add-on product on 80% of its loans.** They allege that Mariner charges borrowers for add-on products without their consent and makes it difficult for consumers to cancel these products and get their money back.

The Consumer Financial Protection Bureau (CFPB) found that **OneMain Financial,** another large national consumer lender with more than 1,300 branches in 44 states, set a goal in 2019 to sell 1.3 add-on products per loan. And in 2023, the CFPB found that **OneMain** bilked consumers out of millions of dollars by failing to refund the full amount of premiums and interest after borrowers discovered the products had been added to their loans without their knowledge.

In North Carolina, where consumer finance lenders are required to report their practices annually, lenders made 369,191 loans in 2022 (the most recent publicly available data) and sold more than 568,175 add-on products—**an average of more than 1.53 products of questionable consumer benefit per loan transaction.**

Lenders often promote these products using a hard sell or misleading tactics. For example, state laws permit lenders to exclude the cost of credit insurance from the Annual Percentage Rate (APR) disclosed to consumers, which hides the true costs of the products. Excluding the cost of insurance premiums and other fees in the APR calculation makes it difficult for consumers to comparison shop for the most affordable product.

By requiring disclosures that include the cost of add-on products in a loan's APR, the federal Military Lending Act has eliminated these abusive practices for active duty servicemembers and their dependents.

Loan Flipping

Loan flipping occurs when a lender makes a new loan to a borrower that includes paying off a prior loan by the same lender. This is a common practice for some consumer installment lenders, and flipping a loan may indicate that the loan was not affordable at origination. Some lenders push borrowers to repeatedly renew loans to increase the principal balance or extend the term of the loan, forcing the borrower to pay interest and fees over a longer period. For example, in a 2023 filing with the Securities and Exchange Commission, industry leader **World Acceptance Corporation (also known as World Finance)** revealed that 71% of loans generated in its more than 1,100 branches in 16 states stemmed from customers refinancing existing loans. The firm serves more than one million customers annually.

The total amount a consumer owes may increase when the lender advances the borrower new cash in addition to paying off the previous loan. But a 2022 CRL report demonstrates that a consumer's loan balance may increase even when the borrower receives little or no cash when renewing the loan. When the first loan is paid off, the lender may sell the borrower new insurance policies. Each time the borrower buys a policy, the lender makes money.

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Policy Recommendations

- **States should enact strong consumer financial protection laws** that limit the cost of consumer installment loans and should resist efforts by lenders to weaken or avoid these limits.
- **States should prohibit lenders from using add-on products** to increase the cost of credit beyond state limits.
- **State should increase transparency** by annually publishing data about lender practices including the size, cost, and outcome of loans; and about credit insurance products sold with those loans.