Unsafe Harbor:

The Persistent Harms of High-Cost Installment Loans

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www.responsiblelending.org

About the Center for Responsible Lending

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of Asian, Black, Latino, rural, military, low-wage, low-wealth, and early-career workers and communities. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. Our work leverages the strength of partnerships with national and local consumer and civil rights organizations.

Acknowledgments

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Executive Summary

Over the past decade, the high-cost small-dollar loan market, once dominated by short-term balloon payment payday loans, has seen the rise of high-cost installment loans with longer terms. Payday loans are typically repaid in a lump-sum, usually due in 14-day periods. Installment loans tend to be larger in size and repaid in several installments, typically over a period of several months.

Although they are repaid in installment terms, these loans share similar characteristics with other payday and car-title loans: a lack of underwriting; access to a borrower's bank account or car as security; structures that make it difficult for borrowers to make progress repaying; excessive rates and fees; and a tendency toward loan-flipping or stressed re-borrowing. Many of these loans are problematic even without repeated re-borrowing. The fundamental harm is that these lenders make loans that borrowers cannot afford to repay, regardless of whether the loan is structured as an installment or balloon payment loan.

Although there is extensive research demonstrating payday loans' impact on consumers, little research exists regarding the impact of high-cost installment loans on consumers' financial health. To this end, the Center for Responsible Lending (CRL) conducted a survey and two focus groups with high-cost installment loan borrowers to better understand the effects of these loans on personal finances. This brief is the first of a series of published research that will study the harms of high-cost installment loans and the steps policy-makers and regulators can take to protect consumers from these harms. We defined high-cost installment loans as follows for the purposes of this study: having terms of two months or more; having an all-in annual percentage rate (APR) greater than 36%; and being unsecured by any collateral, except access to the borrower's bank account or borrower's car title (in the case of car-title installment loans). Although some states have passed legislation placing interest rate caps on loans, installment lenders are permitted to charge triple-digit interest rates in some states.

Key findings derived from primary data collected from polling data and focus groups are:

1. Unfavorable high-cost installment loan terms led most loans to be refinanced at least once. For the sizable share of borrowers surveyed who missed or made late payments on their loan, the consequences were severe.

2. The burden of repaying high-cost loans often caused borrowers to miss payments on other obligations, resulting in additional debt or a larger financial deficit—aggravating, rather than alleviating, preexisting financial challenges.

3. Borrowers understood that these loans hurt their credit scores and delayed wealth-building activities such as purchasing a home or car, investing in a business, or saving for retirement, but circumstances led them to believe they had no other option for meeting short-term financial needs.

Background

1. Defining High-Cost Installment Loans

For the purpose of this research, we defined high-cost installment loans as personal loans or car-title loans (secured by a vehicle already owned by the borrower) with an effective or "all-in" APR greater than 36%. The "all-in" APR included the interest rate, monthly fees or other charges, or any combination of interest and fees; the repayment period was longer than two months.[1] The 36% APR threshold was chosen based on the historical use of this rate in state usury caps going back more than 100 years.[2] Congress and three federal agencies have affirmed this maximum rate.[3] Currently, 34 states and the District of Columbia have state usury caps of 36% or lower for larger, longer-term, high-cost installment loans.[4] These loan terms may range from less than a year to many years in length. However, in the survey and focus groups, we excluded respondents with loans with terms of less than two months.

Thirty-four states and the District of Columbia have state usury caps of 36% or lower for larger, longer-term high-cost installment loans.

Some high-cost installment lenders make loans by affiliating with out-of-state banks to evade state interest rate caps under what is known as a "bank partnership" or "rent-a-bank" arrangement.[5] Since banks are only subject to interest rate limits imposed by the state in which they are chartered, some obtain their charter in a state with weak interest rate protections. These banks then allow high-cost installment lenders that are not banks to use the bank's charter privileges to lend in states where high-cost loans are illegal for non-bank financial companies. High-cost lenders, who normally would be required to obtain state licenses and be subject to the laws of the states in which they were licensed, use these arrangements to evade the law.[6]

Loans made through "rent-a-bank" schemes are some of the most predatory on the market. High-cost, online, nonbank lenders such as OppLoans, Elevate's Rise, Enova's NetCredit, Personify, and LoanMart launder their outrageously high interest rate loans—with APRs ranging from 100% to 189%—through banks such as Transportation Alliance Bank dba TAB Bank, Finwise Bank, and Republic Bank & Trust.[7] Several research participants featured in this brief received loans through high-cost lenders that used "rent-a-bank" arrangements to circumvent state usury laws.

Three out of four survey participants took out installment loans greater than $1,000; this amount is larger than the amount borrowed with most payday loans, and installment loans have longer terms.[8] Nearly half of those surveyed reported that their monthly combined payments for all current high-cost installment loans exceeded $300. More than half of survey participants reported that their loan term was greater than one year, and one quarter of loan terms were for at least two years.

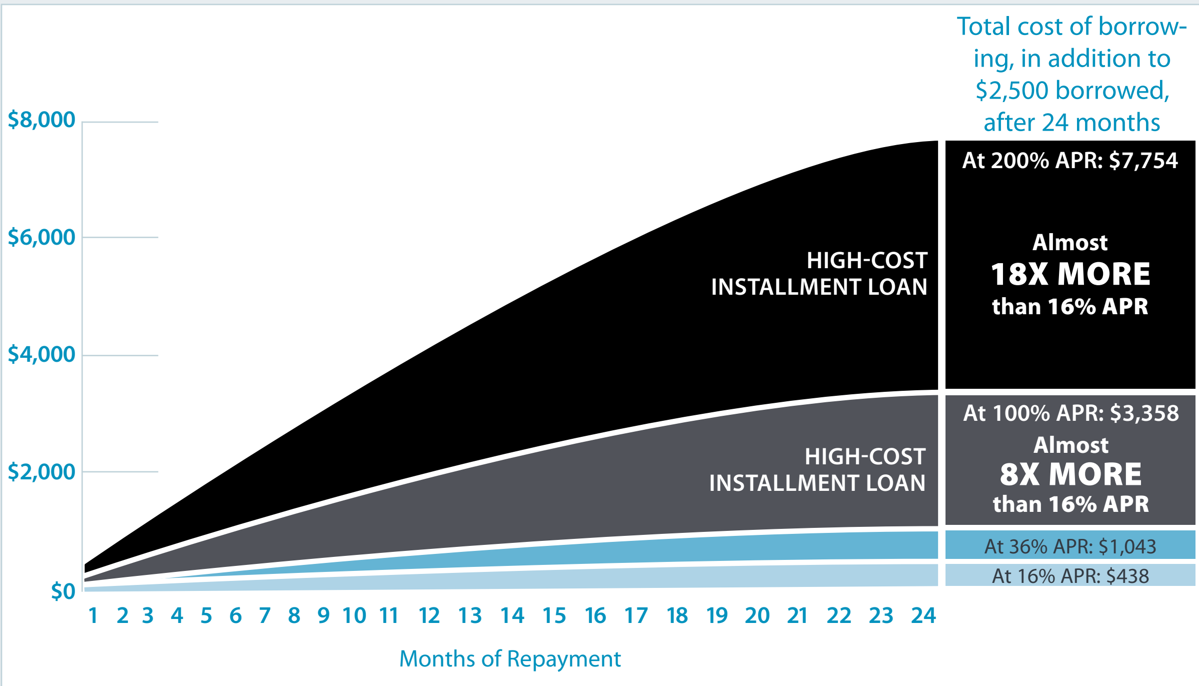
2. Triple-Digit Rates and Extended Loan Terms Deepen the Financial Hole for Consumers

The effect of high interest rates on the total cost of borrowing is amplified for installment loans, where typical loan terms are longer and loan principals are considerably larger than for payday loans. Figure 1 illustrates the relative cost of borrowing at different annual percentage rates over a two-year loan term.[9] To repay a $2,500 loan at 16% APR (a rate roughly

In effect, a borrower can repay the principal borrowed on a high-cost installment loan and still be less than a third through making payments on the loan.

equal to the typical interest rate on a credit card or loan from a bank or credit union), a borrower would pay $438 in interest and fees. Increasing the rate to 36% results in the borrower paying $1,043 in interest, in addition to the initial $2,500 borrowed. At 100% APR—a rate that's common for high-cost installment loans—the total amount of interest paid increases nearly eight-fold, to $3,358. A loan with an interest rate of 200% over two years would increase the total cost of interest and fees paid by nearly 18 times, to $7,754 over two years. This means the total repayment cost for a $2,500 loan would be more than $10,000. In effect, a borrower can repay the principal borrowed on a high-cost installment loan and still be less than a third through making payments on the loan. Instead of being able to budget savings to prevent the need for taking out loans in the future, borrowers must continue to make interest-only payments to retire their debt.[10]

Figure 1. Cumulative Interest Paid by Month on a Hypothetical $2,500, 24-Month Loan



Source: CRL calculations.

By charging triple-digit interest rates—especially because this rate is multiplied by large principals and long term lengths—these loans are predatory and exploitative. Moreover, due to their costly nature, when borrowers use high-cost loans to pay ongoing expenses, high-cost loans often become an exorbitant fee on the purchase of everyday goods and services for borrowers.[11] Unlike when financing expenses with credit cards or traditional bank loans (which usually carry interest rates of 16% or less), a sizable share of the monthly payments for a high-cost installment loan will consist of interest and fees. Accordingly, when a person uses a high-cost loan to pay for their groceries, they are tacking on an interest charge that could more than double the price of the groceries.

3. Harm of High Levels of Cumulative Debt

> **The combination of high costs and long terms often permits the lender to profit even if the borrower ultimately defaults.**

High-cost installment loans are predatory, causing many consumer harms and capturing borrowers in expensive, and often unsustainable, debt. Over the relatively long period of indebtedness, the borrower may, at some point, miss a payment or even enter default. This precipitates additional fees, which could lead to further consequences that include overdraft fees, non-sufficient funds (NSF) fees, and aggressive debt collection practices. The combination of high cost and long terms often permits the lender to profit even if the borrower ultimately defaults. Because these terms enable the lender to succeed even when the borrower fails, they disturb the normal alignment of interests between lenders and their customers.[12]

For the income-constrained borrowers typically targeted for high-cost loans, longer periods of indebtedness increase the likelihood they will face unexpected financial hardships that make it harder for them to repay their loans, often leading them to refinance their loans. For example, a consumer in Texas who filed a public complaint with the Consumer Financial Protection Bureau (CFPB) took out two installment loans, one of which was with Speedy Cash for $820.[13] After this consumer paid $1,400 on the loan, the consumer's wife lost her job. When the consumer reached out to Speedy Cash to ask for a five-day payment extension, they were denied. This high-cost, long-term loan created two hardships. First, despite having already paid back $2,000 on a $820 loan, the consumer still owed $730. Second, when a financial emergency arose during the loan term, the lender refused even a five-day reprieve. This forced the consumer into default, which imposed further default-related costs and consequences on the consumer.

When borrowers struggle to repay, lenders often push borrowers to refinance their loans. Lenders typically charge additional origination fees or fines every time a consumer refinances their loan. When borrowers refinance, their loan term is extended, prolonging their indebtedness and driving up the total cost of credit. A 2018 study by Pew Research Center found that two-thirds of installment loans are refinanced at least once.[14]

Research Questions and Data

Given the need to understand the impacts of high-cost installment loans, we were guided by two research questions:

1. **How do high-cost installment loans impact the financial health of borrowers?**
2. **Do high-cost installment loans create unsustainable levels of debt and/or exacerbate existing levels of debt for borrowers?**

To answer these research questions, CRL commissioned two primary data collection efforts among recent installment loan borrowers. Survey data included in this report were designed and collected online by Lake Research Partners on CRL's behalf from June 9–22, 2021. The survey reached a total of 1,000 adults in a national sample who had taken out at least one high-cost personal loan in 2019, 2020, or 2021, with oversamples of 100 Black adults and 100 Latino adults who have taken out such loans.

Because high-cost installment loans are marketed under a variety of different names, respondents were presented with a description of the criteria used to define such loans, rather than common names for these types of products.[15] Borrowers who had taken out more than one high-cost installment loan during the relevant time period reported loan characteristics, outcomes, and impacts for the most recent, second most recent, and third most recent loans. Borrower-level findings are reported based on these sets of loans, and combined borrower findings reflect whether the characteristic, outcome, or impact was present in any one of the three loans.

In addition to this survey, CRL and FDR Group conducted two virtual focus groups with borrowers of high-cost installment loans to get a better understanding of the impact of these loans on borrowers, their families, and financial decision-making in everyday life. To qualify for inclusion in the focus groups, participants were required to have taken out a high-cost installment loan, with terms longer than two months in 2019, 2020, or 2021. The participants were recruited from across the nation, and the groups were designed to be demographically diverse and differentiated by income. The first group consisted of those with annual household incomes less than $35,000; the second group consisted of those with annual household incomes less than $65,000. CRL researchers designed a set of guide questions and inquiries for FDR Group focus group interviewers and then observed the virtual focus groups anonymously. All names were changed in this report to maintain anonymity.

It is important to note that because high-cost loan products have, by design, opaque pricing terms and conditions, the research participants from whom we collected data may not have been fully informed of the price or terms of their loans. As part of the data collected in our survey, we asked borrowers to estimate the price of their loans and asked them to specify the originating lender. Survey participants frequently indicated that their total cost of credit was lower than the marketed rate on that lender's website. Similarly, when screening focus group participants to determine if they were eligible to participate in the study, we asked them to share loan documentation. To prove they had taken out high-cost loans, a few participants shared their loan's Truth in Lending disclosure agreement, which provides an APR for the amount borrowed (see Appendix for two examples).[16] Several borrowers shared during the focus group what they perceived to be the APR for their loans; however, upon reviewing their loan documents, we found they underestimated their total cost of borrowing. For instance, one focus group participant, whom we refer to as Van in this brief, said during the focus group that his lender charged him between 60% and 80% in interest, but his loan documents showed that the all-in APR for his loan was 105%.

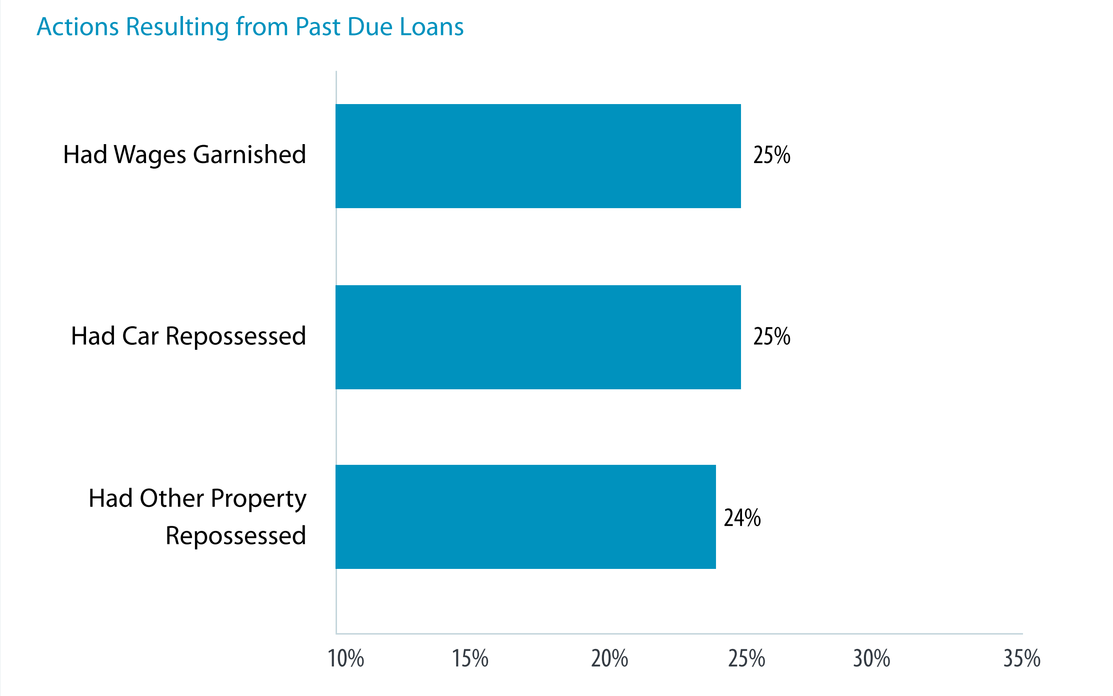
Due to the inherent limitations in using consumer-provided data to assess the benefits and harms of these products, in instances where there is ambiguity in the wording of survey questions or results, we provide endnotes to share details, including the exact wording of survey questions provided in the questionnaire.

Finding 1: Unfavorable high-cost installment loan terms led most loans to be refinanced at least once. For the sizable share of borrowers surveyed who missed payments or made late payments on their loan, the consequences were severe.

As part of the survey, borrowers were asked whether they had refinanced any of their high-cost installment loans. Of the loans they had taken out, 60% had been refinanced or rolled over to extend the loan's terms.[17] The consequences were particularly severe for borrowers with past due loans. Among the 40% of survey respondents who indicated that one of their installment loans was past due, 25% of borrowers had a car repossessed, and 25% reported having their wages garnished to repay the balance of their loans (see Table 1). For borrowers who were already financially stretched, a loss of income due to wage garnishment or not having transportation to get to work could exacerbate their poor financial health.

Borrowers were asked whether they had refinanced any of their high-cost installment loans. Of the loans they had taken out, 60% had been refinanced or rolled over to extend the loan's terms.

Figure 2. Those with Past Due Loans Reported Additional Negative Consequences as a Result



Survey question: *"You indicated that you are past due on the following loan(s). Have any of the following actions occurred as a result?"*

CRL Calculation

Several focus group participants expressed concerns over inflationary pressures driving up their monthly expenses. These borrowers described how rising prices and unexpected expenses made their loan repayments untenable. If a borrower cannot afford to repay their loan, they face the choice of refinancing their loan or missing a payment and being subject to a long list of negative repercussions.

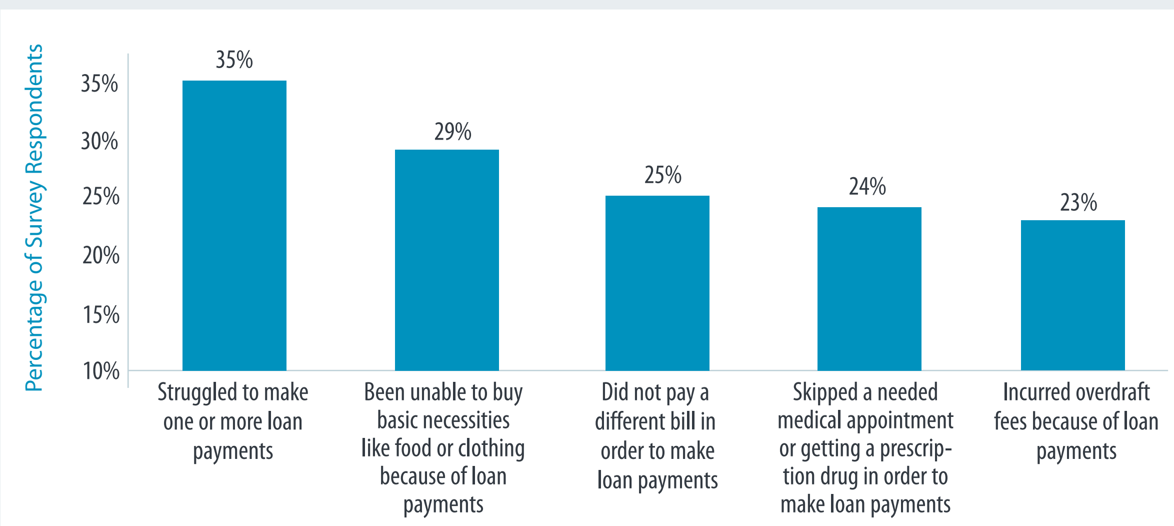
Keke, a 41-year-old Black woman, expressed concern that the amount of her loan payments would increase if she missed a payment, making her debt unmanageable. After taking out an car-title loan to help pay bills while she was between jobs, Keke feared losing her car, like several of her friends who had taken out car-title loans. Having had a negative prior experience when taking out a high-cost loan, Keke vowed not to miss a payment with her most recent loan for fear of having to refinance it, as she had done with past loans. She describes her struggle to repay her loan as a "spiral effect":

"The more you borrow, the more that percentage goes up, and they know you're never going to pay it back. And this was a car-title loan. That was the only car I have. And I was like, 'No, I'm getting my car back. . . .' [I]t becomes a spiral effect. And that situation, It just spiraled all the way out of control." –Keke

Finding 2: The burden of repaying high-cost loans often caused borrowers to miss payments on other obligations, resulting in additional debt or a larger financial deficit, rather than easing financial issues.

A great majority of borrowers (85%) reported in the survey that making payments on one or more of their high-cost loans contributed to or caused an experience which negatively impacted their finances.[18] When borrowers obtain high-cost installment loans to stretch already depleted resources, lenders have no responsibility to determine if the borrower can afford to repay the loan. Borrowers often find their loans too expensive to repay within their existing budget and face steep negative repercussions that harm both their immediate well-being and their long-term financial future. To avoid negative repercussions for failing to repay their loans, borrowers often must make harmful tradeoffs that lessen their financial security. Borrowers reported missing bill payments, skipping doctors' appointments, and incurring overdraft fees as a result of repaying their loans (see Figure 2).

Figure 3. Borrowers Experienced Negative Consequences Due to Making Payments on Their High-Cost Installment Loans



Survey question: *"Please indicate for each of these loans whether they caused or contributed to any of the following impacts on your life."*
Source: CRL calculations.

Across the focus group panels, borrowers said taking out loans under duress to meet immediate and urgent needs caused them emotional stress. Being in debt for months or years on end was exhausting and, for some, outright demoralizing. Many of the borrowers found that taking on more debt compounded emotionally difficult circumstances. Further, for individuals who use installment loans to pay for their budgeted expenses such as food, housing, and transportation, the expensive cost of credit became an added surcharge to the cost of their basic living needs.

By offering loans without assessing the borrowers' ability to repay, lenders are exploiting people—often people underserved by the existing financial system—who are in difficult circumstances and need money. Our analysis found that some of the harms had a greater impact on people of color and individuals with lower incomes. For instance, Black borrowers with annual incomes below $50,000 were nearly three times more likely to incur overdraft fees than white borrowers with the same income threshold. Past CRL research has illustrated that overdraft fees disproportionately harm Black and Latino checking account holders.[19]

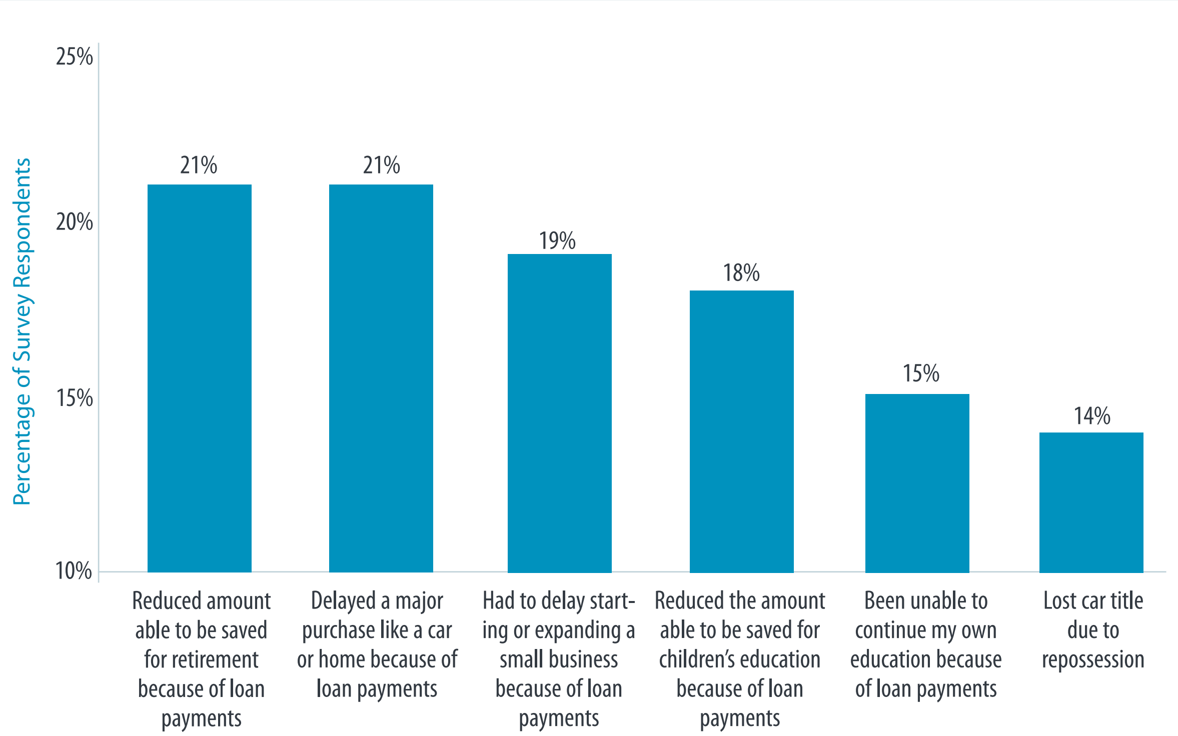
By offering loans without assessing the borrowers' ability to repay, lenders are exploiting people—often people underserved by the existing financial system—who are in difficult circumstances and need money.

> One of CRL's focus group participants, Van, a 60-year-old, Black veteran, took out a CashNetUSA loan because he was not earning enough on his fixed income to pay the bills. He shared that he would often need to juggle his monthly expenses, paying some bills and not others to stretch his resources. He used a centuries-old proverb to demonstrate the anguish caused by juggling his finances:
>
> *"In the process of paying it back, it was like I had to rob Peter to pay Paul, and Peter wasn't happy. It caused a ripple effect because once I rob Peter to pay Paul, Joe was standing in line, and Joe is saying, 'Where's mine?' [and] Joe wasn't happy either. One of the major negative consequences that I suffered was having to put off the light company or put off the cable bill. In a couple of instances, my electricity did cut off, and that wasn't nice at all…. I'm at a point healthwise to whereas I don't go out because I can't enjoy myself because of the chronic pain. My only entertainment here is basically my TV, my phone. When the cable gets cut off, it's really dullsville around here." –Van*

Finding 3: Borrowers understood that these loans hurt their credit scores and delayed wealth-building activities such as purchasing a home or car, investing in a business, or saving for retirement, but circumstances led them to believe they had no other option for meeting short-term financial needs.

In the longer-term, our research found that borrowers not only had to make harmful tradeoffs in order to avoid the consequences of missed or late loan payments, but they were also required to forgo asset-building activities that would improve their financial well-being, while repaying installment loans (see Figure 3).

Figure 4. Surveyed Borrowers' High-Cost Installment Loans Negatively Impacted their Long-Term Financial Well-Being



Survey question: "*Please indicate for each of these loans whether they caused or contributed to any of the following impacts on your life.*"
Source: CRL calculations.

One of the focus group participants interviewed, Elsa, a 24-year-old Black woman, worried that her monthly income was insufficient to cover her rising monthly budget. She initially took out an installment loan to get back on her feet after breaking up with a live-in partner. As she sees friends saving up to buy homes and new cars, she wonders if the loan she took out—albeit out of perceived necessity—is preventing her from being able to improve her credit so that she can start planning for future wealth-building purchases:

"A lot of my friends in my age group right now are getting married, having kids, buying nice cars, buying their first house and everything. And you see the credit. Especially with me, because of my surgery, having $100K in debt, it's heartbreaking to know that my income-to-debt ratio [participant trails off]. . . . I'm probably not going to pay off that debt anytime soon, before I'm the age of 35 to 40, unless I hit the million dollar lottery or something. It's just really taking a toll on your social life. It hurts when you try to go get a car and you're not approved." –Elsa

High-cost loans also make it harder for borrowers to engage in wealth-building activities that would help create the financial security to make them less reliant on such products in the future. Roughly one-fifth of survey respondents indicated they reduced contributions to their retirement savings, delayed a major purchase like a home or car, and/or put off expanding or starting a small business. Persistent racial inequities over generations have denied Black families opportunities to acquire wealth and income, and this forces many to struggle to meet expenses.[20]

Roughly one-fifth of survey respondents indicated they reduced contributions to their retirement savings, delayed a major purchase like a home or car, and/or put off expanding or starting a small business.

We asked focus group participants to provide more details on how these loans were preventing them from investing in a home or business and/or growing their savings. They indicated that, as they struggled to repay their loans, missed or late payments negatively impacted their credit scores; this made it more difficult to establish credit for a home, car, or small business (Figure 3). As they took stock of the loans' long-term impacts, the study participants brought home a further point: Despite seeming to offer a solution to an immediate problem, the loans worsened borrowers' long-term financial outlook. Borrowers felt they were falling even further behind. Missed retirement savings are harder, or impossible, to make up years down the road. As home values continue to rise, delaying a first home purchase puts homeownership further out of reach. Debt collection lawsuits and other assaults on borrower credit scores push all these opportunities further into the future. Some expressed an almost palpable feeling of perpetually running forward but being pulled backward.

Jaime, a 36-year-old Black mother with young children, took out a loan to pay off bills between jobs. She recalled that her loan had an APR of 239%. When asked if the loan was more helpful or hurtful, she replied that it hurt more than helped in the long run. She expressed concern that failure to pay her loan on time would damage her credit score, making it harder for her to build sufficient credit to qualify for a mortgage in the future.

"Pretty much the main [impact] that it's been having on me is the credit score, if I don't pay on time and then it racks up. Then having to go without and having to shift money from this place to that place and not pay for certain things on time. And that impacts the credit score. . . . Trying to build it up in order to achieve a goal of eventually getting a house." –Jaime

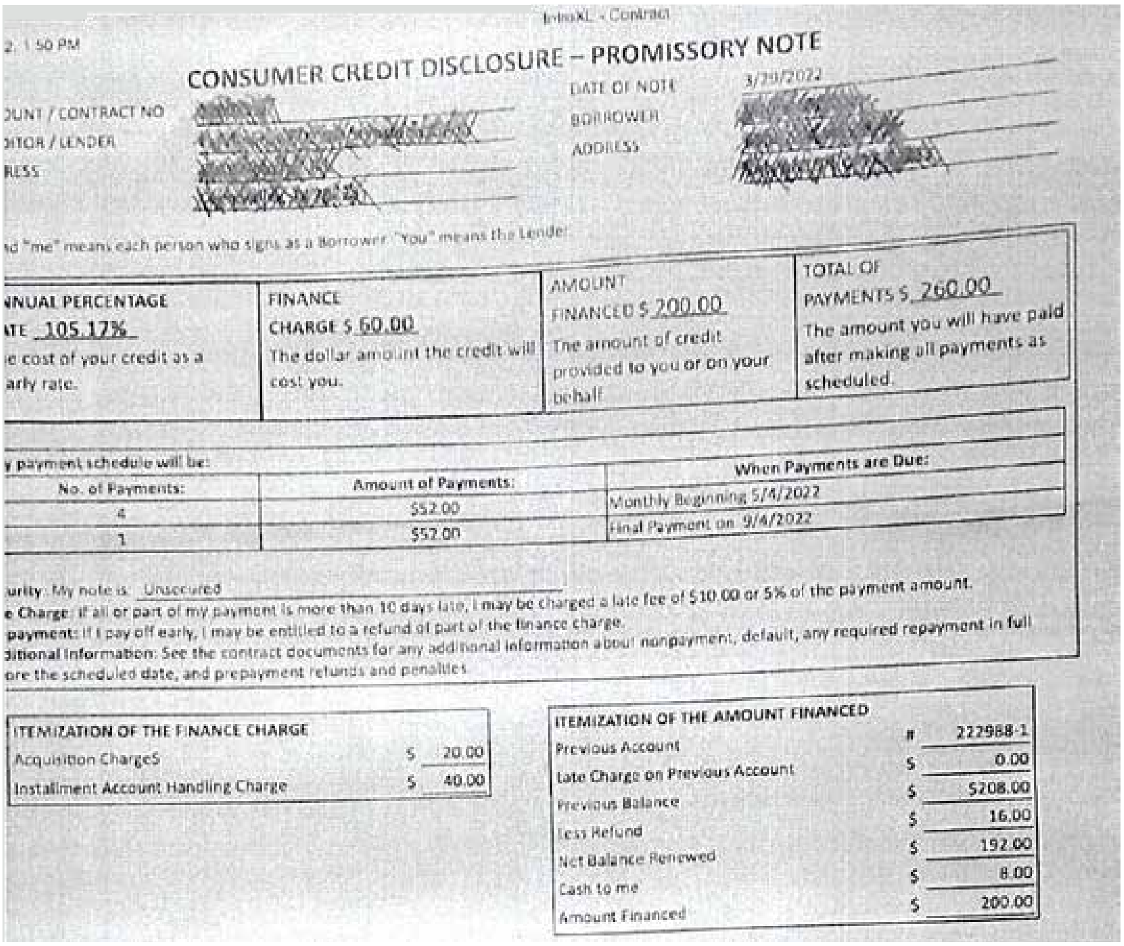
Dawn, a 24-year-old white single mother, has taken out numerous installment loans. She also worried that her high levels of debt are making it harder for her to establish credit. She currently owns her own lawn care business and would like to establish greater financial independence for herself and her family by growing her business, but she struggles to break free from the debt trap.

"Just drowning in debt and trying to establish business credit as well. My personal credit takes a toll on that. Even after switching from sole proprietor to LLC, it's made things increasingly difficult as far as establishing credit. It carries into all parts of my life, really. . . my ability to make more money and pay off that debt." –Dawn

Conclusion

High-cost loans come with an exploitative cost, in fees and interest, that often far exceeds the amount borrowed, causing great harm to many borrowers. These loans currently are legal in the states that permit them or occur illegally with the stamp of a federally-regulated bank through "rent-a-bank" loans made by an online lender. This gives the loans a veneer of legitimacy that belies the long-term harms that commonly accompany them. By charging high interest rates over extended periods of time, lenders are incentivized to push high-cost loans onto borrowers regardless of their ability to repay; this produces serious harms, as demonstrated in this paper. CRL recommends that states maintain, or enact, usury limits that protect against these loans: rate caps of no more than 36% APR (inclusive of all fees and interest) for smaller loans, with lower rates for larger loans. Federal banking regulators should prevent their regulated institutions from "rent-a-bank" arrangements that facilitate higher cost lending where state law sets lower limits.

Example Loan Documentation 1[21]



InfoXL - Contract

2 1:50 PM

CONSUMER CREDIT DISCLOSURE – PROMISSORY NOTE

DUNT / CONTRACT NO [redacted]
DITOR / LENDER [redacted]
RESS [redacted]

DATE OF NOTE 3/29/2022
BORROWER [redacted]
ADDRESS [redacted]

nd "me" means each person who signs as a Borrower. "You" means the Lender.

NNUAL PERCENTAGE ATE 105.17%	FINANCE CHARGE $ 60.00	AMOUNT FINANCED $ 200.00	TOTAL OF PAYMENTS $ 260.00
e cost of your credit as a arly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf	The amount you will have paid after making all payments as scheduled.

y payment schedule will be:

No. of Payments:	Amount of Payments:	When Payments are Due:
4	$52.00	Monthly Beginning 5/4/2022
1	$52.00	Final Payment on 9/4/2022

urity: My note is: Unsecured
e Charge: If all or part of my payment is more than 10 days late, I may be charged a late fee of $10.00 or 5% of the payment amount.
payment: If I pay off early, I may be entitled to a refund of part of the finance charge.
ditional Information: See the contract documents for any additional information about nonpayment, default, any required repayment in full
ore the scheduled date, and prepayment refunds and penalties.

ITEMIZATION OF THE FINANCE CHARGE		
Acquisition ChargeS	$	20.00
Installment Account Handling Charge	$	40.00

ITEMIZATION OF THE AMOUNT FINANCED		
Previous Account	#	222988-1
Late Charge on Previous Account	$	0.00
Previous Balance	$	$208.00
Less Refund	$	16.00
Net Balance Renewed	$	192.00
Cash to me	$	8.00
Amount Financed	$	200.00

Example Loan Documentation 2[22]

Promissory Note and Disclosure Statement

Loan Effective Date: 09/29/2020

Loan [redacted]
Customer [redacted]

LENDER: FinWise Bank	ADDRESS: C/O Opportunity Financial, LLC 130 E Randolph St, Suite 3400	CITY: Chicago	STATE: IL	ZIP CODE: 60601	PHONE: (855) 990-9500

BORROWE[redacted]k	MAIN PHON[redacted]	WORK PHONE:		MOBILE PHON[redacted]
ADDRES[redacted]e		CI[redacted]	STATE: FL	ZIP COD[redacted]

FEDERAL TRUTH-IN LENDING DISCLOSURE STATEMENT

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf.	The amount you will have paid after you have made all payments as scheduled.
159.33%	$2,355.00	$3,000.00	$5,355.00

Your payment schedule will be:

No. of Payments:	Amount of Payments:	Payment Due Dates:
1	$267.75	10/16/2020
1	$267.75	10/30/2020
1	$267.75	11/13/2020
1	$267.75	11/27/2020
1	$267.75	12/11/2020
1	$267.75	12/25/2020
1	$267.75	01/08/2021
1	$267.75	01/22/2021
1	$267.75	02/05/2021
1	$267.75	02/19/2021
1	$267.75	03/05/2021
1	$267.75	03/19/2021
1	$267.75	04/02/2021
1	$267.75	04/16/2021
1	$267.75	04/30/2021
1	$267.75	05/14/2021
1	$267.75	05/28/2021
1	$267.75	06/11/2021
1	$267.75	06/25/2021
1	$267.75	07/09/2021

SECURITY: This loan includes a security interest in the Payment Authorization.

PREPAYMENT: If you prepay in full or in part, you will not have to pay a penalty.

See your contract terms below for additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

Itemization of Amount Financed:
1. Amount provided directly to you: $3,000.00
2. Amount paid on your existing loan (Existing Payoff Amount): $0.00

HIGH COST CREDIT DISCLOSURE: This is an expensive form of credit. Our loans are designed to help consumers meet short-term borrowing needs and NOT intended as a long-term credit solution. Alternative forms of credit may be less expensive and more suitable for your financial needs. You should compare the cost of other options with this loan before executing this Note. Paying late or making partial payments may increase the amount of the finance charges that you pay and could increase the term of your loan.

ARBITRATION DISCLOSURE: This Promissory Note includes an Arbitration Clause (the "Arbitration Clause"). In the event of a dispute related to this loan, your ability to have the dispute resolved in court is limited. You can "opt out" of the Arbitration Clause as set forth below. Please review the Arbitration Clause carefully before signing this Note.

PROMISSORY NOTE

In this Promissory Note and Disclosure Statement ("Note"), the words "Borrower", "you", and "your" mean the person signing as borrower. The words "Lender", "we" and "us" mean FinWise Bank, an FDIC-insured bank located in Utah, or any of its direct or indirect assignees. We have not yet committed to extend credit and will only be committed to extend credit if and when we initiate a transfer of funds to the bank account you have identified for this purpose in the process of applying for credit or to an another account in paying any Existing Payoff Amount referenced above. The Federal Truth in Lending Disclosure Statement ("Disclosure Statement") above is part of the terms and conditions of this Note. This Note is not a negotiable instrument.

1. LOAN TRANSACTION. To complete your loan transaction, you must electronically sign this Note below. If and when we verify your information and approve the loan, we will use commercially reasonable efforts to transfer the loan proceeds to your bank account you identified or pay off the Existing Payoff Amount on or before the next business day. However, delays may result from verification of information late in a business day or on a non-business day, processing errors and/or "acts of God".

2. CREDIT AUTHORIZATION. You authorize us to transfer loan proceeds directly to your banking account: **Account type: Checking Account; Bank routing and transit number: *****[redacted]; and Account Number: *****[redacted]**. You authorize us to make debits from this bank account to correct any crediting errors.

3. PROMISE TO PAY. You promise to pay us the principal sum of $3,000.00 plus interest until the loan is fully paid. Please note that any returned or unpaid installments shall be added to the principal of this loan. Simple interest will accrue from day to day on the outstanding principal balance at a "Daily Rate" equal to 1/365 of the agreed annual rate of (160.0 %), rounded to two decimal places. The agreed annual rate may be different than the disclosed Annual Percentage Rate in the Disclosure Statement. The Annual Percentage Rate in the Disclosure Statement shown above is calculated in accordance with equations set forth in Regulation Z, which implements the Federal Truth in Lending Act. We will begin charging interest on the Loan Effective Date referenced above. All payments received shall be applied first to any outstanding charges or fees, then to accrued interest, and then to the reduction of the unpaid principal.

4. PAYMENTS. You promise to make a payment on each Payment Due Date in the amount shown on the Payment Schedule above, as it may be modified by agreement of the parties. The unpaid debt on the final scheduled Payment Due Date (the "Maturity Date") will likely vary somewhat from prior required payments. This is due, among other things, to any early or late payments and/or any payments higher or lower than the scheduled amount. If the amount actually owing on the Maturity Date is less than the Maturity Date payment shown on the Payment Schedule, we will adjust your final payment to reflect such decrease. If the amount actually owing on the Maturity Date is more than the amount shown on the above Payment Schedule, then: (i) by contacting our servicer Opportunity Financial, LLC ("OppLoans") at (855) 990-9500 or info@opploans.com, you may instruct us to adjust your final payoff payment to reflect such increase; or (ii) until the loan is paid in full, interest will continue to accrue at the Daily Rate and you must continue to make payments beyond the Maturity Date, on the same schedule, in amounts equal to the lesser of the Maturity Date payment or the outstanding balance on the payment date. You understand and agree that if at any time you pay more than the required scheduled payment you will still be required to make the next scheduled payment when due (see "Prepayment" below for additional information). If any payment is due on a day other than a banking business day and is made on the first banking business day after the Payment Due Date, such payment will be credited as if received on the scheduled Payment Due Date.

5. PAYMENT AUTHORIZATION.

The optional payment method checked below is based on your previous selection during the application process. However, you may choose to repay by any other reasonable method of payment that we permit, including paper check. If you wish to change your payment method, you may contact us by communicating with Opploans at (855) 990-9500 or info@opploans.com and you will be provided instructions on how to make your payment or payments. Please be advised that all non-automated payments by mail should be sent in time for receipt by 5 pm Central Time on the applicable Payment Due Date.

☐ **Automated Payments.** If the box to the left has been checked, then you authorized us during the application process to initiate Automated Payments by debiting the banking account identified in the "Credit Authorization" section above, or any substitute account you later specify (the "Bank Account"). You direct us to initiate an Automated Payment on each Payment Due Date in the amount shown on the Payment Schedule, as it may be modified by agreement of the parties. You understand that, until the loan is paid in full, the amount of any Automated Payment will not be affected by any prepayment you make or any other amount you pay on the loan in addition to the amount of scheduled payments.

Bank Account Information. You authorize us to verify, correct and update any missing, erroneous or outdated information you have provided or subsequently provide regarding the Bank Account. You promise that the Bank Account is a legitimate, open and active bank account and that you have the right to initiate (and to authorize us to initiate) Automated Payments from the Bank Account.

Changes to Payment Schedule. You authorize us to initiate Automated Payments in accordance with any modified payment arrangement to which you and we agree. We may adjust the Maturity Date Automated Payment for any decreased amount you owe, based on your payment history, or for any increased amount you instruct us to debit.

Endnotes

[1] When surveying research participants to screen for eligibility, participants were asked the following question: *"Lenders are required by law to provide consumers with a loan's Annual Percentage Rate, or APR. The APR annualizes the loan's interest rate, meaning it converts its short-term rate into the equivalent annual rate, so consumers can compare loans with different terms in a meaningful way. Do/did any of the loans you just described have an APR of 37% or higher?"*

Survey participants were provided with the following definition for installment loans: *"The following questions will deal only with unsecured personal loans and car-title loans. Unsecured personal loans are a type of installment loan offered by lenders that do not require some form of collateral or security deposit in order to be taken out."*

Similar language was used when screening for focus group participants: *"As previously noted, loans secured by access to a bank account are included within the sample. For the purposes of these questions, this does not include student loans. Car-title loans are a type of secured loan that uses the title on the vehicle you already own as collateral for the loan. This loan is not the same as a vehicle purchase loan, which may be used to purchase a vehicle."*

[2] Saunders, L. (2013). Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap. (pg. 3) *National Consumer Law Center.* https://www.nclc.org/images/pdf/pr-reports/why36pct.pdf

[3] Ibid.

[4] For a $2,000 two-year installment loan. Carter, C., Saunders, L., & Saunders, M. (2022). Predatory Installment Lending in the States. *National Consumer Law Center.* https://www.nclc.org/uncategorized/predatory-installment-lending-in-the-states-2022.html.

[5] For a summary of current rent-a-bank activity, see Rouzer, S. (March 2020). High-Cost Rent-a-Bank Loan Watch List. *National Consumer Law Center.* Updated July 2022. https://www.nclc.org/issues/high-cost-small-loans/rent-a-bank-loan-watch-list.html

[6] Predatory Lenders' Rent-a-Bank Scheme: What Is It and What Can We Do To Stop It?. (January 2020). *Center for Responsible Lending.* https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-renta-bank-jan2020.pdf

[7] Rouzer, S. (March 2020). High-Cost Rent-a-Bank Loan Watch List. *National Consumer Law Center.* Updated July 2022. https://www.nclc.org/issues/high-cost-small-loans/rent-a-bank-loan-watch-list.html

[8] Past CFPB research reports that the median size of a payday loan is $350 with a median loan term of 14 days, see Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings. (2013). *Consumer Financial Protection Bureau.* https://files.consumerfinance.gov/f/201304_cfpb_payday-dapwhitepaper.pdf

[9] CRL calculates the total cost of borrowing as the loan's all-in APR, which includes the interest rate, monthly fees or other charges, and any combination of interest and fees.

[10] To see an example of the finances charges paid by a borrower with a triple-digit interest rate loan, see Appendix, Example Loan Documentation 1.

[11] Survey questions: *(1) "A loan term describes how long you must make loan payments in order to pay a loan off. What are/were the loan terms of each of your loans?" (2) "What is/was the original amount of each of these loans?"*

[12] Carter, C., Saunders, L., & Saunders, M. (2016). Misaligned Incentives: Why High Rate Installment Lenders Want Borrowers Who Will Default. *National Consumer Law Center.* https://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-misaligned-incentives.pdf

[13] CFPB Complaint #3601712 (April 10, 2020). Payday loan, title loan, or personal loan: Charged Fees or Interest You Didn't Expect. *Consumer Financial Protection Bureau.* Accessed August 2, 2022. https://www.consumerfinance.gov/data-research/consumer-complaints/search/detail/3601712

[14] Bourke, Nick and Alex Horowitz. (October 2018). State Laws Put Installment Loan Borrowers at Risk. *Pew Research Institute.* https://www.pewtrusts.org/en/research-and-analysis/reports/2018/10/17/state-laws-put-installment-loan-borrowers-at-risk.

[15] In addition to being referred to under different names by lenders, loans with our aforementioned criteria are referred to as payday installment loans, consumer finance or installment loans, or other similar terms when authorized by state regulators.

[16] See Appendix: High-Cost Installment Loan Documents items 1 and 2.

[17] Survey questions: *(1) "Some borrowers choose to roll over or refinance to extend the terms of their loans. How many times have you refinanced or extended each of your loans?" (2) "You indicated that you have not fully paid off the following loan(s). What is the current status of each of your loans?"*

CRL calculated the percentage of past due loans by comparing the share of borrowers who reported that their loan is past due with the total share of borrowers who reported that they knew the status of their loans.

[18] Survey question: *"Please indicate for each of these loans whether they caused or contributed to any of the following impacts on your life: Struggled to make one or more loan payments; Been unable to buy basic necessities like food or clothing because of loan payments; Reduced amount able to be saved for retirement because of loan payments; Skipped a needed medical appointment or getting a prescription drug in order to make loan payments; Delayed a major purchase like a car or home because of loan payments; Incurred overdraft fees because of loan payments; Had to delay starting or expanding a small business because of loan payments; Reduced the amount able to be saved for children's education because of loan payments; Lost car title due to repossession; None of the above; Not sure."*

[19] Smith, Peter, Shezal Babar, and Rebecca Borné. (June 2020). Banks Must Stop Gouging Consumers During the COVID-19 Crisis. *Center for Responsible Lending.* https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-overdraft-covid19-jun2019.pdf.

[20] Baradaran, M. (2017). The Color of Money: Black Banks and the Racial Wealth Gap. Boston, MA: Belknap Press.

[21] Loan documentation submitted by Van in June 2022, a focus group participant. As part of determining focus group eligibility, focus group participants were asked to submit loan documentation demonstrating that they had received a high-cost installment loan in 2019, 2020, or 2021.

[22] Shared with CRL researchers in December 2021, this high-cost installment loan was made by OppLoans through a rent-a-bank partnership with FinWise, a Utah bank. OppLoans makes installment loans ranging from $500 to $4,000 with APRs up 160%. In addition to lending directly in eight states, Opploans uses" rent-a-bank" schemes to make loans in 26 other states. For more information on high-cost installment lenders that operate in states with interest rate cap limits, see Rouzer, S. (March 2020). High-Cost Rent-a-Bank Loan Watch List. *National Consumer Law Center.* Updated July 2022. https://www.nclc.org/issues/high-cost-small-loans/rent-a-bank-loan-watch-list.html

Center for Responsible Lending

www.responsiblelending.org

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of Asian, Black, Latino, rural, military, low-wage, low-wealth, and early-career workers and communities.

CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. Our work leverages the strength of partnerships with national and local consumer and civil rights organizations.

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