And the Poor Get Poorer

The Florida Consumer Finance Act (the Act) sets maximum interest rates for consumer finance loans, which are "loan[s] of money, credit, goods, or a provision of a line of credit, in an amount or to a value of $25,000 or less at an interest rate greater than 18 percent per annum."

Consumer finance loans, made by lenders licensed by the State, may charge a maximum rate of:

- 30 percent a year, computed on the first $2,000 of the principal amount;
- 24 percent a year on that part of principal exceeding $2,000 but not exceeding $3,000; and
- 18 percent per year on that part of principal exceeding $3,000.

HB 425 would increase the amount of principle that can be charged the higher rate -- raising the 30 percent level to $3,000 and the 24 percent level to $3,000 - $4,000.

Bill proponents contend that interest rates are higher on these smaller types of loans because they are riskier, unsecured loans.

However, the Florida Consumer Action Network points out that even though borrowing and lending costs are at historically low levels, the bill increases the interest, fees, and penalties for already very expensive loans that are primarily used by low and middle class consumers, many living paycheck-to-paycheck. At the same time, more than 50 percent of consumer finance organizations in Florida are owned by just three out-of-state companies, 80 percent of which – according to the North Carolina banking regulator – have maintained profits year-after-year, even through the recession.

Perhaps most disturbing is that consumer finance lenders have a sad tradition of churning their customers: Industry data show that over 75 percent of their lending is for refinancing existing customers, generating new fees and interest each time. Instructions to employees of Security Finance (one of top lenders in Florida, dba Sun Belt Credit, based in South Carolina) show their business thrives on getting people into debt, but not letting them out: "*push the renewals, by getting the customer to renew their accounts it will be harder for that customer to pay us out*."

Last Action: 02/13/13 HOUSE Favorable by Insurance & Banking Subcommittee.