Paying More to Borrow

Subprime Lender Thrives While Colorado Consumers Struggle

By Michelle Webster

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Summary of Findings

OneMain is the largest subprime installment lender in the nation operating 1,800 branches in 44 states and by far the biggest fish in Colorado's subprime lending sector. OneMain offers loans to borrowers with subprime credit. These are not payday loans. The loans average about $6,000 with a repayment period of 3 to 6 years and an average annual interest rate of around 26 percent. These loans can be deceptively expensive for borrowers. And if OneMain has its way, Coloradans will pay even more to borrow.

In 2015 and 2016, OneMain pursued legislation to raise interest rates on Colorado borrowers, part of a national strategy targeting state legislatures across the country to increase costs for subprime borrowers. To better understand the terms of these loans and the implications for Colorado borrowers, the Colorado Center on Law & Policy reviewed nearly 200 collection cases filed by OneMain in Denver County Court against delinquent borrowers, including 126 loan agreements. Among the findings:

- **Loans are padded with expensive insurance products**. Three-quarters of the loans examined included expensive credit and non-credit insurance policies rolled into the loan amount. These borrowers saw the total cost of their loan raised on average by $1,200 or an 18 percent increase in the total loan cost.
- **Insurance that is voluntary in name but predatory in nature**? With nearly 8 in 10 borrowers in Denver County Court collection cases agreeing to purchase this high-cost, low-value insurance, it begs the question of how OneMain achieves such a high penetration rate if purchasing insurance was actually presented as a voluntary option. In our sample, on average 2.3 insurance policies were sold for every loan made.
- **High-cost, low-value insurance**. The credit insurance products sold with consumer installment loans often is not a good deal for the borrower. Lenders typically only offer one product and often have a financial interest in selling that product. OneMain owns the two insurance companies that write insurance policies for their borrowers. And the loss ratios for the policies sold by OneMain—the percent of premiums paid out in claims—falls well below industry standards.
- **Repeat refinancing means repeat customers and more profits.** Nearly half of the cases we examined included a prior loan with OneMain; three-quarters of those renewals included insurance products rolled into the loan balance increasing the amount financed by an average of $720. Rolling over a loan into a new loan is a practice referred to as "default masking." Nationally, about 60 percent of OneMain loans are renewals of existing loans.
- **Default judgment often leads to wage garnishment and bankruptcy.** Over half of the Denver County Court collection cases (53 percent) filed by OneMain resulted in an order for wage garnishment. According to the National Consumer Law Center, Colorado law does little to protect low-wage debtors from having to turn over a significant amount of their earnings for garnishment. We found a high level of bankruptcy among our sample: 42 percent of borrowers filed for bankruptcy at some point and the vast majority of those bankruptcy filings occurred after the OneMain collection case was filed.

State lawmakers, regulators and consumer advocates must keep careful watch that the profit motive of an already highly profitable industry does not override consumer protections vital to Coloradans.

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Contents

Partners

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Costly loans that can lead to cycle of debt

It's an all-too common story, even when the economy is doing better: Mr. Martinez, a Denver resident, needed to consolidate some high cost credit card debt and get on top of his payments again. He applied for a personal loan from OneMain Financial, the largest subprime consumer lender in Colorado, thinking it would help him accomplish that goal.

When Mr. Martinez fell behind on his payments, OneMain offered to pay off his current $3,800 loan with a new loan. The new loan was a temporary reprieve. What Mr. Martinez didn't bargain for was a new loan packed with $1,360 in "credit insurance" rolled into his loan at nearly 23 percent interest that only added to his financial burden.

OneMain offers installment loans to people who have "subprime" credit -- meaning borrowers with credit scores between 610 and 640. In terms of dollars, these loans are typically larger than high-interest payday loans, averaging about $6,000 with a repayment period between 3 to 6 years, and they are often secured by a lien on the borrower's car or other property. Payday loans in Colorado, on the other hand, are capped at $500 with full payment due within six months.

Borrowers like Mr. Martinez turn to subprime lenders like OneMain because they may have damaged credit, they may not be able to get a loan from a mainstream bank and they need more than a payday loan to cover a major purchase like a car or to consolidate debt from medical bills or credit cards. With an average interest rate of 26 percent, OneMain charges significantly more for their loans than banks.

The Colorado Center on Law & Policy examined 193 collection cases filed by Springleaf and OneMain against delinquent borrowers in Denver County Court between 2011 and 2016, including 126 loan agreements. This analysis provides a snapshot of OneMain subprime loans and shows how costly they can be for Colorado borrowers—often padded with expensive and largely unnecessary additional products that can trap people in a cycle of debt.

Overview of OneMain* subprime installment loans examined

Loan Terms	Credit Insurance & Other add-on products
Average Amount Financed: **$4,740**	Loans with credit insurance and other add-on products: **76%**
APR: **25.5%**	Average cost of credit insurance and other products: **$860**
Average Finance Charges: **$1,950**	Average additional finance charges: **$340**
Average Total Payments: **$6,700**	Total average additional costs for insurance & add-ons: **$1,200**
Average Loan Term: **3 years**	Average increase in total loan amount: **18%**

* Springleaf acquired OneMain Financial Holdings from a Citigroup subsidiary and rebranded as OneMain in 2015.

Campaign to raise rates targets Colorado borrowers

Springleaf, which bought its largest competitor in 2015 and rebranded as OneMain, is now the largest installment lender in the nation operating 1,800 branches in 44 states and by far the biggest fish in Colorado's subprime lending sector.

Springleaf's emergence as a subprime powerhouse began when the company was acquired by **Fortress Investment Group**, one of Wall Street's prized and powerful private equity firms managing over $70 billion in investor dollars. Previously, Springleaf's business had been held by American International Group (AIG) and Citigroup, two well-known Wall Street players that accepted billions of bailout dollars from taxpayers to survive the financial crisis of 2008. According to a **New York Times investigation**, since buying Springleaf in 2010, Fortress has transformed their $124 million investment into an asset worth about $2 billion.

Part of that impressive growth is due to **OneMain's concerted strategy** to push for legislation in state legislatures to raise costs on subprime borrowers—who are already paying some of the highest interest rates in the country outside of payday lending. In large part, OneMain's legislative efforts have been fairly successful.

OneMain's **lobbyist in Arizona** became an inseparable part of the bill-drafting process in 2014 by providing language that became law and applied the state's maximum 36 percent rate to larger number of loans. The Arizona legislation also doubled the maximum origination fee from $75 to $150. In Texas and Missouri, OneMain successfully lobbied to increase administrative fees on subprime loans. OneMain has also pushed for legislation allowing the company to sell various insurance products which are then rolled into the balance of the loan. Since 2012, at least 10 states have been persuaded to raise the costs on these loans at a time when interest rates are at historical lows.

The pitch is essentially the same in every state: OneMain needs to increase their costs to stay in business and expand lending to more borrowers.

In 2015, OneMain set its sights on Colorado. The company quickly maneuvered to pass a bill to raise the blended interest rates in the final days of the 2015 legislative session when there was little time to analyze its impact and committee agendas were packed. Advocacy groups led by the Bell Policy Center and joined by CCLP, successfully persuaded Gov. John Hickenlooper to veto the bill because the consequences for borrowers on the economic edge were potentially dire and the issues warranted closer scrutiny. Undeterred, OneMain returned in the 2016 session with a slightly retooled proposal. The bill passed the Senate but was quickly defeated in the House.

OneMain targets Colorado borrowers for interest rate hikes

Interest rate caps are one of the primary ways state laws protect borrowers. According to the National Consumer Law Center, most states impose rate caps on installment loans between 17 to 36 percent. Only 11 states impose no interest rate caps. Colorado is surrounded by 4 of those states. Citing the state's rate caps, OneMain characterized Colorado as one of the company's lowest yielding states in an effort to convince state lawmakers to pass interest rate hikes in the 2015 and 2016 legislative sessions. Both efforts failed.

Current Law		**First attempt: HB15-1390**		**Second attempt: SB16-185**
Amount of Loan	**Max. Rate**	**Amount of Loan**	**Max. Rate**	SB16-185 proposed an annual adjustment for inflation to the loan amount subject to the 36 percent interest rate tier.
$0 - $1,000	36%	$0 - $3,000	36%	
$1,001 - $3,000	21%	$3,001 - $5,000	21%	
$3,001+	15%	$5,001+	15%	

OneMain has broadened its legislative campaign in states where it has been successful and states where so far it has stumbled in raising costs on borrowers. **Recent state legislative efforts** have focused on gaining permission to pay other companies referral fees for sending borrowers their way and to bundle new types of insurance into their loans like accidental death and dismemberment coverage.

Loans are padded with expensive insurance products

During its lobbying efforts in Colorado, OneMain repeatedly claimed that they need to raise costs on borrowers to meet their growing operating costs without providing any evidence of increased costs that were seriously undermining the company's profitability. Despite its unsuccessful bid to increase interest rates in Colorado, OneMain found another way to make borrowers pay more.

CCLP's analysis of collection cases filed in Denver County Court by Springleaf and OneMain against defaulted borrowers between 2011 and 2016, found that these loans are often padded with insurance products. And these are not your typical insurance policies. The insurance offered in conjunction with a loan is called credit insurance—because it provides protection for the creditor, in this case OneMain, by insuring against the risk of default by the borrower. OneMain routinely offers three types of credit insurance with its loans: life, disability and involuntary unemployment coverage.

These insurance products increase revenue for the lender but **provide notoriously little**, if any, benefit to the borrower. Borrowers do not pay the **credit insurance** premium out of pocket; rather the lender adds the premium cost to the amount borrowed. As a result, borrowers accrue interest on the amount of the loan and the cost of the insurance, providing yet more revenue to OneMain.

Three-quarters of the loans CCLP reviewed included at least one credit insurance product rolled into the cost of the loan, increasing the amount borrowed by an average of $680. Even more striking is that nearly half of the loans were padded with all three credit insurance products sold by OneMain—life, disability and involuntary unemployment coverage—increasing the amount financed by an average of $925 or 19 percent. Such "add-ons" push borrowers even deeper into debt.

One-third of the loans examined included another cost ranging from $200 to $700 for the purchase of yet more insurance. As seen below in the loan disclosure form for a OneMain borrower in Denver, the purchase of life, disability and involuntary unemployment insurance is itemized on the loan agreement. This additional cost, however, is noted as being paid out to the borrower with an explanation that the check is "for the purchase of the non-credit insurance(s) or other product(s)" requested by the borrower or the borrower can cash the check.

Example of non-credit insurance included in OneMain installment loan agreement

ITEMIZATION OF AMOUNT FINANCED

Amounts paid to others on my behalf			
1. $ 30.72	Single Life Premium	Paid To LIFE INSURANCE COMPANY *	
2. $ 85.63	Single Disability Premium	Paid To DISABILITY INSURANCE COMPANY *	
3. $ 248.83	IUI Premium	Paid To INVOLUNTARY UNEMPLOYMENT INS. CO. *	
4. $NONE		Paid To	
5. $NONE		Paid To	
6. $NONE		Paid To	
7. $NONE		Paid To	
8. $NONE		Paid To	
9. $NONE		Paid To	
10. $NONE		Paid To	
11. $	Paid To		
12. $	Paid To		* Lender may retain a portion of these amounts.
13. $	Paid To		
14. $	Paid To		
15. $	Paid To		
16. $	Paid To		
17. $	Paid To		
18. $	Paid To		
19. $	Paid To		
20. $	Paid To		
21. $NONE	Amount Paid on Prior Account with Lender		
Amounts Paid to me			
22. $ 450.00 **	Paid To Borrower		**For the purchase of the non-credit insurance(s) or other product(s) I requested, or I may cash the check and keep the funds.
23. $ 2080.14	Paid To Borrower		
24. $	Paid To		
25. $	Paid To		
26. $	Paid To		
27. $	Paid To		
$ 2895.32	Amount Financed (Sum of lines 1 - 27)		
$ 100.00	Prepaid Finance Charges (itemized below)		

According to two Denver-area OneMain loan specialists contacted by phone, these additional costs are typically for the purchase of accidental death and dismemberment coverage or auto insurance. The check is made out to the borrower and then signed over to the insurance company. These are not credit insurance policies, but simply add-on products which may be completely unrelated to the loan.

When added up, these additional costs raised the amount financed by an average of $860. And because the costs of these products are included in the loan, borrowers are also paying additional finance charges which increased by an average of $340. In total, three-quarters of borrowers saw the total cost of their loan raised on average by $1,200—an 18 percent increase in the total loan.

This is a profitable transaction for OneMain. The company profits from a commission it receives on the insurance premium. Since the one-time premium payment is rolled up into the loan, OneMain also collects interest on the payment. Finally, the two companies that provide most, if not all, insurance policies to OneMain borrowers—Merit Life Insurance Company and Yosemite Insurance Company—are both owned by OneMain. And the credit insurance ultimately protects the lender from the risk of default, not the borrower.

Insurance Packing

76 percent of the loans included the cost of credit and/or non-credit insurance products.	Total cost of credit and non-credit insurance averaged **$860** with finance charges averaging **$340;** raising the total loan amount by an average of **$1,200** or **18 percent**.
75 percent of loans included at least one credit insurance product, typically credit life insurance.	Total cost of insurance on these loans averaged **$680** raising the amount financed by an average of **13 percent**.
48 percent of loans included credit life, disability *and* involuntary unemployment insurance.	Total cost of insurance on these loans averaged **$925** and raised the amount financed by an average of **19 percent**.
36 percent of the loans included the cost of non-credit insurance.	Total cost of add-on products on these loans ranged from $200 to $700; averaging about **$400**.

Insurance that is voluntary in name, predatory in nature?

*On average **2.3 insurance policies** were sold for every loan made in our sample of Denver County Court collection cases.*

Buried in the fine print of the loan agreement is a provision that says the purchase of credit insurance is voluntary. Yet, with nearly 8 in 10 borrowers in Denver County Court collection cases agreeing to purchase high-priced and largely unnecessary insurance products from OneMain, it begs the question of whether the transaction is truly voluntary.

The federal **Truth in Lending Act** allows lenders to bundle the cost of credit insurance and other add-on products into the loan while excluding those costs from calculation of the APR provided the transaction is voluntary. In other words, the lender cannot condition approval of the loan on buying credit insurance. The **National Consumer Law Center** (NCLC) reports that lenders, like OneMain, are highly successful in getting insurance products rolled into the loan. A report on **credit insurance** in North Carolina, for example, found that for every consumer installment loan on average 1.5 insurance policies were sold with the loan. In our sample of 126 loans, on average 2.3 insurance policies were sold for every loan made.

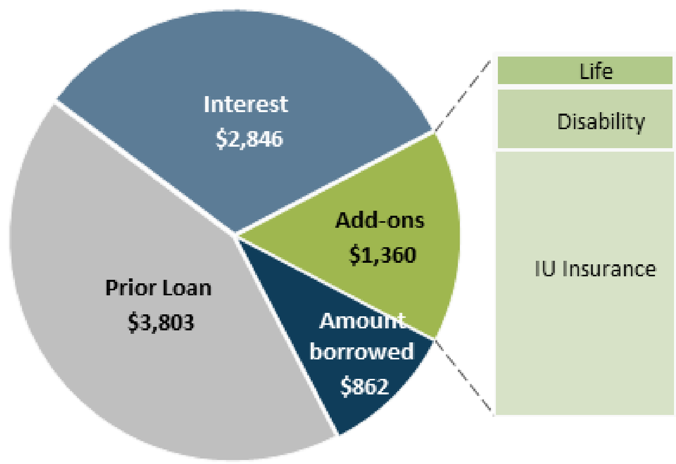
Often, lenders add the credit insurance to the loan agreement in a way that conveys to borrowers that the insurance is required if they want to get the loan. **NCLC reports** that some lenders automatically include the insurance products on every loan and remove these costs only if the borrower notices and objects. It's an opt-out approach, and borrowers don't always know that they have a choice.

Mr. Martinez's loan for $8,871, a refinance to cover a prior OneMain loan of $3,802, included $1,360 in credit insurance premium payments for life, disability and involuntary unemployment coverage. The cost of his insurance increased the amount borrowed by nearly 23 percent. Mr. Martinez says that he wasn't aware that he could decline the insurance. That wasn't explained to him. He also could not recall getting any documentation on the policies he had purchased other than a flyer for free movie tickets that was promoted as a perk with his very expensive insurance.

It's common for borrowers to have a **poor understanding** of what the insurance covers and the potential exclusions on certain types of claims. Or in the case of Mr. Wise, another Denver area OneMain customer, not even be clear about what exactly it is that he purchased with his loan. Mr. Wise simply wanted a loan for $2,000 to buy a truck. Insurance premiums added another $815 to the loan; $365 of which was for credit life, disability and involuntary unemployment insurance. Another $450 was added to the loan for the purchase of non-credit insurance. Mr. Wise says he has no idea what that $450 bought him. He also wasn't aware that he could have refused the insurance and still get a loan.

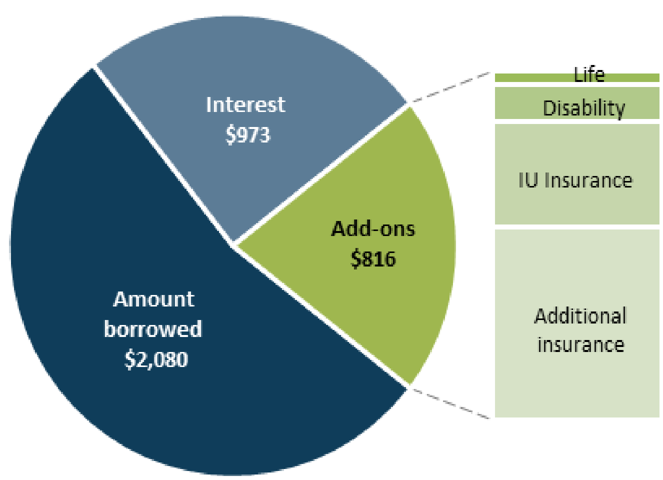
Sample Loan 1: Mr. Martinez

New amount borrowed	$862
Prior Loan	$3,803
Interest	$2,846
APR	22.92%
Life Insurance	$123
Disability Insurance	$237
Involuntary Unemployment	$1,000
Total Loan	**$8,871**



Sample Loan 2: Mr. Wise

Amount borrowed	$2,080
Interest	$973
APR	28.59%
Life Insurance	$31
Disability Insurance	$86
Involuntary Unemployment	$249
Additional Insurance	$450
Total Loan	**$3,869**



In fact, OneMain acknowledges that they do not require customers to “affirmatively” agree to purchase certain insurance products and the amount charged. In their recent annual report to the Securities and Exchange Commission, OneMain explained that if regulators require them to have customers affirmatively agree to purchase “collateral protection insurance” it would represent a risk to their business model. That’s because, as the report explains, OneMain’s “insurance companies are predominately dependent on our lending operations as the primary source of business” and without OneMain’s borrowers, they cannot sell their insurance products.

Complaints submitted to the Consumer Financial Protection Bureau fill out this picture about how credit and non-credit insurance is packaged in consumer installment loans. Complaints from OneMain borrowers from across the country cited issues such as declining the insurance only to have it added anyway, being strongly encouraged to purchase the insurance, not having a clear understanding of how the insurance would affect the monthly payment on the loan, and not receiving any documentation on the policies.

Clearly, transparency is an issue. These insurance premiums are not paid monthly or out-of-pocket but rather the cost is rolled into the total amount borrowed where the borrower then pays interest on that payment. This can significantly raise the amount of the loan, especially when the interest rate is already high—averaging 25.5 percent in the sample of Denver County Court cases examined by CCLP. And borrowers are not given a key piece of information in this transaction: a comparison of the monthly and overall cost of the loan with and without the insurance products included.

For these reasons, Fannie Mae and Freddie Mac, have long prohibited single-premium credit insurance in mortgage lending. Freddie Mac even went so far as to call the sale of credit insurance with a mortgage a predatory lending practice. Since 2010, federal rules now ban the bundling of credit insurance premiums in all home mortgages but allow the practice for installment and other loans.

A few states have moved to ban the inclusion of credit insurance in certain small-dollar installment loans or have banned certain types of credit insurance. The National Consumer Law Center concluded that states that allow lenders to add debt protection products to loans without stronger consumer protections are essentially giving lenders a way to evade rate caps and charge more for their loans.

High-cost, low-value insurance

The credit insurance policies sold with OneMain loans are provided by insurance companies owned by OneMain. In fact, OneMain borrowers are the only customer base for these insurance companies.

The sale of credit insurance is a sizable industry with premium payments totaling **several billion dollars** annually. On its face, credit insurance may seem like a good idea, especially for low-income households. The policy may pay off the outstanding debt when the borrower is unable to continue making payments, under certain circumstances.

But, for a number of reasons, the credit insurance sold with consumer installment loans often is not a good deal for the borrower. For one, borrowers typically have only one product to choose from and the lender often has a financial interest in selling that product.

The life, disability, and involuntary unemployment credit insurance policies sold with OneMain loans are provided by two insurance companies—both owned by OneMain Holdings. Merit Life Insurance provides credit life, credit disability and non-credit insurance policies for OneMain borrowers. Yosemite Insurance Company writes the involuntary unemployment and property insurance policies. These are both exclusive relationships: OneMain borrowers are the only customer base for Merit and Yosemite.

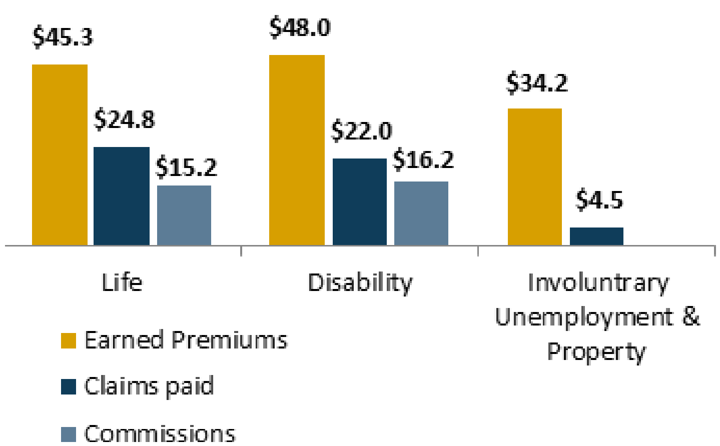
All indications point to a very profitable relationship. Nationally, Merit and Yosemite collected over $123 million in premium payments in 2016 from OneMain borrowers for insurance policies. Essentially, this generates $123 million more in lending for OneMain. Borrowers pay the premium when it's added to their loan and then pay interest on the premium.

Commissions paid for the sale of insurance policies further enhances OneMain's revenue at the expense of borrowers. According to the **National Consumer Law Center** (NCLC), commission payments are a common form of profit sharing between lenders and insurers. Merit paid OneMain $31 million in commissions on life and disability policies sold to OneMain borrowers in 2016. Commission payments totaled one-third of premium payments, presumably raising the **cost of premiums** paid by OneMain borrowers.

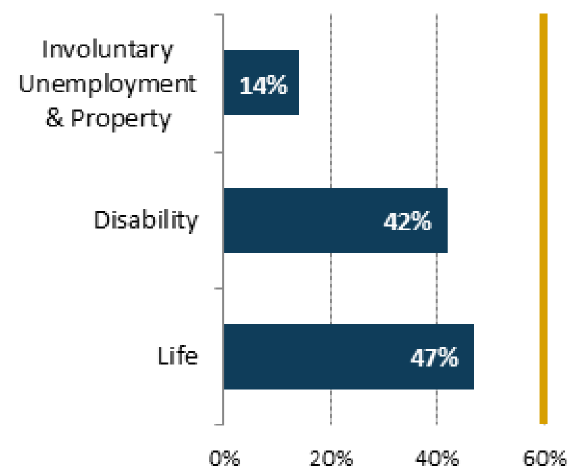
In fact, these high-cost policies provide notoriously little value to borrowers. **NCLC found** that with most types of credit insurance, only a small share of each premium dollar paid by borrowers goes to paying claims—the vast majority of premiums collected by the insurer are paid to the lender in the form of commissions and other profit-sharing arrangements.

Merit paid out less than half of premiums for claims on its life and disability policies in 2016. The loss ratio—that is, the total claims paid as a percent of earned premiums—is a commonly used measure to determine whether an insurance policy delivers a fair value for consumers. The loss ratio for Merit's credit life policies was 47 percent in 2016. Claims for Merit's disability insurance were 42 percent of earned premiums in 2016. Yosemite was far worse: only 14 percent of the $34 million in premiums collected from OneMain borrowers was paid out to cover claims on its involuntary unemployment and property insurance coverage.

Premiums, Claims and Commissions for Merit and Yosemite, in millions, 2016



Loss ratios: Percent of Premiums Paid out in Claims for Merit and Yosemite, 2016



Source: National Association of Insurance Commissioners

The National Association of Insurance Commissioners (NAIC) has unequivocally and repeatedly stated that the industry standard loss ratio for credit insurance should be at least 60 percent. A recent report by Reinvestment Partners on the high cost of credit insurance concluded that the NAIC 60 percent loss ratio standard provides state regulators with an important oversight tool.

The fact that OneMain retains the vast majority of premiums on these policies is all the more alarming given that they are also the beneficiary of insurance.

Refinancing means repeat customers and more profits

Repeat refinancing of installment loans can be very profitable for the lender while trapping borrowers in a cycle of debt. Our analysis of Denver County Court collection cases found that 46 percent of the loans included a prior loan with OneMain. And three-quarters of the refinanced loans included insurance products rolled into the loan balance increasing the amount financed by an average of $720.

This is likely an underestimate of how often this practice occurs in Colorado. According to reporting by the **New York Times**, about 60 percent of OneMain's loans are in fact renewals of existing loans. This practice is sometimes referred to as "default masking" because the lender encourages a borrower to refinance at the first sign of trouble. In fact, OneMain recently reported to investors that borrowers who do renew their loans do so an average of 2.7 times.

And Colorado borrowers are primed to agree to an offer of refinancing. We found that 60 percent of cases included some form of collateral—mostly older cars and household items. Lenders rarely go through the trouble of repossessing used personal property that typically has little value but it does provide the lender with leverage over the borrower. The mere threat of repossession can be an effective collection tactic to get the borrower to pay up or agree to refinancing.

For this very reason, the Federal Trade Commission banned the practice of securing loans with household goods, but the decades-old rule has not been updated to include the household goods borrowers value most these days—computers, cell phones and other electronics.

Refinancing rarely benefits the borrower over the long-term. The fact that the borrower was unable to make the payments on the original loan signals that refinancing is unlikely to be an effective solution. Refinancing often results in a new loan that allows the lender to extend the length of the loan, charge new origination and processing fees, and add on expensive insurance products that increase the amount borrowed. This is a recipe for keeping borrowers in a cycle of debt.

Repeat Refinancing

46 percent of the loans included the balance of a prior loan.	• Prior loan ranged from $105 to $9,500; averaging **$3,650**. • Prior loan represented an average of **66 percent** of the new loan.
Among the refinanced loans, **76 percent** included insurance.	• Insurance costs increased the amount financed by an average of **$720**. • The amount of the prior loan + insurance cost averaged **80 percent** of the new loan.

Default judgment often leads to wage garnishment and bankruptcy

OneMain files well over 150 collection cases each year in Colorado. These cases represent the most troubled borrowers because filing a collection action in county court is often a last ditch effort to collect on an unpaid loan. Before resorting to the court system, OneMain uses a number of collection strategies like phone calls, letters and offers of renewal to roll the owed balance over into a new loan. An examination of cases that did end up in court reveals that these borrowers are likely to face ongoing financial struggle.

Of the 187 closed collection cases filed by OneMain in Denver County Court between 2011 and 2016, nearly half resulted in a default judgment against the borrower. Only 8 percent of borrowers filed a response to the complaint. Another third of the cases were settled, meaning the OneMain attorneys talked the borrower into a payment plan. Only 5 cases involved a borrower who was represented by an attorney.

The majority of cases (53 percent) resulted in an order for wage garnishment. Among the cases that resulted in default judgment, 81 percent involved a wage garnishment order. This is a potentially devastating outcome for borrowers who we know are already on the economic edge. According to the National Consumer Law Center, Colorado law does little to protect low-wage debtors from having to turn over a significant amount of their earnings as a result of a garnishment order potentially plunging them into poverty.

Default Judgment, Wage Garnishment and Bankruptcy

Answer & Representation	• Borrowers (defendants) filed an answer to the complaint in **8 percent** of cases. • Only **2.5 percent** of cases involved a borrower represented by an attorney.
Default Judgment	• **49 percent** of cases ended in a default judgment against the borrower. • Vast majority of these cases (**81 percent**) resulted in an order for wage garnishment.
Wage Garnishment	• Across all closed cases, **53 percent** resulted in an order for wage garnishment.
Bankruptcy	• **42 percent** of borrowers filed for bankruptcy at some point. • Two-thirds of bankruptcy filings occurred after the OneMain collection case was filed.

State law currently protects 75 percent of the borrower's paycheck or 30 times the state minimum wage from garnishment, whichever is greater. That means $279/week (30 times the current minimum wage of $9.30/hour) would be protected from garnishment. A weekly paycheck of $279 though is only slightly above the poverty level for an individual and falls below poverty for a family of two.

It is not surprising then that we also found a high level of bankruptcy among the Denver County Court collection cases filed by OneMain. More than 40 percent of the defendants filed for bankruptcy at some point—and the vast majority of those bankruptcy filings occurred after the OneMain case was filed.

OneMain's financials show company is thriving

OneMain's legislative efforts in Colorado to increase interest rates relied on one primary argument: while their operating costs have increased, the interest rates they can charge have not. Without a rate increase, the consequences would be dire for Colorado borrowers, **according to OneMain**. They might close branches, or even leave Colorado altogether, leaving borrowers to rely on payday loans.

These are dubious claims unsupported by OneMain's own **financial documents** showing they are a highly profitable company and the lending landscape in Colorado.

Like **most states**, Colorado caps the allowable interest on installment loans. The current caps have been in effect since 2000. In the collection cases we examined, the average annual interest rate was 25.5 percent. While it is no doubt true that OneMain's operating costs for running their branch offices have increased since 2000, the cost of one of their primary inputs—that is money—is near all-time historical lows. The average **12-month LIBOR rate**—essentially what it costs banks to borrow money—has dropped from 6.9 percent in 2000 to 1.3 percent in 2016, an 81 percent drop. As a result, OneMain's borrowing costs have dropped dramatically.

Additionally, OneMain argued that a rate increase is also necessary so the company can expand lending to Colorado borrowers currently without access to credit. This was a persuasive argument for some Colorado lawmakers. Yet, OneMain's senior management has been adamant in **quarterly earnings calls** with investors that it has no plans "to relax underwriting standards to gain volume." It's hard to see how increasing interest rates alone would result in more lending without also changing underwriting.

And even more to the point, the Colorado Attorney General's Office, charged with supervising subprime installment loans, **testified during legislative hearings** on the OneMain bills that they see no evidence that this type of consumer credit is not available to Colorado borrowers.

Despite the setbacks in its lobbying efforts, OneMain still views Colorado as an important market. The number of installment loans, like those offered by OneMain, grew by 59 percent between 2010 and 2015 in Colorado. The amount of money loaned more than doubled over that same period. Most of this growth happened in recent years.

OneMain is the dominant subprime lender in the state and likely benefitted from this growth in lending. According to the Colorado Attorney General's Office, lending in this market is robust. If OneMain decided to close its Colorado branches, it's likely that other lenders would quickly move to service borrowers in the state.

Borrowers would not be left to rely on payday loans. Supervised installment loans are not payday loans. Payday loans are generally accessed for lower-cost, short-term needs like making a rent payment or paying for a car repair. In Colorado, **payday loans** are capped at $500 and generally paid off in three months.

OneMain is clear about the differences between payday and supervised installment loans and the borrowers that need them when talking to investors. In a **February 2016 investor presentation**, OneMain's senior management went to great lengths to emphasize that their customer base is very different from borrowers seeking payday loans.

When talking to Colorado policymakers, however, they often argued that if they packed up and left the state, borrowers would have to rely on payday lenders. And while OneMain is the largest lender of its kind in Colorado, they do have competition. According to the Colorado Attorney General's Office, there are over 500 other lenders licensed to provide supervised installment loans to borrowers in the state.

Protect Colorado borrowers

OneMain has engaged in a concerted strategy to raise interest rates through state legislatures across the country. Twice OneMain has tried to raise rates in Colorado without success. This analysis directly challenges OneMain's arguments for a needed interest rate hike and reveals how the company has already been successful in raising the cost of borrowing for their Colorado customers. Our review of loans made to Denver borrowers points to needed reforms to protect Colorado borrowers from predatory credit insurance and being potentially thrust into poverty and bankruptcy by an unaffordable order for wage garnishment.

- **Improved consumer disclosures**. All credit and non-credit insurance should be itemized on the Truth-in-Lending statement. We found that about one-third of the loans included additional products that were not itemized on the Truth-in-Lending statement and did not offer any details about what those other products were. Borrowers should be provided information about the insurance policies they are purchasing and how the terms of their loan will vary with and without credit insurance so they can make an informed decision.

- **Require consumers to affirmatively agree to purchase insurance products and to add the cost of these products to the amount financed in their loan**. Clearly, many customers were not aware that they were purchasing insurance products or that they could voluntarily opt out of buying them without affecting their ability to get a loan. Requiring consumers to affirmatively agree to the insurance products rather than opt-out of the purchase will make it clear what they are buying and whether it is in their best interests to buy these products.

- **Prohibit lenders from selling other add-on products** such as auto club memberships and non-credit insurance that are completely unrelated to the loan.

- **Require insurance companies to adhere to industry standard loss ratios**. The loss ratio—the total claims paid as a percent of earned premiums—is a commonly used measure to determine whether an insurance policy delivers a fair value for consumers. The National Association of Insurance Commissioners model law calls for credit insurance loss ratios of at least 60 percent. The National Consumer Law Center goes even farther recommending that states require loss ratios of at least 80 percent for credit insurance. Loss ratios for the life, disability and involuntary unemployment credit insurance policies sold by OneMain fell far below those benchmarks.

- **Establish a maximum commission rate.** Credit insurance commissions are higher compared to other insurance commission payments, in part due to the often exclusive relationship between the lender and the insurance provider. Higher commissions mean higher premiums without any added benefit for consumers. Our analysis found that commissions paid on life and disability credit insurance policies sold to OneMain borrowers totaled one-third of premiums.

- **Protect a higher level of income from wage garnishment.** Half of the cases we examined resulted in an order for wage garnishment. Many of these borrowers filed for bankruptcy. Consumer debt is on the rise as many middle and low wage workers face stagnant wages and rising costs of living. Consumer debt collection – through wage garnishment – is also on the rise. Current Colorado law does not protect enough of workers' wages to prevent them from retaining enough of their income to meet their basic needs. Modifying the wage exemption formula would allow Coloradans to repay their debts without plunging into poverty.

Installment loans, like the ones offered by OneMain, may be a good option for people who cannot qualify for a bank loan with more competitive interest rates. We have also seen how these loans can be costly for Colorado borrowers—padded with expensive and largely unnecessary additional products that can trap people in a cycle of debt. State lawmakers, regulators and consumer advocates must keep careful watch that the profit motive of an already highly profitable industry does not override consumer protections vital to Coloradans.