

Fiscal Estimate Narratives

DFI 02/01/2002

LRB Number	01-3442/1	Introduction Number	SB-396	Estimate Type	Original
Subject					
Scope of consumer act, class actions under consumer act, limits on payday loan interest, credit and debit cards, false advertising, arbitration of consumer law claims, financial privacy					

Assumptions Used in Arriving at Fiscal Estimate

This bill affects the Department fiscally in two primary areas: 1) Changes the scope of the Wisconsin Consumer Act, and 2) Revises the licensed lender laws associated with payday lenders.

Wisconsin Consumer Act

The increase from \$25,000 to \$50,000 for transactions covered by the Wisconsin Consumer Act will have an impact on registration revenue received.

Current year estimated revenue from consumer act registration fees is approximately \$473,000. Registration fees are calculated by filers based on their outstanding balance of consumer credit transactions as of the end of the year. The minimum payment is \$25 and the maximum is \$2,800. Staff from the Wisconsin Consumer Act Section, who manage the program, estimate an increase in revenue of approximately 5%, or \$23,650 annually. While the bill doubles the dollar amount of a transaction that is subject to the Consumer Act, the number of loans that will be affected is not expected to be significant. While specific data identifying the additional volume of transactions that would be subject to the Consumer Act is not available, Consumer Act staff indicate that the majority of Consumer Act loans will continue to be those less than \$25,000. This includes credit card limits and the amount borrowed to finance auto loans. Based on conversations with current filers, several report that they already include those transactions as part of their calculations because their own systems do not separately identify the loans based on amount of transaction. Also, high volume lenders already pay the maximum and their fees will not increase.

Payday Loan Providers and Limits on Interest

This bill limits the fees and interest for a payday loan to 5% (60% APR) of the amount of the loan. It also provides for a minimum loan term of 30 days.

Currently, these lenders charge an average of 542.2% APR. Based on information from other states, it is likely that, given the parameters of the bill, these payday lenders would either 1) partner with a national or out-of-state chartered bank so they can import interest rates and other fees and avoid state caps, 2) discontinue operations, or 3) operate without a license.

In a February 2000 report, the Consumer Federation of America, a consumer advocacy organization, found that among the states that prohibit payday loans due to small loan interest rate caps, usury laws, or other specific prohibitions, the average rate of interest for payday loans was between 390% and 988% despite the caps. The report indicates that, "In some cases, lack of enforcement may be the problem. In other cases, out-of-state banks export deregulated loan rates into these states."

Based on this information, it is likely that these lenders may choose not to be licensed by the state. Therefore, the fiscal estimate associated with this part of the bill is a reduction in revenue of approximately \$121,000 (242 licensees x \$500 annual fee).

Costs associated with these licenses would not measurably be affected. With the potential for unlicensed activity, the Department would need to maintain a level of enforcement associated with this activity.

Net Fiscal Effect

The net fiscal effect of this bill would be an estimated decrease in annual revenue of \$97,350.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			-97,400
SEG/SEG-S			
TOTAL State Revenues		\$	-\$97,400
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-97,400	\$
Agency/Prepared By		Authorized Signature	Date
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