Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 13-4056/1	Introduction Number SB-694

Description
Interest rates on payday loans and loans by licensed lenders

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☒ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☒ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations
s. 20.144(1)(g); s. 20.144(1)(j)

Agency/Prepared By	Authorized Signature	Date
DFI/ Susan Dietzel (608) 267-0399	Susan Dietzel (608) 267-0399	4/1/2014

Fiscal Estimate Narratives

DFI 4/1/2014

LRB Number 13-4056/1	Introduction Number SB-694	Estimate Type Original
Description Interest rates on payday loans and loans by licensed lenders		

Assumptions Used in Arriving at Fiscal Estimate

This bill makes changes to current law governing licensed lenders, payday lenders, and limits on interest rates. It caps the interest rate that may be charged on a payday loan at an annual percentage rate (APR) of 36%. The bill also caps the interest charged on a closed end loan at 36% APR, except when the security interest is a mobile home.

Currently, a lender making loans at a rate greater than 18% APR must be licensed by the Department. Under the bill, any lender making a loan of greater than $5,000, regardless of rate, must be licensed.

Currently, these lenders charge interest well in excess of 36% APR. Because of the interest rate caps included in the bill, it is likely that the affected lenders would choose not to be licensed by the state, and either discontinue operations, operate without a license, or change their business model such that their current licensing would not be necessary.

There are currently 334 licensed payday lenders who pay an annual fee of $500. The associated annual revenue reduction to appropriation s. 20.144(1)(g), the Department's general program operations appropriation would be $167,000.

These payday lenders are required to report payday loans in a payday lending database with a fee of $1.00 per transaction deposited in appropriation s. 20.144(1)(j), Payday Loan Database and Financial Literacy. Current transactions average 11,500 per month, or $138,000 in annual revenue. The department contracts with a database vendor at a rate of $0.70 per transaction to operate the payday loan database, for an annual cost of $96,600. These expenditures would no longer be required. Program Revenue in this appropriation not allocated to payday loan database fees is used to promote financial literacy. Without the revenue from the transaction fees, these expenditures would also be eliminated. Based on current activity, the reduction would be $41,400 ($138,000 - $96,600). The total impact to the appropriation would be $138,000 in reduced revenue and $138,000 in expenditure reduction.

Title lenders (123 current) pay an annual certification fee of $5,000. Under the parameters of this bill, it is likely that these lenders would stop making title loans and revenue would be reduced by $615,000.

Pawnbrokers would similarly drop their license and no longer pay their license fee, resulting in revenue loss of $15,500 ($500 annual fee x 31 licensees)

Revenue from loan companies may also be impacted as they change their business model or choose not to be licensed. There may be a few additional loan companies licensed because of the provision requiring a license for companies making consumer loans exceeding $5,000. It is unknown how many companies may be affected.

The Department anticipates there would be no change to resources required to administer these programs. While the department will have fewer license applications and renewals to review, licensing and examination staff will be responding to questions and complaints regarding regulatory issues associated with the changes included in this bill.

Total Fiscal Estimate:
Appropriation s. 144(1)(g)
Estimated Revenue Reduction:
Payday Lender Licensees $167,000
Auto Title Lenders 615,000
Pawnbrokers 15,500
Total $797,500

Any balance in this appropriation at the end of a fiscal year is lapsed to the general fund, so the reduction would impact GPR-Earned by the amount of the revenue reduction.

Appropriation s. 144(1)(j)

Estimated Revenue Reduction $138,000
Estimated Expenditure Reduction $138,000

Long-Range Fiscal Implications