

Fiscal Estimate Narratives

DFI 1/5/2024

LRB Number	23-5164/2	Introduction Number	SB-0832	Estimate Type	Original
Description payday loans					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, subject to limited exemptions, a person must obtain a license from the Department of Financial Institutions – Division of Banking before originating or servicing a “payday loan.” See Wis. Stat. s. 138.14. Section 138.14 of the Wisconsin Statutes defines a payday loan as a loan from a person to an individual to be repaid in 90 days or less by one or more checks from the individual, or by the individual’s authorization to initiate one or more electronic fund transfers from an account at a financial institution.

The proposed legislation would substantially narrow that definition in one respect, by making section 138.14’s licensure requirements applicable only to loans that are “to be repaid in equal periodic payments over the course of the loan.” Conventional payday loans – i.e., short-term loans to be repaid in a single lump sum on the next payday – would no longer fall within the statutory definition of a “payday loan,” and thus entities issuing such loans would no longer be subject to section 138.14’s licensure requirements and regulations. In effect, the bill would exempt conventional payday lenders from state licensure. If this was not an intended effect – and if the bill drafters instead intended to prohibit conventional payday loans and require that all payday loans be made repayable in multiple installments – the Department suggests that this intent could be effectuated by adding such a requirement to existing section 138.14 (12) (“Prohibitions”) or 138.14 (13) (“Other provisions”), rather than amending the current definition of “payday loan.” The drafters might also consider whether the proposed new section 138.14 (13) (e), which requires the same percentage of each periodic payment to be applied to principal, is inconsistent with existing provisions on refunds of unearned interest under existing section 138.14 (11) (b).

If the bill were enacted as currently drafted, it is possible that some existing licensees would take advantage of the definitional change to begin offering conventional payday loans without the need to obtain licensure, which would result in a loss of annual licensing fee revenue for the state. The Department is unable to predict whether and to what extent this would occur, however.

The bill also requires the Department’s Division of Banking to develop or make available to the public a financial literacy course that includes material related to payday loans. The Department has sufficient expertise to develop the subject matter for the online course, but it anticipates that it would incur annual expenses of approximately \$1,400 to license the software necessary to ensure the course can be made available to the public in a functional, user-friendly online format.

Long-Range Fiscal Implications