

DECEMBER 12, 2017

**MOTION BY SUPERVISOR HILDA L. SOLIS
AND CHAIR SHEILA KUEHL**

Curbing the effects of high-cost loans in Los Angeles County

Recent research demonstrates that low-income households are so overwhelmed by the constant worry about money that they tend to make choices that solve short-term crises at the expense of long-term financial health. Research by the California Department of Business Oversight (DBO) indicates that more than 60% of California payday loan storefronts are concentrated in areas with family poverty rates higher than that of the state average. The city of Los Angeles is home to the highest number of high-cost lenders, including payday loans, in California.

Although licensed high-cost loans are a legal industry, their products harm the most vulnerable low-income communities. While payday loans are advertised as being helpful for unexpected or emergency expenses, according to the PEW Charitable Trust, 7 in 10 borrowers use them for regular, recurring expenses such as rent and utilities.

The Consumer Financial Protection Bureau (CFPB) found that these high-cost loans exacerbate the financial strain faced by most borrowers due to the structure and terms of these loan products. These high-cost loans are detrimental for many borrowers because borrowers pay significantly more than the original loan amount due to exorbitant fees and triple-digit-APRs (Annual Percentage Rates). The CFPB has found that the median fee on a storefront payday loan is \$15 per \$100 borrowed, and the median loan term is 14 days, resulting in an

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annual percentage rate of 391 percent on a loan with a median amount of \$350. Further, the CFPB indicates that over 80% of payday loans are rolled over or followed by another loan within 14 days. High-cost lenders advertise their loans as a quick and easy fix for a financial emergency, but in reality these loans keep borrowers in a debt cycle.

The Board of Supervisors created the Center for Financial Empowerment (CFE) within the Department of Consumer and Business Affairs to help improve the financial security of low-income individuals and families. The CFE is positioned to study the growing problem of high-cost loans and present recommendations to the Board on a strategy to reduce the effects of these loans.

WE, THEREFORE MOVE that the Board:

1. Direct the Department of Consumer and Business Affairs (DCBA) to research best practices implemented by other local jurisdictions within and outside of California to protect consumers from the harmful effects of high cost loans.
2. Direct the DCBA to work with the Department of Los Angeles County Regional Planning to:
 - a) Assess the feasibility of zoning requirements for businesses that offer payday loans, high interest installment loans and car title loans.
 - b) Map the locations of each high cost dollar loan storefront throughout the unincorporated areas of the County.
3. Direct the DCBA to work with Treasurer and Tax Collector and County Counsel to evaluate the feasibility of creating a business registration requirement and fee structure to enable the County to identify businesses operating within the County.
4. Direct the DCBA to develop a comprehensive marketing campaign that focuses on education and outreach promoting the CFE to build a culture of long term financial capability within areas of low income and, thereby, decreasing the need for high-cost loan products.
 - a) Direct the DCBA to create an awareness campaign in neighborhoods where storefront high-cost loans are predominant, specifically addressing the terms and potential consequences of high-cost loans.
 - b) Direct the DCBA to develop a series of multilingual educational material to explain how high-cost loans work, how these loans create a debt cycle, how to cope with a financial emergency without resorting to high-cost loans, and how to develop a long term savings plan.

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5. Track and analyze pending legislation regarding high-cost financial products and legislation focused on offering safe and affordable financial products
6. Direct the DCBA to identify safe and affordable financial products for residents of Los Angeles County, including, potential financial partnerships between the County and local credit unions or banks.
7. Authorize DCBA to contract with a consultant to research, review and analyze current data and develop a comprehensive strategy that helps consumers move to lower cost small dollar loans
8. Direct DCBA to report back in 120 days with its findings and recommendations.

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