AGN. NO.

MOTION BY SUPERVISORS HILDA L. SOLIS AND SHEILA KUEHL **October 16, 2018**

<u>Implementation: Curbing the Impact of High-Cost Loan Products</u>

Long-term financial health of all residents in Los Angeles County, particularly low-income and working families, is important to the overall economic well-being of the region. High-cost loan services, which are concentrated in areas with family poverty rates higher than that of the state average, market their products to economically disadvantaged communities and people who may need to resolve short-term financial crises. Per the Board of Supervisors direction, the County of Los Angeles' (County) Department of Consumer and Business Affairs (DCBA) issued the report titled, "Curbing the Effects of High-Cost Loans in Los Angeles County" (Report), which clearly indicates the need to address the negative economic impact of high-cost loan products on Los Angeles County's most economically vulnerable communities.

The use of high-cost products such as pay day loans is 57% higher for renters than for homeowners; 63% higher for those earning less than $40,000 annually than for

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those earning more; 82% higher for those with some college education or less than for those with a four-year degree or more; 103% higher for those who are separated or divorced than for those of all other marital statuses; and 105% higher for African Americans than for other races/ethnicities. Furthermore, 71.5% of residents in communities near high-cost loan storefronts are minorities; 51% or above of residents near high-cost loan storefronts have a high school education or less; residents near high-cost loan storefronts generally have an average median income of less than $50,746; and communities near high-cost loan storefronts have a higher than average unemployment rate.

While there is no generally accepted definition of "high-cost" loan products, the Report categorizes payday loans, auto-title loans, loans above $2,500, and check cashers due to the fees charged to customers, as such products. Not included in the Report as part of the category of "high-cost" loan are refund anticipation loans (RALs) and related products, such as refund anticipation checks (RACs). According to the California Board of Accountancy, "*a RAL is a loan that allows a taxpayer to borrow against an anticipated income tax refund. These loans actually are made by banks, but are frequently offered by tax preparers including CPAs in conjunction with preparation of the tax return. While these loans are most frequently described as an instant tax refund - as if they come directly from the California State Franchise Tax Board or Internal Revenue Service - they are in reality short-term loans that often have very high costs associated with them. Both the tax preparer and the lending institution often take commissions against the calculated tax refund - so the RAL is less than the amount of* *the actual tax return refund.*"[1]

With RACs, typically a financial institution opens a temporary account into which the tax refunds are directly deposited. Once the refund is deposited, the financial institution issues the consumer a check or prepaid card, or makes a direct deposit in the consumer's own bank account, and closes the temporary account.[2] The consumer pays a fee to delay paying the price charged for the tax preparation services and the fee for the RAC itself is deducted from the refund before the consumer receives the money from the tax refund.[3]

Populations targeted by businesses offering high-cost loan products are often recipients of the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC) and other taxpayers receiving substantial refunds. EITC is designed to supplement wages for low-to-moderate income workers and the single most effective anti-poverty tool. The correlation between consumers who are more likely to use high-cost loan products and limited access to alternative and safe consumer financial services and products signifies the need for the County to take the necessary steps to protect consumers.

I / WE THEREFORE MOVE that the Board of Supervisors

1) Direct the DCBA and its Center for Financial Empowerment (CFE) and Office of Immigrant Affairs (OIA) in collaboration with Health Services (DHS), Public Health (DPH) and Public and Social Services (DPSS), Workforce Development, Aging and Community Services (WDACS), Women and Girls Initiative (WGI),

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[1] California Board of Accountancy. https://www.dca.ca.gov/cba/consumers/select-a-cpa.shtml.
[2] *Ibid.*
[3] Consumer Finance Protection Bureau, accessed at https://www.consumerfinance.gov/about-us/blog/tax-refund-tips-understanding-refund-advance-loans-and-checks/.

Office of Diversion and Reentry (ODR) and other departments and agencies, as appropriate:

a. To develop and scale high-cost loan alternatives by:

   i. Consult with financial institutions, such as banks, credit unions, and national and statewide associations, to discuss opportunities to grow existing alternative products, such as payday alternative loans, within the County;

   ii. Working with community-based organizations and nonprofits that provide microloans or support alternative lending programs, such as lending circles, to evaluate the feasibility of scaling these efforts, with a focus on communities there high-cost loan stores tend to concentrate;

   iii. Meeting with cities, counties, and other government agencies to discuss best practices and opportunities for collaboration;

   iv. Vet proposals and ensure they are viable, safe, and useful to consumers as an alternative to high-cost loans with community-based organizations, consumers, and consumer advocates; and

   v. Leveraging existing partnerships to complement the development of high-cost loan alternatives, including integrating BankOn LA County program administered by DCBA's Center for Financial empowerment, which provides banking opportunities for underbanked and unbanked individuals.

b. To develop and implement a plan that is inclusive of partnerships with community-based institutions to launch a county-wide education, media, and outreach campaign with the aim to increase the recipients of EITC in Los Angeles County.

2) Authorize DCBA to engage a public affairs consultant within 90 days and direct DCBA to work with the consultant to prepare within 180 days from the start date of the contract a multi-year, wide-ranging multimedia campaign designed to alter consumers about the risks of entering into high-cost loan agreements and available alternatives and that:

a. Is fact-based and non-judgmental, and acknowledges that consumers seeking high-cost loans often face difficult choices;

b. Is culturally competent and multi-lingual, and should employ focus groups to ensure content is connecting as intended;

c. In collaboration with WGI and the OIA, to address negative impacts of high-cost loans on women and immigrant borrowers;

d. Focuses on neighborhoods where entities that offer high-cost loan products are prominent;

e. Maximizes the media budget by appropriately studying media habits of consumers who are most likely to use high-cost loan products, and implements a media plan that includes a combination of paid media, billboards, digital media, print, social media, and earned media that best reaches the intended audience and has the greatest impact; and

    f. Employs appropriate metrics to understand the impacts the campaign is having consumer behavior in the short- and long-terms.

3) Direct the DRP to study and prepare amendments to the county zoning code (Title 22 of the County Code) to control impacts caused by high-cost lenders within 120 days—amendments may include:
    a. Creating a new definition for high-cost loan businesses; and
    b. Adding development standards for high-cost loan businesses, such as limits on the hours of operation and allowable signage.
4) Direct the DRP to provide additional analysis on the appropriate distance between high-cost lenders to reduce the potential for an over concentration of these businesses by:
    a. Limiting the number of high-cost lenders in unincorporated areas; and
    b. Authorize the DRP to retain a consultant to conduct an appropriate environmental review pursuant to the California Environmental Quality Act (CEQA) for any proposed zoning amendments, and direct the Chief Executive Office (CEO) to identify any necessary funding.
5) Direct DCBA to work in collaboration the CEO, to develop policy recommendations which address predatory and abusive loans made online to present to the Board of Supervisors on the County's State Legislative Agenda.
6) Direct DCBA to conduct an analysis of the impact of tax-time financial products such as RALs and RACs, and report back to the Board with recommendations as to whether to include such products in the definition of high-cost loan products, alternatives to commercial tax preparation services (i.e. expansion of Volunteer

Income Tax Assistance services), and incorporate as part of the above directives as appropriate.

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