

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 1347 Consumer Finance Loans  
**SPONSOR(S):** Commerce Committee, Brackett  
**TIED BILLS:** **IDEN./SIM. BILLS:** CS/SB 1436

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	16 Y, 0 N	Fletcher	Lloyd
2) State Administration & Technology Appropriations Subcommittee	11 Y, 3 N	Perez	Topp
3) Commerce Committee	16 Y, 0 N, As CS	Fletcher	Hamon

### SUMMARY ANALYSIS

The Florida Consumer Finance Act, ch. 516, F.S. (Act), prohibits businesses from making consumer finance loans unless first authorized to do so under the Act. Under the Act, licensed lenders are allowed to make secured or unsecured loans up to \$25,000 with a tiered interest rate structure, such that the maximum annual interest rate allowed on each tier decreases as principal amount increases:

- 30% per annum, computed on the first \$3,000 of the principal amount;
- 24% per annum on that part of the principal amount exceeding \$3,000 and up to \$4,000; and
- 18% per annum on that part of the principal amount exceeding \$4,000 and up to \$25,000.

The Act requires that, at the time of applying for a license, the applicant pay to the Office of Financial Regulation (OFR) a nonrefundable biennial license fee of \$625. Other than applications to renew or reactivate a license, applicants must also pay a nonrefundable investigation fee of \$200. Additionally, the Act prohibits licensees from applying delinquency charges until a borrower has been in default for 10 days.

The bill:

- Provides a definition for the term “branch;”
- Prohibits the operation of a branch that makes consumer finance loans without first obtaining a license;
- Requires an application fee of \$625 to be paid to OFR for each branch application filed;
- Increases the maximum interest rate and the amount of principal for the tiered interest rate structure, such that the tiered structure will be as follows:
  - 36% per annum, computed on the first \$10,000 of the principal amount
  - 30% per annum on that part of the principal amount exceeding \$10,000 and up to \$20,000
  - 24% per annum on that part of the principal amount exceeding \$20,000 and up to \$25,000;

This yields an allowable maximum interest rate for the following loan amounts:

Loan Amount	Approximate Maximum Interest Rate	
	Current	Proposed
\$5,000	26.4%	36.0%
\$10,000	22.2%	36.0%
\$15,000	20.8%	34.0%
\$25,000	19.2%	31.2%

- Changes the 10-day rule for a licensee applying delinquency charges to 12 days;
- Requires licensees that provide assistance programs during a disaster to report to OFR details of such assistance programs;
- Requires licensees to offer a credit education program to borrowers at the time a loan is made; and
- Requires licensees to annually submit to OFR reports of certain information, which OFR may publish in a report after anonymizing and consolidating the data for all licensees.

The bill has a negative, likely insignificant, fiscal impact on state government, no fiscal impact on local government, and an indeterminate fiscal impact on the private sector, both positive and negative.

The bill provides an effective date of July 1, 2024.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. EFFECT OF PROPOSED CHANGES:

#### Background

The Florida Office of Financial Regulation (OFR) is responsible for all activities of the Financial Services Commission (Commission) relating to the regulation of banks, credit unions, other financial institutions, finance companies, and the securities industry.<sup>1</sup> OFR's Division of Consumer Finance (Division) licenses and regulates non-depository financial service industries and individuals, and conducts examinations and complaint investigations for licensed entities to determine compliance with Florida law.<sup>2</sup>

The Florida Consumer Finance Act, ch. 516, F.S. (Act), prohibits individuals and entities from engaging in the business of making consumer finance loans unless first authorized to do so under the Act.<sup>3</sup> A consumer finance loan is defined as "a loan of money, credit, goods, or choses in action, including, except as otherwise specifically indicated, provision of a line of credit, in an amount or to a value of \$25,000 or less for which the lender charges, contracts for, collects, or receives interest at a rate greater than 18 percent per annum."<sup>4</sup>

Currently, the Act provides that, at the time of applying for a license, the applicant shall pay to OFR a nonrefundable biennial license fee of \$625.<sup>5</sup> Applications, except for applications to renew or reactivate a license, must also be accompanied by a nonrefundable investigation fee of \$200.<sup>6</sup>

The Act also prohibits licensees from applying delinquency charges until a borrower has been in default for 10 days.<sup>7</sup>

Licensed lenders are allowed to make secured or unsecured loans up to \$25,000 with a tiered interest rate structure, such that the maximum annual interest rate allowed on each tier decreases as principal amounts increase:

- 30% per annum, computed on the first \$3,000 of the principal amount;
- 24% per annum on that part of the principal amount exceeding \$3,000 and up to \$4,000; and
- 18% per annum on that part of the principal amount exceeding \$4,000 and up to \$25,000.<sup>8</sup>

This yields an allowable maximum interest rate for the following loan amounts:

Loan Amount	Approximate Maximum Interest Rate
\$5,000	26.4%
\$10,000	22.2%
\$15,000	20.8%
\$25,000	19.2%

#### Effect of the Bill

<sup>1</sup> S. 20.121(3)(a)2., F.S. See also Florida Office of Financial Regulation, Agency Analysis of 2024 House Bill 1347, p. 1 (Jan. 19, 2024).

<sup>2</sup> Florida Office of Financial Regulation, *Division of Consumer Finance*, <https://flofr.gov/sitePages/DivisionOfConsumerFinance.htm> (last visited Jan., 19, 2024).

<sup>3</sup> S. 516.02(1), F.S.

<sup>4</sup> S. 516.01(2), F.S.

<sup>5</sup> S. 516.03(1), F.S.

<sup>6</sup> *Id.*

<sup>7</sup> S. 516.031(3)(a)9., F.S.

<sup>8</sup> S. 516.031(1), F.S.

## General

The bill provides a definition for the term “branch,” namely, “any location, other than a licensee’s principal place of business, at which a licensee operates or conducts business ... or which the licensee owns or controls for the purposes of conducting business....”

The bill clarifies a person must not engage in the business of making consumer finance loans or operate a branch of such business unless first authorized to do so under the Act. The bill requires an application fee of \$625 be paid to OFR for each branch application filed, which is in addition to the \$625 application fee for the branch’s principal place of business. The bill provides that applications for a license for the principal place of business be accompanied by a nonrefundable investigation fee of \$200.

## Maximum Rate Increase; Delinquency Charges

The bill retains the tiered interest rate structure but increases the maximum interest rate and the amount of principal for each tier, such that the tiered interest rate structure will be as follows:

- 36% per annum, computed on the first \$10,000 of the principal amount;
- 30% per annum on that part of the principal amount exceeding \$10,000 and up to \$20,000; and
- 24% per annum on that part of the principal amount exceeding \$20,000 and up to \$25,000.

This yields an allowable maximum interest rate for the following loan amounts:

Loan Amount	Approximate Maximum Interest Rate	
	Current	Proposed
\$5,000	26.4%	36.0%
\$10,000	22.2%	36.0%
\$15,000	20.8%	34.0%
\$25,000	19.2%	31.2%

## Disaster Relief and Suspension of Penalties

The bill provides that in the event of a Federal Emergency Management Agency (FEMA) response to a Presidential Disaster Declaration in Florida, if a licensee offers any assistance program to borrowers impacted by the disaster, the licensee must send to OFR a written notice within 10 days after the licensee’s establishment of the assistance program. The notice must include, at a minimum, the following:

- The licensed locations impacted by the disaster, including the physical addresses, if applicable;
- The telephone number, e-mail address, or other contact information for the licensee;
- A brief description of the assistance programs available to borrowers in the impacted areas; and
- The start date and, if known, the end date of the assistance program.

The bill provides that assistance programs may include, but are not limited to, deferments, forbearance, waiver of late fees, payment modification, or changing payment due dates.

Similarly, in the event of a FEMA response to a Presidential Disaster Declaration in Florida, the bill requires a licensee operating in a county designated in the disaster declaration to suspend, for a period of 90 days after the date of the initial declaration, all of the following:

- Application of delinquency charges;
- Repossessions of collateral pledged to loans made under the Act; and
- Filing of lawsuits for collection of amounts owed for loans made under the Act.

## Credit Education Program

The bill requires a licensee to offer, at the time a loan is made, a free credit education program or seminar provided by the licensee or a third-party. However, a licensee may not require a borrower to participate in a credit education program or seminar as a condition of receiving a loan.

The bill provides that the credit education program may address, but need not be limited to, any of the following topics:

- The importance and methodology of establishing a household budget.
- The impact, value of, and ways to improve a credit score.
- The importance and methodology of establishing household savings.
- Ways to obtain a free copy of a credit report.
- Ways to dispute an error in a credit report.
- Ways to manage and prevent identity theft.

## Annual Reports

The bill requires a licensee, by March 15, 2025, and annually thereafter, to file a report with OFR, in a form and manner prescribed by commission rule, using aggregated and anonymized data without reference to any borrower's nonpublic personal information. The bill requires the report to include the following information for the preceding calendar year:

- The number of licenses under the Act held by the licensee as of December 31st of the preceding calendar year;
- The number of loan originations by the licensee from all licenses held under the Act during the preceding calendar year;
- The total number and dollar amount of loans outstanding with the licensee from all licenses held under the Act as of December 31st of the preceding calendar year;
- The total number of unsecured loans as of December 31st of the preceding calendar year;
- The total number of loans separated by principal amount in the following ranges as of December 31st of the preceding calendar year:
  - From \$0 to \$5,000
  - From \$5,001 to \$10,000
  - From \$10,001 to \$15,000
  - From \$15,001 to \$20,000
  - From \$20,001 to \$25,000;
- The total number and dollar amount of loans charged off as of December 31st of the preceding calendar year; and
- The total number and dollar amount of loans with delinquency status listed as:
  - Current or less than 30 days past due.
  - From 30 to 59 days past due.
  - From 60 to 89 days past due.
  - At least 90 days past due.

The bill requires a licensee claiming that information contained in the report contains a trade secret to submit to OFR an accompanying affidavit designating the information claimed to be a trade secret. The bill allows OFR to publish a report of the information submitted if all the data published in the report are anonymized aggregate data from all licensees.

## B. SECTION DIRECTORY:

**Section 1.** Amends s. 516.01, F.S., relating to definitions.

**Section 2.** Amends s. 516.02, F.S., relating to loans; lines of credit; rates of interest; license.

**Section 3.** Amends s. 516.03, F.S., relating to application for license; fees; etc.

**Section 4.** Amends s. 516.031, F.S., relating to finance charge; maximum rates.

- Section 5.** Amends 516.15, F.S., relating to duties of licensee.
- Section 6.** Creates s. 516.38, F.S., relating to annual reports by licensees.
- Section 7.** Creates s. 516.39, F.S., relating to suspension of penalties and remedial measures after federal disaster declaration.
- Section 8.** Reenacts s. 516.19, F.S., relating to penalties.
- Section 9.** Provides an effective date of July 1, 2024.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

#### **1. Revenues:**

OFR estimates its revenues may decrease by as much as \$5,000 per fiscal year if it no longer receives the background investigation fee of \$200 required for each additional location once replaced by a branch office license requirement.<sup>9</sup> OFR considers this to be a negligible amount which would not impact its operations.<sup>10</sup> Additionally, according to OFR, the reduction in staff time no longer needed to review a full license application for each additional location when replaced with a branch office license would likely offset any loss in revenues.<sup>11</sup>

#### **2. Expenditures:**

None.

### **B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

#### **1. Revenues:**

None.

#### **2. Expenditures:**

None.

### **C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

The bill has an indeterminate fiscal impact on the private sector.<sup>12</sup> Applicants will no longer be required to pay a \$200 background investigation fee for each additional location with the implementation of a branch office license.<sup>13</sup> This may save applicants up to \$5,000 per fiscal year in reduced fees.<sup>14</sup>

Consumers may benefit from increased opportunities to receive loans if consumer finance lenders issue more credit under the terms allowed by the bill, but they may also see an increase in interest payable on consumer finance loans, to the extent that lenders utilize higher interest rates permitted by the bill.

### **D. FISCAL COMMENTS:**

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<sup>9</sup> Office of Financial Regulation, *supra* note 1.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

The bill proposes to create a branch license in lieu of a full license for each additional location of a licensee.<sup>15</sup> The branch licenses will not include the \$200 background investigation fee and thus result in a fee reduction.<sup>16</sup>

Additionally, the bill would require OFR to make technology changes to its internal licensing system to create a branch office license and annual reporting functionality.<sup>17</sup> The cost of these changes would be negligible and could be covered within OFR's existing budget.<sup>18</sup>

### **III. COMMENTS**

#### **A. CONSTITUTIONAL ISSUES:**

##### **1. Applicability of Municipality/County Mandates Provision:**

Not applicable. This bill does not appear to affect county or municipal governments.

##### **2. Other:**

Article VII, sec. 19(e), of the Florida Constitution requires any bill that imposes, authorizes, or raises a state tax or fee must be contained in a separate bill that contains no other subject. Current law requires each location of a consumer finance company to pay a \$625 application fee and a \$200 investigation fee. The bill requires the designation of a principal location. The principal location and each branch location will be subject to the current application fee, but only the principal location will be subject to the investigation fee. Arguably, this is merely a change in status of a location from an applicant location to an applicant principal location; retaining the same fee for that application. Also, other applicant locations will become applicant branch locations; also retaining the same fee. There is no case law to guide this analysis. It is unclear whether a fee bill is required.

#### **B. RULE-MAKING AUTHORITY:**

The bill creates a new section of statute that will require a licensee to file an annual report with OFR "in a form and manner prescribed by commission rule." This section will require and sufficiently authorizes rulemaking. Rules 69V-160.111, 69V-160.039, and 69V-160.036, F.A.C., which adopts Disciplinary Guidelines for Consumer Finance Companies, will also require an update.

#### **C. DRAFTING ISSUES OR OTHER COMMENTS:**

None.

### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES**

On February 15, 2024, the Commerce Committee considered the bill, adopted one amendment, and reported the bill favorably as a committee substitute. The amendment:

- Required licensees to offer a borrower, at the time a loan is made, a credit education program addressing certain specified topics; and
- Changed the date that annual reports filed by licensees are first due to March 15, 2025, rather than March 15, 2024.

The analysis is drafted to the committee substitute as passed by the Commerce Committee.

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<sup>15</sup> *Id.* at 5.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 6.

<sup>18</sup> *Id.*