

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Banking and Insurance

BILL: CS/SB 580

INTRODUCER: Banking and Insurance Committee and Senator Gruters

SUBJECT: Consumer Finance Loans

DATE: March 29, 2023

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Knudson	Knudson	BI	Fav/CS
2.			AEG	
3.			FP	

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 580 revises laws governing consumer finance loans, which are loans of \$25,000 or less for which a lender charges an interest rate greater than 18 percent per annum. The Florida Consumer Finance Act (Act) in ch. 516, F.S., provides an exemption from Florida’s prohibition against usurious contracts, under which any interest rate greater than 18 percent per annum is prohibited.

The bill increases the maximum interest rate that may be charged to 36 percent per annum. Current law limits consumer finance loan interest rates to no more than 30 percent per annum, computed on the first \$3,000 of the principal amount; 24 percent per annum on that part of the principal amount exceeding \$3,000 and up to \$4,000; and 18 percent per annum on that part of the principal amount exceeding \$4,000 and up to \$25,000.

The bill increases the number of days that a payment must be in default before a delinquency charge may be imposed from 10 days in default to 12 days in default.

The bill revises the licensure process to allow a single licensure application for the principle place of business and all branches. The bill defines a “branch” as any location, other than a licensee’s principal place of business, at which a licensee operates or conducts consumer finance loan business or controls for the purpose of conducting consumer finance loan business.

The bill requires consumer finance lenders, in any county designated in a Federal Emergency Management Agency (FEMA) major disaster declaration, to suspend the following for 90 days after the initial date of such declaration:

- The application of delinquency charges for payments in default for at least 10 days;
- Repossessions of collateral pledged to a consumer finance loan; and
- The filing of civil actions for the collection of amounts owed under a consumer finance loan.

The bill also requires consumer finance lenders to:

- Provide notice to the Office of Financial Regulation (OFR) of any assistance program offered by the lender to borrowers impacted by a disaster subject to a FEMA major disaster declaration.
- Annually report information to the OFR detailing the loans issued by the lender during the previous calendar year.

The effective date of the bill is July 1, 2023.

II. Present Situation:

The Office of Financial Regulation's (OFR) Division of Consumer Finance (Division) licenses and regulates non-depository financial service entities and individuals, and conducts investigations of licensed entities to determine their compliance with Florida law.¹ One such product regulated by the OFR is consumer finance loans. A consumer finance loan is a loan of money, credit, goods, or interests valued at \$25,000 or less with permitted interest rates of between 18 and 30 percent per year.² This is not a traditional loan made by a bank, credit union, or similar institution. The consumer finance lenders do not accept deposits, and earn their revenue from the fees charged on the loans they make.³

Licensure

Entities that engage in the business of making consumer finance loans must be licensed by the OFR pursuant to the Florida Consumer Finance Act, ch. 516, F.S. ("the Act"). Each location of a consumer finance lender must be separately licensed, even if the separate locations are operated by the same business entity.⁴

A consumer finance lender applicant must submit an application fee of \$625 and an investigation fee of \$200 with its application for licensure.⁵ Consumer finance lender licenses granted under

¹ Fla. Office of Fin. Reg., *Division of Consumer Finance: What We Do*, <https://flofr.gov/sitePages/DivisionOfConsumerFinance.htm> (last visited March 27, 2023).

² Sections 516.01(2) and 516.031(1), F.S. *See also*, Fla. Office of Fin. Reg., *Consumer Finance Companies*, <https://flofr.gov/sitePages/ConsumerFinanceCompanies.htm> (last visited March 27, 2023).

³ Naveen Reddy, *What are the Primary Functions of Finance Companies?* (Nov. 9, 2020), <https://smallbusiness.chron.com/primary-functions-finance-companies-40480.html> (last visited March 27, 2023). Also note, payday lenders are separately regulated pursuant to ch. 560, F.S.

⁴ Sections 516.01(6) and 516.05(3), F.S.

⁵ Section 516.03(1), F.S. *See also*, Fla. Office of Fin. Reg., *Form OFR-516-01 Application for Consumer Finance Company License*, <https://flofr.gov/sitePages/documents/OFR-516-01.pdf> (last visited March 27, 2023).

the Act must be renewed every two years, at which time the licensee must pay a \$625 biennial license fee.⁶

The Act does not apply to persons doing business under state or federal laws governing banks, savings banks, trust companies, building and loan associations, credit unions, or industrial loan and investment companies.⁷

Permissible Interest Rates and Fees

Florida's prohibition on usury generally prohibits⁸ interest rates in excess of 18 percent per annum simple interest on any loan, advance of money, line of credit, or forbearance.⁹ Licensed consumer finance lenders, however, may offer interest rates greater than 18 percent per annum simple interest, up to the following limits, which are based on the amount of the loan's principal:¹⁰

- 30 percent on the first \$3,000.
- 24 percent on principal above \$3,000 and up to \$4,000.
- 18 percent on principal above \$4,000 and up to \$25,000.

The Act prohibits lenders from directly or indirectly charging borrowers additional fees as a condition to the grant of a loan, except for the following:¹¹

- Up to \$25 for investigating the credit and character of the borrower;
- A \$25 annual fee on the anniversary date of each line-of-credit account;
- Brokerage fees for certain loans, title insurance, and appraisals of real property offered as security;
- Intangible personal property tax on the loan note or obligation, if secured by a lien on real property;
- Documentary excise tax and lawful fees for filing, recording, or releasing an instrument securing the loan;
- The premium for any insurance in lieu of perfecting a security interest otherwise required by the licensee in connection with the loan;
- Actual and reasonable attorney fees and court costs;
- Actual and commercially reasonable expenses for repossession, storing, repairing and placing in condition for sale, and selling of any property pledged as security;
- A delinquency charge for each payment in default for at least 10 days, if agreed upon in writing before the charge is imposed, of up to \$15 for payments due monthly, \$7.50 for payments due semimonthly or every 2 weeks, and \$5 if three payments are due in the same calendar month; and
- A bad check charge of up to \$20.

⁶ Sections 516.03(1) and 516.05(1) & (2), F.S.

⁷ Section 516.02(4), F.S.

⁸ Various lenders and credits licensed or chartered under the laws of the United States or specified chapters of the Florida Statutes may charge interest at the maximum rate of interest permitted by law for similar loans or extensions of credit. *See s. 687.12(1)*, F.S.

⁹ Sections 687.02 and 687.12, F.S.

¹⁰ Section 516.031(1), F.S.

¹¹ Section 516.031(3), F.S.

A consumer finance lender may offer optional credit property, credit life, and disability insurance at the borrower's expense via a deduction from the principal amount of the loan.¹²

Licenses under ch. 516, F.S., are expressly prohibited from charging prepayment penalties on consumer finance loans.¹³

III. Effect of Proposed Changes:

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The bill requires consumer finance lenders, in any county designated in a Federal Emergency Management Agency (FEMA) major disaster declaration, to suspend the following for 90 days after the initial date of such declaration:

- The application of delinquency charges for payments in default for at least 10 days;
- Repossessions of collateral pledged to a consumer finance loan; and
- The filing of civil actions for the collection of amounts owed under a consumer finance loan.

The bill also requires consumer finance lenders to provide notice to the OFR of any assistance program offered by the lender to borrowers impacted by a disaster subject to a FEMA major disaster declaration.

The bill requires consumer finance licensees to annually report aggregated and anonymized data that does not reference any borrower's nonpublic personal information to the OFR detailing the loans issued by the lender during the previous calendar year. The report must include:

- The number of licenses held by the licensee as of December 31.
- The number of loan originations by the licensee under all licenses.

¹² Section 516.35(2), F.S.

¹³ Section 516.031(6), F.S.

- The total dollar amount of loans and the number of loans outstanding by the licensee as of December 31.
- The total number of loans in which the licensee holds a security interest in collateral as of December 31.
- The total number of unsecured loans as of December 31.
- The total number of loans, separated by principal amount, in the following ranges as of December 31:
 - Up to and including \$5,000.
 - \$5,001 to \$10,000.
 - \$10,001 to \$15,000.
 - \$15,001 to \$20,000.
 - \$20,001 to \$25,000.
- The total number and amount of loans charged off as of December 31.
- The total dollar amount of loans and the number of loans with delinquency status listed as:
 - Current or less than 30 days past due.
 - From 30 to 589 days past due.
 - From 60 to 89 days past due.
 - At least 90 days past due.

Licenses claiming any information submitted in the report is a trade secret must submit to the OFR an affidavit and designate the information claimed to be a trade secret in accordance with s. 655.0591, F.S. The OFR may publish a report using the annual report data, provided that all data published in the report is anonymized and aggregated from all licensees.

The effective date of the bill is July 1, 2023.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

The bill allows the OFR to publish a report of information submitted by consumer finance lenders detailing their lending activities during the prior calendar year, “provided that all data published in the report is anonymized and aggregated from all licensees.” However, the lack of a public records exemption related to the reports submitted by insurers may result in the OFR having to provide the reports of individual lenders to a person making such a public records request. The report in each consumer finance lender’s report to the OFR could receive trade secret protection to the extent the lender, pursuant to s. 655.0591, F.S., claims a trade secret and is successful in obtaining a declaratory judgment from a circuit court that the documents in question constitute protected trade secrets.

C. Trust Funds Restrictions:

None.

D. State Tax or Fee Increases:

None.

E. Other Constitutional Issues:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The bill may result in more consumer finance loans being issued by Florida-licensed consumer finance lenders to borrowers who cannot currently qualify for loans given the current interest rate limits. However, such borrowers will be subject to greater interest payments than are allowed under current law.

C. Government Sector Impact:

The OFR estimated “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 the current licensure process is “replaced by a branch office license requirement.” The OFR stated that the reduction, “would not impact the OFR’s operation” and that “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.”¹⁴

The OFR also noted that the bill “would require the OFR to make technology changes to its internal licensing system to create a branch office license and annual reporting functionality” but believe that “the cost of these changes would be negligible and can be covered within the OFR’s existing budget.”¹⁵

VI. Technical Deficiencies:

None.

¹⁴ Office of Financial Regulation, *2023 Agency Legislative Bill Analysis of SB 580*, pg. 5, February 2023 (on file with the Senate Banking and Insurance Committee).

¹⁵ *See id* at pg. 6.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 516.01, 516.02, 516.03, 516.031, and 516.15.

This bill creates the following sections of the Florida Statutes: 516.38 and 516.39.

This bill reenacts the following sections of the Florida Statutes: 516.19.

IX. Additional Information:

- A. **Committee Substitute – Statement of Substantial Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Banking and Insurance on March 29 2023:

The committee substitute clarifies what constitutes an assistance program offered by a consumer finance lender in response to a disaster subject to a FEMA major disaster declaration, requires additional reporting regarding the length of loan delinquencies, and clarifies the application of the bill's requirement that consumer finance lenders suspend for 90 days after a FEMA major disaster declaration the application of delinquency charges, collateral repossessions, and civil actions for collections.

- B. **Amendments:**

None.