



# HOUSE OF REPRESENTATIVES

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*Testimony of Representative Anne-Marie Mastraccio sponsoring*

## **LD 314, An Act to Establish Consumer Protections Regarding Small Dollar Loans**

*Before the Joint Standing Committee on Health Coverage, Insurance and Financial Services*

Senator Bailey, Representative Mathieson, and fellow members of the Health Coverage, Insurance and Financial Services Committee, I am Anne-Marie Mastraccio, representing House District 142, part of the City of Sanford and the Village of Springvale. I am here today to introduce **LD 314, An Act to Establish Consumer Protections Regarding Small Dollar Loans**. In 2021, in an effort to curb predatory payday loan practices, the Maine Legislature enacted a law reducing the ability of out-of-state FDIC-insured community banks from offering small dollar loans to subprime consumers that has, in practice, greatly constricted the availability of these loans in Maine.

The loans addressed by this bill are structured fundamentally differently than payday loans and have greater safeguards. They can offer a lifeline to hard working Mainers with subprime credit who have nowhere else to turn when they find themselves in an emergency financial situation.

For those with a credit score below 600 and a median income between \$50 – \$60,000, the 2021 change left them with few credit options. At the time, there was hope that credit unions and big banks would “step in” to provide this needed supply of credit, but unfortunately that has not been the case.

In a recent study by Maine Equal Justice, 56% of the more than 700 people who responded said they could not afford a \$400 emergency, while 34% said they could only pay by taking on debt or selling something. Unfortunately, it’s been proven that while we can legislate away the supply of credit to high-risk consumers, we cannot legislate away demand. As a result, Mainers who need emergency access to credit are finding few, if any, safe options.

LD 314 is designed to expand credit access, bridge personal emergencies and result in successful outcomes for subprime consumers. This legislation also facilitates the ability for a consumer to demonstrate positive credit behavior and transition into more traditional financial products. We’ve seen over the last few years that credit unions and large-scale banks are unwilling to support a “riskier” subprime consumer, so we need to provide constituents with real and safe options.

LD 314 would provide those options while remaining consistent with our state's core lending principles. The bill ensures a loan product that treats customers fairly and complies with applicable laws. It requires prudent lending practices governing the amount borrowed and repayment requirements. Additionally, covered financial institutions must effectively manage their products consistent with agency oversight and demonstrate a small-dollar lending program that reflects:

- A high percentage of customers successfully repaying their small dollar loans in accordance with original loan terms – a key indicator of affordability, eligibility, and appropriate underwriting;
- Transparent repayment terms, pricing, and safeguards that minimize adverse customer outcomes; and
- Reporting structures that can enhance a borrower's financial capabilities and build credit.

In 2021, there was strong consensus that we needed to strengthen consumer protections for our most vulnerable. We did that but failed to give them a safe option.

For many of my constituents, LD 314 would provide that needed option. In my district and those like mine, I see and recognize how this bill might address temporary cash-flow imbalances and unexpected expenses during periods of economic stress. While small dollar lending may be no one's first choice, access to responsible and regulated small dollar loans for subprime consumers provides a backstop for consumers who may otherwise be forced to use inferior, and potentially predatory options. The loans offered through out-of-state FDIC insured community banks would give subprime consumers more choice for financial relief during a difficult time and provide important consumer protections, as well as a pathway to credit enhancement. Providing for sound alternatives is something we are able to legislate, and I hope we do. I encourage your thoughtful consideration of LD 314. Thank you.