



Testimony of Attorney Peter L. Hatem  
Pine Tree Legal Assistance, Inc.

In Opposition to LD 314 "An Act to Establish Consumer Protections Regarding Small Dollar Loans"

Before the Committee on Health Coverage, Insurance and Financial Services  
Date of Public Hearing: January 12, 2025

Senator Bailey, Representative Mathieson, and members of the Committee on Health Coverage, Insurance and Financial Services:

My name is Peter Hatem. I am a Staff Attorney at Pine Tree Legal Assistance (Pine Tree) in the Consumer and Foreclosure Prevention Unit. I am grateful for the opportunity to offer testimony regarding LD 314. We have been asked by Representative Richard Bennett to share Pine Tree's perspective on this bill, and I am speaking today on behalf of Pine Tree. My practice at Pine Tree specifically includes bankruptcy in addition to other general consumer financial issues, two areas of law I have practiced for over 35 years. I have also had the privilege of testifying on prior occasions in support of increased protections for Maine homeowners facing foreclosure.

Pine Tree is a statewide nonprofit organization that provides free legal services to low-income people throughout Maine. For many years, Pine Tree has assisted low-income people with consumer and financial issues. Pine Tree handles approximately 100 cases per year involving financial issues, in addition to foreclosure defense.

LD 314 will reverse the consumer protections enacted by Maine in 2021, which prohibited non-bank lenders from making loans with an effective annual percentage rate that is greater than the interest rate caps in place currently.

By way of background, prior to the enactment of those consumer protections, the Maine Consumer Credit Code provided a tiered annual interest rate cap for consumer loans, including a top rate of 30% for loans of \$2,000 or less. 9-A M.R.S. § 2-401(2). But because the Code allowed lenders to exclude various origination fees when calculating the finance charge, 9-A M.R.S. § 1-301(19), or alternatively allowed lenders to charge a flat fee in lieu of interest, 9-A M.R.S. § 2-401(7), the pre-2021 Code permitted loans with an effective annual percentage rate—i.e., the

true cost of the credit paid by the consumer—that can be over 300%. These extreme APRs arise in short-term, small dollar loans, including “payday loans.”<sup>1</sup>

That changed with the law passed in 2021.

Crushing consumer debt is an unfortunately common trait among Pine Tree’s client population. These clients often become ensnared in a cycle of debt that prevents them from using the benefits of the consumer credit market to help accumulate wealth and shed the burdens of poverty. Pine Tree has observed how overwhelming consumer debt prevents Mainers from affording reliable vehicles to get to work, purchasing and investing in a home, paying rent, and improving their earning capacity.

Payday and other small-dollar loans have a well-documented history of perpetuating this debt cycle. Pew Charitable Trusts examined the impact of payday lending and found payday loan borrowers are indebted on average for 5 months per year due to their inability to get out from under the significant finance charges. Pew noted that, according to the Federal Reserve Bank of Kansas, “the profitability of payday lenders depends on repeat borrowing.”

LD 314 would allow such loans to become legal in Maine again and will reverse the protections Mainers have had from these loans since 2021.

The title of this bill is Orwellian. Its passage will **remove and repeal “Consumer *Protections* Regarding Small Dollar Loans”**. It would subject Maine’s most vulnerable citizens, those least able to afford them, to a vicious and all-too-common cycle of debt. First, the lender hooks a consumer into a small, high interest loan for a short period of time. Many of these consumers are taking these loans because they are already in a precarious financial position. They cannot pay it back within the 18-month timeframe, leaving them little alternative but to finance out of it, often for a longer term at an equally unaffordable rate, or default.

I witnessed these issues first-hand in my bankruptcy practice in Massachusetts and New Hampshire, which, at the time, had no such protection, prior to moving to Maine. These consumers ultimately had to file for bankruptcy protection under the U.S. Bankruptcy Code. I do not want to see a repeat of this in Maine, in the current financial environment.

We all have watched the attack on consumer protections in Washington. The future of the federal Consumer Financial Protection Bureau (CFPB) is now in question. It remains for the states, including Maine, to protect its citizens from harmful lending practices, while encouraging lenders to make affordable small-dollar installment loans. This bill does not accomplish either goal.

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<sup>1</sup> “Payday loans” are a type, a subset, of “Small Dollar Loans”.

## **Conclusion**

Maine consumers have had the protection of Maine law on small-dollar loans for four years. There have been no issues regarding those loans. Reversing those protections would only help out-of-state lenders make money and will hurt Maine consumers. Furthermore, there are better options for Maine consumers already being offered at some local credit unions, who offer options at more appropriate and affordable rates.

For these reasons, and those shared by other consumer advocates today, I ask you to report out LD 314 as "ought not to pass."

Thank you for your consideration of my testimony, and I welcome any questions you may have.

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