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**Testimony on behalf of Maine Equal Justice in *Opposition* to LD 314, An Act to Establish
Consumer Protections Regarding Small Dollar Loans
February 12, 2025**

Good afternoon, Senator Bailey, Representative Mathieson, and members of the Committee on Health Coverage, Insurance and Financial Services. My name is Andrea Steward, I use she/her pronouns, and I am a policy advocate at Maine Equal Justice. We are a civil legal services organization, and we work with Maine people to increase economic security, opportunity, and equity for people in Maine.

Thank you for the opportunity to provide testimony in opposition to LD 314.

What This Bill Does

While it establishes a small dollar loan program, it does so by repealing critical consumer protections established by the Legislature and Governor Mills in 2021.

- **Making lenders under this program no longer subject to the requirements of the Maine Consumer Credit Code**
 - **Maine law limits interest rates to protect its residents from predatory lending. Under Maine law a two-year \$2,000 loan is limited to 30% APR. But without the protections currently provided in Maine law, FDIC-supervised banks can front loans for high-cost lenders to help them evade Maine law and make loans with interest rates over 100% that are illegal in Maine.**

Why Maine Equal Justice Opposes LD 314

In 2021 the Legislature took a step to prevent some of the worst predatory lending practices when they passed and Governor Mills signed Public Law 297. PL 297 added important protections for consumers making it a violation in Maine law for lenders to engage in evasive practices to circumvent these protections under the Maine Consumer Credit Code. In particular, the legislature enacted 19-A MRS § 2-702 which states:

Purporting to act as agent or service provider for another entity exempt from this Article

1. The person holds, acquires or maintains, directly or indirectly, the predominant economic interest in the loan;
2. The person markets, brokers, arranges or facilitates the loan and holds the right, requirement or first right of refusal to purchase the loan or a receivable or interest in the loan; or
3. The totality of the circumstances indicate that the person is the lender and the transaction is structured to evade the requirements of this Article. Circumstances that weigh in favor of a person being a lender include, without limitation, when the person:
 - a. Indemnifies, insures or protects an exempt entity for any costs or risks related to the loan; [PL 2021, c. 297, §1 (NEW).]
 - b. Predominantly designs, controls or operates the loan program; or [PL 2021, c. 297, §1 (NEW).]
 - c. Purports to act as an agent or service provider or in another capacity for an exempt entity while acting directly as a lender in other states [PL 2021, c. 297, §1 (NEW).]

Section 2 of the LD 314 repeals this entire provision which now prohibit a lender from making, offering, assisting or arranging a debtor to obtain a loan with a greater rate of interest, consideration or charge than is permitted by this Article through any method.

It is critical that this language remain in Maine law to prevent non-bank predatory lenders from evading the requirements of Maine law by entering into “rent-a-bank” schemes with a few, rogue banks. Banks are largely exempt from state rate caps, and through these schemes, the non-bank predatory lender launders loans through the bank to claim that state interest rate limits do not apply. These lenders charge triple-digit interest rates, target the financially vulnerable and communities of color, and trap consumers in devastating cycles of debt.

This is the third attempt by the Fintech industry to repeal the interest rate cap in Maine and the requirement that lenders not misrepresent the nature of the loans. This bill was previously rejected by the 130th and 131st Maine Legislature. As you will see this is a nearly identical bill to the 13st that is before you today. In order to support this bill, you need to believe it is in the best interest of low income consumers in Maine to pay over 100% in interest on loans and in the best interest of low income consumers in Maine that the lenders who make these loans be able to misrepresent the nature of the loans.

In 2021, Congress, on a bipartisan basis, passed a resolution to override a regulation that would have exempted predatory rent-a-bank schemes from state regulation. President Biden, when signing the resolution, said: “rent-a-bank schemes ... allow lenders to prey on veterans, seniors, and other unsuspecting borrowers – trapping them into a cycle of debt.” Rent-a-

bank schemes are of questionable legality and have been challenged in court. But a few, rogue FDIC-supervised banks are still helping predatory lenders evade state laws.

It is important to note that this action did not prevent lenders from engaging in “rent a bank” practices—it only allows states to regulate this practice.

Therefore, it is critical for the Legislature to protect Maine consumers with laws prohibiting this practice in Maine. The Legislature must not remove the existing protection for Maine consumers, especially amidst a global pandemic that has hit low- and moderate-income families and communities of color, especially Black, Latinx, and Native American communities, particularly hard due to underlying health and socioeconomic disparities. These high-cost loans do not promote financial inclusion. Instead, they exacerbate financial exclusion. They cannot be justified as providing “access to credit.” Instead, they trap borrowers in destructive debt cycles, leaving borrowers with ruined credit and unable to borrow at lower interest rates in the future.

Maine Equal Justice also is involved in litigation around issues impacting Maine consumers.

Our legal services team works daily to help very low-income people in Maine navigate the Social safety net to figure out how they are going to pay this month's rent, afford a visit to the doctor, figure out how to put food on the table for their family's next meal. We work every day with families and individuals who are surviving on the edge financially. Just one high-cost loan could be devastating to our clients and that is because these loans are rarely paid off with just one loan, but more often than not, turn into multiple, repeat loans with increasing amounts of fees and interest. When people living in poverty have to pay usurious rates of interest, they go without meeting their basic needs. The financial pressure from these rates subject our clients to even greater risk of hunger and homelessness.

Conclusion

With the uncertainty of the Consumer Financial Protection Bureau, which has essentially shuttered at this time. It is dependent on us to protect Mainers.

At Maine Equal justice we understand that consumers with low or no credit need options to build their credit and to have access to small dollar loans. There are programs that exist such as the Community Credit Unions Build Credit Program and a program passed by the Maine Legislature during the COVID-19 pandemic. These could be viable and safe options for community members. We should identify how to bolster existing programs in the state rather than prop up predatory lending and allow Maine Citizens to be taken advantage of.

For these reasons, Maine Equal Justice strongly urges you to vote ought not to pass on LD 314.

Thank you for the opportunity to testify on this bill and I am happy to answer any questions.