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Before the Maine Committee on Health Coverage, Insurance, and Financial Services

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Recommends a Positive Report with Amendments on LD 522, "An Act To Cap Interest Rates for Consumer Debt "

Senator Sanborn, Representative Tepler, and Members of the Joint Standing Committee on Health Coverage, Insurance, and Financial Services:

My name is Whitney Barkley-Denney, and I am a Senior Policy Counsel with the Center for Responsible Lending. I am here to discuss SB 522 which, if correctly amended, would cap payday loan interest rates.

The Center for Responsible Lending (CRL) is a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a nonprofit community development financial institution. For thirty years, Self-Help has focused on creating asset building opportunities for low-income, rural, women-headed, and minority families.

As such, our organization has long been warning against the abuses of predatory lending and specifically, predatory small dollar loans, including payday loans.

Payday loans are marketed as a quick fix, but in reality cause a long-term cycle of debt. Payday lenders in Maine can charge rates up to 271% APR; make no assessment of whether the loan is affordable in light of a borrower's income and expenses, and can seize money directly from a borrowers' bank account. This toxic combination of loan terms is the debt trap by design. The debt trap is the core of the business model.

In Maine and nationally, the average payday loan borrower is stuck in 10 loans a year, and borrowers are typically trapped in these loans without a break. Additionally, 75% of all payday loan fees come from borrowers stuck in more than 10 loans a year. On the flip side, only 2% of loans go to borrowers who take just one loan out and do not come back for a year.

It's not just the short-term consequences of the debt trap that are concerning; but the long-term consequences are also quite severe. Payday loans increase the likelihood that borrowers will experience bank penalty fees, bankruptcy, and even bank account closures. The consequences of payday lending, particularly once it goes into collection, include damaged credit scores which then increases barriers to jobs, housing, and access to affordable products in the future.

These small dollar high cost loans don't help borrowers. They make financial difficulties financial disasters. In fact, 2007 report from the Department of Defense documented widespread and ongoing financial difficulties among military families due to predatory practices like payday and found that the debt was so pernicious it impacted the readiness and security clearances of our troops. That report led the US Congress to cap interest rates for active-duty members of the military and their families at 36%.

In Maine, payday lenders have long used 2-401(7) of the consumer credit code to make loans at much higher percentages than those rates laid out in 2-401(1), as high as 271%. As originally drafted, LD 522 will not eliminate loans made under this alternative statute. However, we believe that some simple amendments can make payday lenders abide by the interest rates determined by this committee.

Maine's treatment of payday lenders is unique, and sets them apart from their neighbors, all of whom more strictly cap predatory loan products. With the exception of Rhode Island, New England states cap small dollar payday loans at rates of 36% or less.

States across the country have been making strides to drive out predatory lenders from their borders. Voters in South Dakota, Montana, and Colorado enacted payday loan rate caps by ballot measure with over 70% approval; Nebraska enacted a rate cap at the ballot in November with 83% approval. And most recently the Illinois state legislature passed legislation capping interest rates for payday, car title, and installment loans at 36%. As we speak, a similar measure to this one is under consideration in New Mexico, having passed their House of Representatives. Rhode Island is having hearings this week, and Minnesota is also on its way to passing reforms.

What happens when payday lenders no longer lend in a state?

We can look to the experiences of the military and these 16 other states for their experiences. First, these lending schemes are relatively new. Many states without payday loans have never had them, and have repeatedly rejected proposals to legalize them in their states. For other states that once had payday loans but now do not, former payday loan borrowers report being glad to see gone this product that looked easy to get into but was in reality hard to get out of; and they describe a range of other options to deal with financial shortfalls, from asking friends and family for assistance, turning to community organizations or churches, and budgeting differently. More importantly, we hear from many former borrowers who have now been able to build assets such as purchasing a car or a home, which was not possible while buried under payday loan debt.

And, it's not just borrowers who feel the reprieve, but communities to do too. Payday lenders' high cost loans strip hundreds of thousands from the communities in which they are located, diverting resources not only from people's pockets but other business and charities. After the rate cap, charitable organizations that used to spend significant resources digging people out of the debt trap are now able to better meet people's needs directly, rather than having to pay the payday lender first. Military relief societies reported the same, saving hundreds of dollars of aid after the military rate cap was in enacted.

The Center for Responsible Lending urges the Committee to amend then pass SB 522 as an investment in lifting Maine out of poverty. We hope that Maine will join their New England neighbors, the Department of Defense, Washington D.C. and become the 18th state to protect Mainers from financial predators. I would be happy to take questions from the Committee.

Thank you.