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Testimony of Frank D'Alessandro, Maine Equal Justice, *in support of* LD 522 "An Act to Cap Interest Rates for Consumer Debt"

Good afternoon Senator Sanborn, Representative Tepler, and members of the Committee on Health Coverage, Insurance and Financial Services. My name is Frank D'Alessandro, and I am the Litigation and Policy Director of Maine Equal Justice. We are a civil legal services organization, and we work with and for people with low income seeking solutions to poverty through policy, education, and legal representation.

Thank you for the opportunity to offer written testimony to you in support of LD 522.

What This Bill Does

This bill reduces the interest rate that lenders could charge borrowers and requires that lenders include all fees in determining the allowable APR that can be charged for a loan so that the interest rate accurately reflects the cost of the loan.

Why Maine Equal Justice Supports This LD 522

A significant portion of Maine Equal Justice's work centers around ensuring that laws are in place to protect consumers from predatory lending practices. Maine Equal Justice has successfully advocated for changes in Maine law that accomplish this goal.

These include passage of

• An Act to Establish a Student Loan Bill of Rights to License and Regulate Student Loan Servicers, (9-A MRS § 14-101 to 14-111);
• An Act to Provide Relief to Survivors of Economic Abuse, (10 MRS § 1310-H, 19-A MRS § 4002, 4007; 32 MRS § 11014);
• An Act to Require Residential Mortgage Loan Servicers to Act in Good Faith in Dealings with Homeowners, (14 MRS § 6113, 6321-A);
• An Act to Reduce the Duration of Execution Liens, (14 MRSA §4651-A, (9)).

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, or 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 instead 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.

The current small-dollar loan fee structure in Maine applies high interest rates that they are difficult for low-income borrowers to afford.

The credit offered by payday loans is predatory in nature and traps rather than benefits consumers. Marketed as a way to help consumers pay the bills until their paychecks arrive, payday loans trap consumers in terrible cycles of debt, dragging their families more deeply into financial crisis. In return for a loan, the consumer provides the lender a post-dated check for the amount borrowed plus a fee. The check is held for 1 to 4 weeks (usually until the customer's payday) at which time the customer redeems the check by paying the face amount or allowing the check to be cashed. Payday lenders encourage their customers to get on a debt treadmill by refinancing one payday loan with another. The fees for payday loans are exorbitant which greatly increases the effective interest rate for the loan. In Maine, the effective interest rate on these loans exceeds 200%.

The payday lending industry relies on borrowers being unable to repay their loans without re-borrowing or re-financing. In fact, 60% of their revenues from fees come from people who have refinanced their loans. Payday lending establishments issue loans that cost Maine consumers over half a million dollars in just payday fees (not including interest) every year. One fourth of the people who contact the Maine s consumer credit protection bureau owe money to more than one payday lender at the same time. Maine's consumer credit protection bureau receives over 100 payday-related complaints a year.

Borrowers customarily use these high interest loan not for emergencies but to pay for ongoing household goods and living expenses.

No loan is affordable if the borrower is not able to continue to meet their basic needs. The primary reason a person needs to take out a string of high-cost loans is because the original loan is not affordable to begin with. Payday loans trap people in a cycle of debt, one loan leads to another (on average 10 per year), and missed payments rack up crushing fees.
The harm from payday lending includes increased difficulty paying bills, delayed medical spending, involuntary bank account closure, higher likelihood of filing for bankruptcy and decreased job performance.
https://www.responsiblelending.org/sites/default/files/nodes/files/researchpublication/crl-shark-free-waters-sep2017.pdf

Payday lending harms the most vulnerable members of our society. The vast majority of borrowers trapped by these loans are seniors, members of our armed forces, minority families, women who are heads of households, and other vulnerable working poor individuals and families living on the brink. One of every four payday borrowers is a senior receiving Social Security.

We support this bill because it will reduce the interest rates for these predatory loans and require that the interest rate for those loans accurately reflect the APR for the loan.