

**Testimony in Favor of LD 522, An Act To Cap Interest Rates for Consumer Debt
March 9, 2021**

Sen. Heather Sanborn, Rep. Denise Tepler, Members of the Joint Standing Committee on Health Coverage, Insurance and Financial Services, I am Jody Harris of the Maine Center for Economic Policy (MECEP) and I am here today to ask you to support LD 522.

LD 522 strengthens protections for Maine consumers and helps them get out from under sometimes crushing—and often predatory—payday loan debt; debt that shatters Maine families’ financial stability and saps our economy.

LD 522 would eliminate a loophole in Maine’s consumer code regulating payday and other small dollar loans that allows lenders to assess interest and fees exceeding 200% APR.

Payday loans are made for small amounts of money on a short-term basis, usually 1-2 weeks, traditionally to tide borrowers over until they got their next pay check. Payday loans are a [costly way to borrow money](#).

Maine lawmakers have enacted a strong consumer protection code that currently caps interest on payday loans under \$2,000 at a 30% APR. However there is a loophole in the law that that offers payday lenders a higher return option. It allows lenders to assess a flat finance charge of \$5.00-25.00 (tiered based on the amount of the loan) per loan every two weeks (or the term of the loan) rather than be limited to a 30% APR interest rate.

Five or even twenty-five dollars may seem like a small amount to have to pay. But a \$250 dollar loan can quickly become a \$300 loan in just four weeks, and over a 6-month period will be more than double the original loan amount. [Eighty percent](#) of payday loans are rolled over and the majority of borrowers carry more than [ten loans per year](#). This alternative fee structure results in interest rates in Maine of [up to 260% APR on a typical two-week loan](#).

Mainers are particularly vulnerable to payday lenders who offer loans in the guise of a helping hand. A recent analysis in our state shows that Mainers more than most U.S. consumers struggle with unexpected expenses. Met with an unexpected expense of \$400, [one in four](#) Mainers report they’d have to borrow money or sell something to cover the bill while one in five Mainers say they would have no way to pay the expense. This is compared to one in eight Americans who say they cannot pay the expense.

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Payday lenders are not regulated in the way that banks or even credit card companies are. Payday loan borrowers must give the lender their bank account information for automatic withdrawal of the payment upon the due date. If the borrower does not have enough in their account to cover their loan repayment, the lender automatically rolls the original loan amount plus interest/fees owed into a new loan with added interest/fees on the new amount for another two weeks. Each time the borrower has insufficient funds for the payday lender's automatic withdrawal, the lender charges a late fee and/or returned payment fee. Payday lenders continue to attempt to debit a borrower's account even when the initial attempt fails. With a negative account balance, the bank closes the borrower's account. One-third of on-line payday borrowers [lose their bank accounts](#) due to excessive penalties and fees caused by the lender.

Closing this loophole in Maine's consumer code is a common sense change that would help thousands of Maine borrowers and level the playing field with other financial products. I urge the committee to support LD 522.

Thank you for your consideration.