HB 2191, as amended, does NOT Stop the Payday Loan Debt Trap

- **HB 2191 allows 369% annual interest rates on a $300 payday loan due in 14 days.**

  With the fees permitted in HB 2191, the annual percentage rate is 369% for a typical two-week, $300 loan.[1] It makes no difference if a borrower takes out one loan or nine loans throughout the year – 369% APR is the cost for single loan due in full in two weeks. The cost of the loan is required to be disclosed in terms of APR per the federal Truth in Lending Act and per HB 2191 itself.

- **HB 2191's "rollover bans" do not stop the cycle of debt because payday lenders already know how to evade them.**

  Payday lenders often support these types of provisions because they have already found a way around them – by making a new loan shortly after closing out the old loan. In other states with similar provisions, consumers are saddled with high-cost payday loan debt for more than 200 days in the first year of borrowing.[2] Even with this provision, borrowers can be indebted to a payday lender every single payday of the year.

- **Extended repayment plans and "cooling off" periods do nothing to stop the cycle of payday loan debt.**

  In other states with similar provisions, real-time data collected by a database shows that the debt trap persists and is the core of the payday business model. Even with these provisions, 90% of payday business is due to borrowers with 5 or more loans a year, typically taken out shortly after the other. Because the economic incentives of the business model depend on the long-term, repeat customer, payday lenders place very few eligible customers in an extended repayment plan.[3]

- **Creating the credit counseling fund depends on pushing Pennsylvanians into inescapable high-cost debt.**

  Payday lenders propose extracting additional fees from financially strapped borrowers stuck in payday loan debt for a credit counseling fund. The fees for this fund are dwarfed by the estimated $233 million that these high-cost payday loans will strip from Pennsylvania annually to the benefit of mostly out-of-state payday loan companies. The fund will not mitigate the harms caused by the payday loan debt trap itself – increased likelihood of bankruptcy, delinquency on other bills, and loss of borrowers' bank accounts.[4] In fact, passing HB 2191 increases the likelihood they will face these consequences.

- **Just like original bill, HB 2191 codifies the toxic terms of the payday loan product, both for Internet and in-store loans.**

  HB 2191, as amended, does nothing to change the very terms of the payday loan product which make it a debt trap by design – the high fees, with a single balloon payment, due in full in a short-term, and collateralized by access to a borrower's checking account (either electronically or by post-dated check). As long as these predatory loans terms remain, none of the other provisions will mitigate the harm. The amendment, just like HB 2191, worsens the problem it claims to solve.

For more information, and to see the broad-based, statewide opposition to the predatory payday loans such as those proposed in HB 2191, visit: www.stoppaydayloanspa.com

[1] The cost of the loan is calculated as follows: For a $300 loan, with $12.50 per $100 as allowed under Section 5113 A, plus the $5 verification fee for the loan, the fees total $42.50. For a loan due in full ($300, plus the $42.50 in fees) this would result in a required disclosure of a 369% APR, as required by the Truth in Lending Act and HB 2191.

[2] Leslie Parish & Uriah King, *Payday Loans, Inc: Short on Credit, Long on Debt* (Center for Responsible Lending March 31, 2011), *available at* http://www.responsiblelending.org/payday-lending/research-analysis/payday-loans-inc.html.

[3] Uriah King and Leslie Parrish, *Springing the Debt Trap* (Center for Responsible Lending December 13, 2007), *available at* http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.pdf.

[4] Paige Marta Skiba & Jeremy Tobacman, *Do Payday Loans Cause Bankruptcy?* (Oct. 10, 2008), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1266215; Brian T. Melzer, *The Real Costs of Credit Access: Evidence from the Payday Lending Market* (Jan. 3, 2009), *available at* http://www.kellogg.northwestern.edu/faculty/melzer/realcosts_melzer_01_03_09.pdf; Dennis Campbell, et al., *Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures* (Dec. 3, 2008), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=133587.

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