

HB 2191 is NOT consumer protection

Any “protection” that allows 400% interest is no protection at all

HB 2191 opens the flood gates for predatory lenders, rather than keep them out as claimed. Pennsylvania already regulates small-dollar loans with a comprehensive regulatory system to prevent predatory loans, regardless if made at a store or online.

As shown below, the “protections” claimed in the co-sponsorship memo do not stop the debt trap caused by the 400% interest rate loans HB 2191 seeks to legalize. In other states with similar provisions, borrowers are trapped in 9 loans a year on average, and 76% of payday loans go to repeat borrowers.

***Claim:* Internet loans are “impossible to regulate”**

REALITY: Pennsylvania law has successfully stopped abusive Internet payday loans for years. In 2010 Pennsylvania’s Supreme Court unanimously held that the loans made by Texas-based Cash America over the Internet to Pennsylvanians were illegal because they carried charges ranging from 260% to over 600% APR. HB 2191 legalizes Internet payday lending at 400% interest – a rate almost 17 times our law. Because it's illegal, consumers have tools to escape the debt trap; under HB 2191 the trap will be inescapable.

***Claim:* “Restrictions on interest and fees”**

REALITY: HB 2191 dramatically increases interest and fees; it does not restrict them. The bill authorizes a mix of interest and fees that result in 400% interest rates for a typical payday loan. This is an exclusive carve-out for payday lenders from the state’s long-standing laws which allow up to 24% annual interest for small dollar loans.

***Claim:* “Limit to loans from two lenders at a time”**

REALITY: HB 2191 still allows the typical borrower to take out more than 24 loans per year, remaining indebted at 400% interest for the entire year. Loopholes in these types of provisions are rampant in other states that have legalized triple-digit interest rate payday loans, but even if effectively enforced, it does not stop the long term cycle of debt.

***Claim:* “Limits on the ability to roll over loan”**

REALITY: This is an empty promise to stop the long-term debt problem caused by payday loans. Payday lenders support these provisions because they already know how to circumvent them - by having borrowers pay off their loans and immediately take out another. In states with a rollover ban, borrowers are stuck in an average of 9 loans per year, and payday lenders earn 60% of revenue from borrowers with 12 or more loans a year.

***Claim:* “Limit on the amount of gross monthly income a consumer can borrow”**

REALITY: HB 2191 allows payday lenders to take more than 50% of a borrower’s bi-weekly pay every payday. The bill allows loan amounts up to 25% of gross monthly income, but most borrowers are paid every two weeks. As a result, on payday up to 50% of their pay will be owed to the payday lender, *plus* interest and fees. Little money is left to make to the end of the month.

Claim: “An Extended Repayment Plan at no additional charge”

REALITY: These plans do not provide effective relief for the typical borrower already drowning in a 400% interest rate loan. The economic incentives of the payday business model are stacked against the widespread utilization these plans. In other states with similar provisions, less than 3% of eligible transactions actually use the extended payment plan option.

Claim: “Protections for Active Duty Military”

REALITY: The loans authorized by HB 2191 are already illegal for military members, due to a law enacted by President Bush to place a 36% rate cap on payday loans to soldiers. Thus, HB 2191’s debt collection protections are meaningless since HB 2191 loans can’t even be made to soldiers.

Other provisions of HB 2191 are touted as purported “consumer protections.” But, like the others they do nothing to stop the harms caused by the 400% interest rate loans HB 2191 seeks to legalize.

Claim: “One Day Cooling-Off Period”

REALITY: Cooling off periods do nothing to break the cycle of debt. In other states with cooling off periods and renewal bans 76% of payday loan revenue is due to borrowers who take out a new payday loan within the same pay period of paying off the old one.

Claim: “Borrower Database”

REALITY: Databases serve only to track the number of loans made, and will not stop the harmful impact of the loans authorized by HB 2191. A database is not a substitute for the state’s already effective laws. The bulk of information about the deep harms of the payday debt trap comes from states with databases, which reveal that even with the so-called “consumer protections” in HB 2191, a typical borrower is stuck in 9 payday loans a year, typically taken one right after the other.

REALITY:

Because of its effective enforcement of its long-time small loan laws, Pennsylvania has saved its citizens more than \$233 million annually in interest and fees that would have otherwise been lost to 400% interest rate payday loans.

HB 2191 will not provide consumer protections, but rather will legalize abusive lending products that will drain these savings from Pennsylvanians.