

Pennsylvanians remain opposed to any legislation that rolls back existing protections in favor of predatory lending.

Payday Lenders Seek to Legalize their Predatory Loans

Over the last several years that payday lenders have pushed efforts to legalize their predatory products in Pennsylvania, they repeatedly try to put a new wrapper on the same destructive package with names like “short-term loans,” “micro-loans,” and “fresh start.”

Each time, payday lenders attempted to bury the high cost of the loans they seek to legalize in the fine details of the legislative language. But all the proposals carried the hallmarks of predatory payday lending: triple-digit APRs, pricing to encourage flipping, loans secured by direct access to a borrower’s bank account, and no regard for a borrower’s ability to repay the loan when considering income and expenses.

Now, on June 1, Senator Yudichak circulated a co-sponsorship memo regarding a “Financial Services Credit Ladder.” While the memo suggests the development of a responsible loan product, our experience with the payday lenders’ recent bills (HB 2191 in 2012 and SB 975 in 2013) encourages caution.

Predatory Payday Lending has Disastrous Effects on Individuals & Communities

Where predatory payday loans are legal, borrowers are trapped in high-cost, long-term debt, leading to a cascade of financial harms. Payday lending causes borrowers to fall behind on other bills,ⁱ to delay medical care,ⁱⁱ to overdraw their bank accounts,ⁱⁱⁱ and even file for bankruptcy.^{iv} Payday lending also negatively impacts the community and economy, draining jobs^v and increasing usage of government resources, such as food stamp use.^{vi} Communities with payday loan storefronts report strains on local food pantries and charitable emergency relief services.^{vii} Finally, payday loans were found to undermine military readiness because of their harm to soldiers.^{viii}

Pennsylvania’s Strong Law Already Protects against Predatory Payday Lending

The memo cites a Consumer Financial Protection Bureau (CFPB) preliminary proposal as a model for the legislation, as well as a recent study by the Pew Charitable Trusts as evidence of the need for these loans. But, Pennsylvania **already** has one of the strongest predatory lending laws in the country, as recognized by the U.S. Department of Defense.^{ix} Changing our law by adopting the current version of the CFPB proposal in Pennsylvania will weaken it. In fact, the same Pew Charitable Trusts study cited in the co-sponsorship memo does not recommend law changes in the 15 jurisdictions, including Pennsylvania, that do not have high-cost payday lending.^x Our law has been effectively enforced against predatory lenders operating in storefronts and online.^{xi} We need to keep our law strong.

In considering Senator Yudichak’s memo, we ask that you decline co-sponsorship until the legislative language is released and a full analysis of the bill can be conducted. We will provide that to you as soon as it is available.

Military veterans, seniors, women’s groups, faith leaders, credit counselors, affordable housing providers, asset-building organizations and others throughout the state of Pennsylvania have been working tirelessly to prevent the state from opening its borders to predatory lenders. Stand with them to protect Pennsylvania residents by keeping our existing protections against predatory lending in place.

ⁱ Brian T. Melzer, *The Real Costs of Credit Access: Evidence from the Payday Lending Market*, Quarterly Journal of Economics, 126(1), 517-555 (2011), available at: <http://qje.oxfordjournals.org/content/126/1/517.full>

ⁱⁱ Id.

ⁱⁱⁱ 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.

^{iv} In a recent study, economists Professor Paige Marta Skiba of Vanderbilt University and Professor Jeremy Tobacman of the University of Pennsylvania found that payday borrowers are significantly more likely to file for bankruptcy than similarly-situated people who do not use payday loans. 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

^v Stephen Herzenberg and Mark Price, *Bankrupt by Design: Payday Lenders Target Pennsylvania Working Families*. Keystone Research Center. May 8, 2012. available at <http://keystoneresearch.org/sites/default/files/Payday-Lending-Policy-Brief-5-8-2012.pdf>.

^{vi} Brian T. Melzer, *Spillovers from Costly Credit*, 2013, available at <http://d.repec.org/n?u=RePEc:cen:wpaper:13-11&r=ban>

^{vii} For example, in the early 2000s, Christ the King Parish in Kansas City, Missouri reported a 50% increase in need at its food pantry in the years following the explosion of storefronts offering 400% payday loans in their neighborhood and that 80% of clients had payday debt. See Catholic Key, "Christ the King CCO targets payday loan industry," (March 2001), available at: http://catholickey.com/index.php3?archive=1&gif=news.gif&mode=view&issue=20010401&article_id=1306

In addition, the Texas Catholic Charities estimated in 2010 that they spend about \$1 million a year aiding those in payday and auto title debt, and of the borrowers they aided 47% believed that the financial stress caused by payday and car title loans led to their seeking assistance from Catholic Charities. Texas Catholic Conference, "Religious Leaders Call for Reform in Payday Lending Regulation," available at: <http://www.txcatholic.org/index.php/news/1066-religious-leaders-call-for-reform-in-payday-lending-regulation%20> ([Bishop Joe Vásquez] said that in 2010, Catholic Charities agencies throughout the state provided over \$1 million in financial assistance to clients trapped in payday loans."

^{viii} U.S. Department of Defense, "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents." Aug. 9, 2006, available at: http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf.

^{ix} U.S. Department of Defense, "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents." Aug. 9, 2006, noting that Pennsylvania is among the states with laws most effectively working to prevent the payday loan debt trap.

^x Letter from Nick Bourke, Director, Pew Charitable Trust Safe Small-Dollar Loan Research Project, to Pennsylvania Senators, June 11, 2013. See also, Pew Charitable Trusts, "Payday Lending in America: Policy Solutions," October 2013, http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_Payday_Policy_Solutions_Oct_2013.pdf

^{xi} See *Cash America Net of Nevada, LLC v. Pa. Dept. of Banking*, 607 Pa. 432, 449, 8 A.3d 282, 292 (2010) (holding that payday loans made over the Internet to Pennsylvania residents by Cash America were illegal under Pennsylvania law), available at <http://bit.ly/18YlqPy>; see also *PA Dept. of Banking v NCAS of Delaware, LLC*, 948 A.2d 752, 759 (Pa. 2008) (holding that payday loans made through storefronts by Advance America as a line of credit were illegal under Pennsylvania law).