



OPPOSE SB 975: Micro-Credit Payday Proposal

KEEP 1,000 PAYDAY LOAN STOREFRONTS FROM FLOODING INTO PA

Last session, payday lenders pledged to open up 1,000 payday loan storefronts in Pennsylvania if HB 2191 were enacted. Thankfully, after nearly 100 organizations representing millions of Pennsylvanians worked tirelessly to keep our existing consumer protections in place, HB 2191 was defeated.

As such, Pennsylvania continues to have one of the strongest laws in the country to combat high-cost predatory payday lending. We do not have 1,000 payday loan stores on our street corners and town squares peddling a loan product that was so harmful to our nation's soldiers that the U.S. Department of Defense recommended and President Bush signed a federal rate cap of 36% APR for payday loans made to active duty military families.

Now, the payday lenders are back. This session payday lenders are hoping that **SB 975 will open the floodgates** by calling it a "micro-loan." While promoted by the payday lenders as a consumer protection measure, SB 975 in fact will drive Pennsylvanians deeper into debt. SB 975:

- Legalizes the predatory payday loan product that was the core of HB 2191 last session;
- Creates the debt trap of the payday loan product; it does not solve it;
- Allows "micro-loans" that are nothing but longer-term predatory loans;
- Weakens, not strengthens, existing state law.

1. SB 975 authorizes the predatory payday loan product that was the core of HB 2191 last session.

- SB 975 allows a total of \$38.22 in fees on a \$300, 14-day loan (combining \$3.22 in interest, a \$15 application fee, a \$15 processing fee, and \$5 verification fee).¹ With these fees, this loan could carry a **332% APR**.²
- In addition to the high cost, SB 975, just like HB 2191, explicitly authorizes other predatory terms such as requiring direct access to a borrower's bank account as a condition of the loan,³ thus allowing the payday lender to stand first in line for repayment on payday, and allowing balloon payments.⁴

2. SB 975 creates the debt trap; it does not solve it.

- SB 975 allows at least 8 "consecutive short-term" loans with excessive fees and interest exceeding 300% APR.⁵ This reflects that the structure of the loan makes it difficult to repay without re-borrowing.
- This 8 loan limit is not really a limit. Because of the way SB 975 defines "consecutive loan,"⁶ a borrower could wait 3 business days to borrow again and the loan limit would not apply. This means a pattern of re-payment and quickly re-borrowing could continue without limit throughout the year.
- The U.S. Department of Defense has noted that even if the loans are separated "by a couple of days or a week, the borrower is still caught in a cycle of debt."⁷

3. SB 975's "micro-credit" loans are nothing more than a long-term debt trap.

- In addition to the 332% APR two-week loan described above, the bill authorizes "tiers" of loans referred to as "extended short-term loans"⁸ and "micro-credit loans."⁹ There is no guarantee that customers are ever offered these products.¹⁰
- If offered, these "extended short-term" loans and "micro-loans" have excessive charges and are made based on the borrower's assets, such as a bank account and regular income, rather than the borrower's ability to repay the loan without experiencing further financial problems.
- The "micro loan" does not have its own minimum loan term, so it also could have a 14-day term. As such, a two-week \$300 "micro loan" could carry charges of \$58.22, which is **506% APR**.

4. SB 975 weakens, not strengthens, existing law.

- As evidenced by the experience of other states, the harm brought by the core terms of these products cannot be mitigated by the other elements of SB 975, such as a database, rollover ban, mandatory loan limit, and extended repayment plan. In states with these provisions, borrowers are still indebted for more than 200 days in a year.¹¹
- As noted last year when these same elements were included in HB 2191, the U.S. Department of Defense refers to such provisions as "bells and whistles...[that] do not stop the debt trap."¹²
- Pennsylvania law already has an effective regulatory structure for preventing and redressing illegal payday loans, even when made on-line. This is evidenced by the absence of 1,000 stores flooding our neighborhoods.
- Passage of the payday lenders' proposal will eliminate these existing protections, and increase the problems associated with payday loans.

¹See sections 5113, 5120, 5131(b) for the fees permitted on "short-term" loans, which have terms of 14 to 60 days.

² The interest and fees outlined in SB 975 would result in \$38.22 in fees on a typical \$300 loan, due in two weeks. Under the Truth in Lending Act ("TILA"), an application fee would have to be included as part of the APR calculation unless the application fee was charged to all applicants for credit, including those who are denied the loan. SB 975 does not mandate that the application fee must be charged to all applicants for a loan. A payday lender operating under SB 975 may choose to charge it only to those who are approved for the loan. As such, the application fee would have to be included in the finance charge that makes up the APR, and the APR would be 332% APR. If the application fee was charged to all applicants, even if turned down for the loan, it would be a 202% APR for a \$300 two-week loan. (Reg Z § 1026.4 (c)(1).)

³ Section 5102, definition of "short-term loan," and section 5129, prohibited practices.

⁴ While SB 975 provides some limitations on balloon payments for loans over 30 days or when "repayment periods span over regular occurrences of income," the bill does not prohibit balloon payments on shorter term loans. This means loans of 14 to 30 days could still be due in full in one lump sum payment, particularly for borrowers paid monthly.

⁵ Section 5131.

⁶Section 5102, definition of "consecutive short-term loan" ("a short-term loan no earlier than one business day nor more than two business days after the payment by the consumer of a previous short-term loan").

⁷ U.S. Department of Defense, "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents." Aug. 9, 2006, http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf

⁸Section 5132. A \$300, 61-day "extended short-term" loan would carry \$60.41 in charges (consisting of \$8.41 in interest, \$25 application fee, \$25 processing fee, and \$5 verification fee).

⁹Section 5133. A \$300, 52-week "micro-loan" would carry \$195.54 in charges (consisting of \$45.54 in interest, \$25 application fee, \$25 processing fee, and \$5 verification fee).

¹⁰ The "extended short-term" loan could be evaded by simply having a borrower wait 3 business days between loans. The "micro loan" is merely permitted but not required to be offered, and has no minimum loan term.

¹¹ Leslie Parrish and Uriah King, "Payday Loans, Inc." Center for Responsible Lending (2010).

¹² U.S. Department of Defense, "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents." Aug. 9, 2006, http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf