

Oppose SB 1379: Keep Predatory Loans out of Pennsylvania

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.” This session, they are working to legalize long-term payday loans in Pennsylvania by authorizing the “Financial Services Credit Ladder.” Make no mistake. The legislation does not give struggling Pennsylvanians a leg up the financial ladder. SB 1379 is a descent into debt.

SB 1379 would eliminate Pennsylvania’s existing cap on fees and interest for consumer loans that has effectively kept predatory payday loans out of our state.¹ The legislation hides the cost of the loans that it would legalize. It authorizes 36% interest, but payday lenders also will be able to charge other fees that could push the effective interest rate into the triple-digits.² We will not even know the exact cost of the loans until after the bill has passed when the Department of Banking and Securities sets a fee schedule.

Based on what payday lenders offer in states where they are legal, the costs will be astronomical. As shown to the right, in California, payday lenders offer a loan like what would be authorized by SB 1379: it carries an effective interest rate, with fees, of **218%**.³ For a \$3,000 loan, a borrower pays back nearly \$7,500 over the course of one year to get out of debt. That is a loan product that causes, rather than relieves, financial distress.

The last thing struggling Pennsylvanians need are loans like this, with fees and interest costing over 200%:



INSTALLMENT LOANS: SCHEDULE OF CHARGES

Illustration: \$3,000 loan payable in 26 bi-weekly installments.*

* Assumes loan origination date of 5/29/12 and loan maturity date of 6/2/13 (369 days)

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	AMOUNT FINANCED The amount of credit provided to you or on your behalf.	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled.
218.64%	\$4,654.71	\$3,000.00	\$7,654.71

Illustration: \$3,000 loan payable in 12 monthly installments.**

** Assumes loan origination date of 5/30/12 and maturity date of 5/27/13 (362 days)

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	AMOUNT FINANCED The amount of credit provided to you or on your behalf.	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled.
219.80%	\$4,486.55	\$3,000.00	\$7,486.55

Schedule of Charges (ILP) (CA) (online), Version Date June 3, 2012

Predatory Payday Lending has Disastrous Effects on Individuals & Communities

In states 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,⁴ to delay medical care,⁵ to overdraw their bank accounts,⁶ and even file for bankruptcy.⁷ Payday lending also negatively impacts the community and economy, draining jobs⁸ and increasing usage of government resources, such as food stamp use.⁹ Communities with payday loan storefronts report strains on local food pantries and charitable emergency relief services.¹⁰ Finally, payday loans were found to undermine military readiness because of their harm to soldiers.¹¹

Pennsylvania’s Strong Law Already Protects against Predatory Payday Lending

Proponents of SB 1379 cite proposed national rules on payday lending by the Consumer Financial Protection Bureau (CFPB) as a model for the legislation, as well as a study by the Pew Charitable Trusts as evidence of the need for these loans. But, the CFPB, unlike Pennsylvania, cannot cap the rates on consumer loans, which is the most effective way to protect borrowers from predatory practices. Changing our law by adopting the CFPB proposal in Pennsylvania will weaken it. Pennsylvania **already** has one of the strongest predatory lending laws in the country, as recognized by both the U.S. Department of Defense and the CFPB.¹² In fact, the same Pew Charitable Trusts study cited by supporters of SB 1379 does not recommend law changes in the 15 jurisdictions, including Pennsylvania, without high-cost payday lending.¹³

Our law has been effectively enforced against predatory lenders operating in storefronts and online.¹⁴ We need to keep our law strong.

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.

Long-term Payday Loans: Another Unsafe Debt-Trap

The long-term payday loans that would be authorized by SB 1379 are just another debt-trap product. They are structured to have multiple payments with a longer repayment period than the traditional, single balloon-payment payday loan, and usually have higher loan amounts. Despite their installment terms, they carry the same predatory characteristics as balloon-payment payday loans, with the potential to be even more dangerous to borrowers.

Long-term payday loans involve extremely high costs, generally over 200% with both fees and interest; lender access to the borrower's bank account¹⁵; repayments tied to payday; repeat refinancing; and high defaults. The loans remain profitable to payday lenders because they can collect more in fees than the principal loaned long before the end of the loan term. In other words, the lender profits and succeeds while the borrower fails.

The U.S. Department of Defense found that these long-term payday loans were just as harmful to the finances of our nation's soldiers as two-week loans. It recently revised its regulations to protect active-duty soldiers by capping the total cost of these long-term payday loans, including both fees and interest, at 36% annually, a similar protection to what we have in Pennsylvania for all residents.

Pennsylvanians Oppose Rolling Back our Existing Protections against Predatory Lending

For the past four years, **groups representing millions of Pennsylvanians have been speaking out to oppose predatory payday lending and to keep Pennsylvania's strong laws in place**, including the Pennsylvania War Veterans Council, AARP of Pennsylvania, Housing Alliance of Pennsylvania, PA AFL-CIO, Pennsylvania Council of Churches, Lutheran Advocacy Ministry in PA, Community Action Association of Pennsylvania, Bucks County Women's Advocacy Coalition, Community Legal Services, Clarifi, and many more. **Please stand with them and oppose SB 1379, which would open the flood gates to predatory lending in Pennsylvania.**

For more information: Contact Kerry Smith, Senior Staff Attorney, Community Legal Services, Inc. (215-981-3724); Keith Beebe, LTC, U.S. Army-Ret., Chairman, Legislative Committee, Pennsylvania War Veterans Council (717-574-5000); Bob Gray, LTC, U.S. Army-Ret (717-623-8715) and Bill Harris, Col., U.S. Col. Army-Ret., (610-217-3511), PA Council of Chapters, Military Officers Assoc. of America.

¹ Pennsylvania's Loan Interest Protection Law caps interest at 6% annually for consumer loans under \$50,000, unless the lender is otherwise authorized to charge a higher rate. 41 P.S. § 201. Lenders who choose to obtain a license from the Pennsylvania Department of Banking can charge higher rates under the Consumer Company Discount Act ("CDCA"). 7 P.S. § 6201 et seq. The CDCA authorizes a mix of interest and fees for consumer loans under \$25,000. Charges will vary depending on the loan term, loan type (open or closed end), and whether the lender chooses to use discount interest and fees or interest on the amount outstanding, but generally for loans of one-year and longer, like that contemplated by SB 1379, the total cost would be under 30% annually.

² SB 1379 requires the Pennsylvania Department of Banking and Securities to set a fee schedule to cover all of the payday lender's costs. (Section 5452(c)(2)). On top of those fees, the payday lender can also charge a borrower 36% interest (Section 6451) and a \$5 compliance fee (Section 6439).

³ Check 'N Go, Schedule of Charges, California, available at: <http://bit.ly/CheckNGoRates>.

⁴ 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>

⁵ *Id.*

⁶ 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.

⁷ Paige Marta Skiba & Jeremy Tobacman, *Do Payday Loans Cause Bankruptcy?* (Oct. 10, 2008), finding that payday borrowers are significantly more likely to file for bankruptcy than similarly-situated people who do not use payday loans, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1266215.

⁸ 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>.

⁹ Brian T. Melzer, *Spillovers from Costly Credit*, 2013, available at <http://d.repec.org/n?u=RePEc:cen:wpaper:13-11&r=ban>

¹⁰ 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."

¹¹ 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.

¹² *Id.*, noting that Pennsylvania is among the states with laws most effectively working to prevent the payday loan debt trap. The CFPB, in its proposed rule, states "that the fee and interest rate caps in...States [like Pennsylvania] would provide greater consumer protections than...the requirements of the proposed rule." 81 Fed. Reg. 47903

¹³ 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

¹⁴ 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/18YlqPv>; 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).

¹⁵ Although federal law prohibits lenders from requiring borrowers to preauthorize electronic repayments from their bank accounts, lenders circumvent this rule by failing to clearly explain other repayment options and through other tactics. SB 1379 follows federal law. SB 1379 will still allow payday lenders access to the bank account; it does not prohibit access to the bank account.