Testimony in Support of Senate Bill 191
Senate Committee on Commerce
April 9, 2019

The **Economic Progress Institute** supports Senator Metts' bill **SB191**, which eliminates the deferred deposit transactions that drive the payday loan industry in Rhode Island.

Payday loans, such as those currently permitted in Rhode Island, are high-cost loans structured to perpetuate an ongoing cycle of debt. The debt trap is integral to the success of the payday lending model, with "75% of all payday loan fees… generated from borrowers with more than 10 loans a year."[1] The federal **Consumer Financial Protection Bureau** (CFPB) has done extensive research on payday lending practices, finding that the average payday loan consumer gets caught in a cycle of debt, taking out 10 loans a year due to an inability to pay off the balance with the constantly growing fees.[2]

Consumers relying on payday lenders face considerable harm associated with payday loans, including increased difficulty paying bills, delayed medical spending, involuntary bank account closure, higher likelihood of filing for bankruptcy, and decreased job performance.

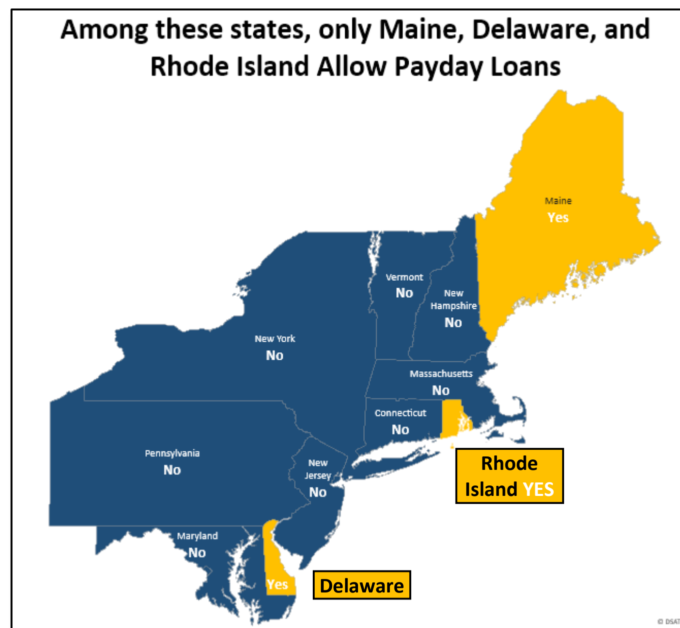

Figure 1: Source: Center for Responsible Lending, 2017

Among the states in the Northeast, only Maine, Delaware, and Rhode Island still allow payday lending (Figure 1). Nationally, 16 states and the District of Columbia enforce laws with rate caps of 36 percent or less, protecting close to 100 million consumers from the predatory lending practices of payday lenders. In recent years, the CFPB has been moving to enact regulations extending protections to all states, but as CFPB's commitment to protecting consumers has shifted under new leadership, states wanting to protect their residents from payday lending practices need to take legislative action.

The **Center for Responsible Lending** estimates that consumers in New England states that do not permit payday lending save a total of $252.7 million each year. Conversely, in Rhode Island, consumers face fees of **$7.6 million a year** due to payday lending, accounting for 93 percent of all payday lending fees in New England.

[1] Diane Standaert and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, 2017. (Center for Responsible Lending).
[2] Consumer Financial Protection Bureau, *Payday loans and deposit advance products: a white paper of initial data findings*, 2013. Cited in Delvin Davis and Susan Lupton, *States without Payday and Car-title Lending Save Over $5 Billion in Fees Annually*, 2017. (Center for Responsible Lending).

Payday lenders also increase wealth disparities by disproportionately targeting people of color, as Figure 2 demonstrates.

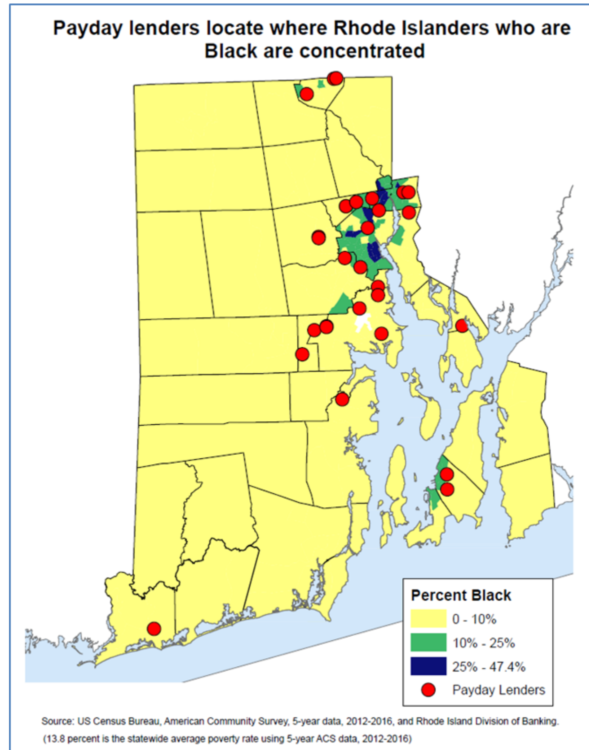

Figure 2: Locations of Payday Lenders in Rhode Island

Industry advocates claim that payday lending meets a need that is not adequately addressed currently. However, there exist better options. In Rhode Island, the **Capital Good Fund**, with its mission "to create pathways out of poverty through equitable financial services," offers emergency loans valued between $300 and $500 with an APR of 10 percent, as well as monthly repayment over one year and no closing fee. This stands in stark contrast with payday loans and their **APRs of up to 260 percent**. Even putting money on a credit card, with an APR of 23.74 percent, compares favorably with payday loans. The national organization **Bank On**, with 74 coalition members in 30 states and the District of Columbia, works to increase the range and number of safe and affordable banking options for low-income borrowers. Bank On's goal "is to ensure that everyone has access to a safe and affordable bank or credit union account."[3]

In 2014, *The Atlantic* published "When You're Poor, Money is Expensive," drawing attention to the plight of low-income consumers seeking loans to address pressing financial needs. The essay begins with the story of Alex and Melissa, from Scituate, Rhode Island. A sudden medical emergency pushes them to succumb to the payday lending trap, illustrated by Figure 3. After seeking an initial loan of just $450, they soon found themselves "trapped in a cycle of dependency…[facing] more than $1,700 in fees."[4]

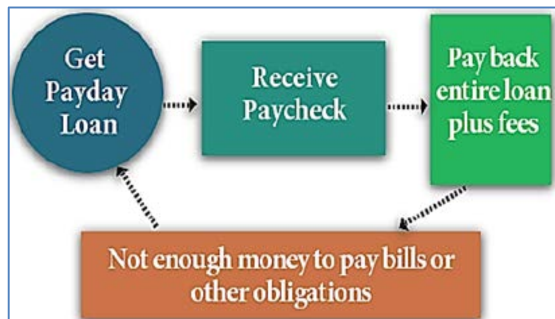

Figure 3: The Payday Loan Cycle of Debt

After the U.S. Defense Department determined that predatory lending "undermines the military readiness," Congress acted in 2006 to protect active duty military personnel by capping loans to such individuals at 36 percent. If this standard is appropriate for the military, why not for all?

Do payday loans meet a critical need for credit among those with lower or moderate incomes and no savings? Or, as we learn from the Center for Responsible Lending, do we find that "payday lenders are actually providing access to debt, not credit"?[5] Payday loans are harmful to consumers, and hurt the economy. We urge you to pass **SB191**.

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[3] http://joinbankon.org/

[4] Derek Thompson, "When You're Poor, Money is Expensive," *The Atlantic*, July 2014. https://www.theatlantic.com/business/archive/2014/07/its-expensive-to-be-poor-money/374361/.

[5] Center for Responsible Lending, "Fact v. Fiction: The Truth about Payday Lending Industry Claims," January 1, 2001, https://www.responsiblelending.org/research-publication/fact-v-fiction-truth-about-payday-lending-industry-claims.