The Economic Progress Institute

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Testimony in Support of Senate Bill 2173
Senate Committee on Commerce
April 12, 2018

The Economic Progress Institute supports Senator Mett's bill **S2173**, which eliminates the deferred deposit transactions that drive the payday loan industry in Rhode Island.

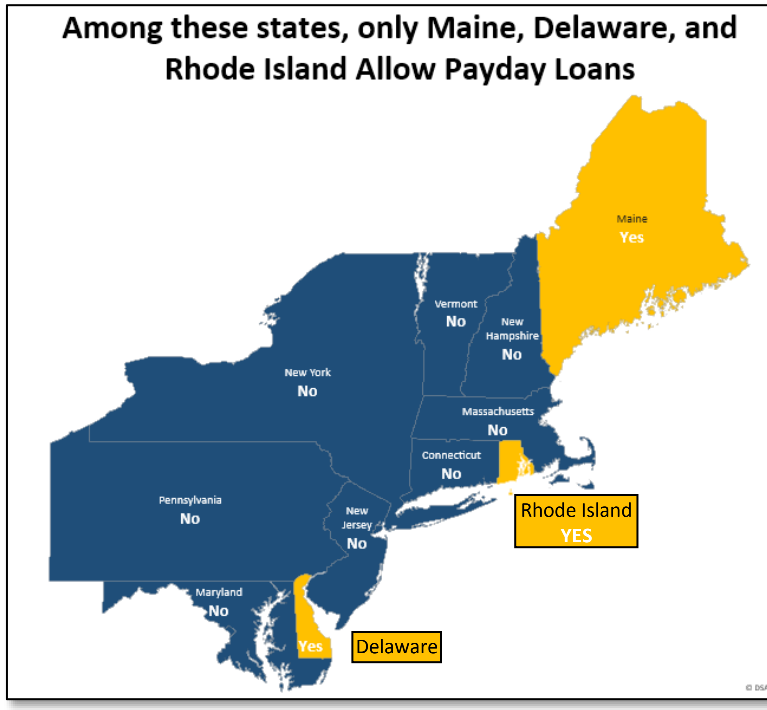

Figure 1: Source: Center for Responsible Lending, 2017

Payday loans, such as those currently permitted in Rhode Island, are high-cost loans that are 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 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.

Among the states in the Northeast, only Maine, Delaware, and Rhode Island still allow payday lending (Figure 1). Nationally, 15 states and the District of Columbia enforce laws with rate caps of 36 percent or less to protect consumers from the predatory lending practices of payday lenders. In recent years, the federal Consumer Financial Protection Bureau (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.

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[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).

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 (Table 1).

State	Estimated Payday Fee Savings
Massachusetts	**$138,378,948**
Connecticut	**$74,652,221**
New Hampshire	**$27,390,363**
Vermont	**$12,255,264**
Maine	**$0**
Rhode Island	**$0**
Total New England Savings	**$252,676,796**

Table 1: Consumer Savings from Payday Loan Protections

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 (Table 2).

State	Annual Payday Lending Fees
Rhode Island	**$7,551,275**
Maine	**$573,300**
Massachusetts	**$0**
Connecticut	**$0**
New Hampshire	**$0**
Vermont	**$0**
Total New England Payday Lending Fees	**$8,124,575**

Table 2: Payday Lending Fees drained from consumers

Industry advocates claim that payday lending meets a need that is not adequately addressed currently. In Rhode Island, the **Capital Good Fund** offers emergency loans valued between $300 and $500 with an interest rate of 35 percent, in stark contrast with payday loans with APRs of 260 percent. We encourage the General Assembly to work with the State Treasurer to explore alternative loan instruments, and to encourage all Rhode Islanders to "get banked". A national organization "**Bank On**", has coalitions in 57 states, working to increase the range and number of safe and affordable banking options for low-income borrowers. Rhode Island should consider forming such a coalition. Bank On's goal "is to ensure that everyone has access to a safe and affordable bank or credit union account."[3]

The Atlantic published a story in 2014, "When You're Poor, Money is Expensive", which drew attention to the plight facing low income consumers seeking loans to address pressing financial needs. The story begins with the story of Alex and Melissa, from Scituate, Rhode Island. A sudden medical emergency caused them to succumb to the payday lending trap. 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]

Payday loans are harmful to consumers, and hurt the economy. We urge you to pass S 2173.

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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/.