



Testimony of Matthew Netto, AARP Rhode Island
In support of House Bill 5160 and House Bill 5331
House Committee on Corporations
March 14, 2023

Dear Chairman Solomon and the Members of the House Corporations Committee,

Thank you for the opportunity to speak with you today. On behalf of AARP Rhode Island, and our 128,000+ members, I would like to share with you AARP's support of **House Bill 5160**, which would repeal the special exemption afforded to deferred deposit providers, also known as "payday lenders," and **House Bill 5331**, which would cap the average annual percentage rate (APR), prohibit excessive fees and high interest payments, and require low monthly payments.

Payday lenders are responsible for trapping low-income Rhode Islanders into a cycle of debt. Currently, there are no consumer safeguards that protect Rhode Islanders against the predatory payday lending practices that persist in our state. The average cost to borrow \$500 for four months in Rhode Island is \$360 and has an APR of 261%.¹

Payday loans are debit traps by design. Their business model depends on keeping borrowers stuck in long-term, high-cost debt. Rhode Island payday lenders offer small loans that must be paid off by the borrower's next payday. On average, these lump sum payments cost about one-third of a typical borrower's paycheck.² This is unaffordable and directly leads to cyclical borrowing. The average payday loan borrower takes out 10 loans each year. This is because fees and high interest rates often force the borrowers to take out more loans just to be able to pay off their first one.

Four states, including Colorado, Hawaii, Ohio, and Virginia, have passed comprehensive legislation that preserves safe small credit, but saves consumers millions of dollars in fees. In 2018 alone, Rhode Island payday borrowers paid a total of approximately \$7.5 million in fees to payday lenders. Rhode Island is the only state in New England that still allows payday lending to continue

¹ The Pew Charitable Trusts. (2022). *How Well Does Your State Protect Payday Loan Borrowers?* <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2022/how-well-does-your-state-protect-payday-loan-borrowers>

² The Pew Charitable Trusts. (2022). *Payday Loans Cost 4 Times More in States with Few Consumer Protections.* <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/04/payday-loans-cost-4-times-more-in-states-with-few-consumer-protections>

without any consumer safeguards. Connecticut, Massachusetts, New Hampshire, and Vermont have prohibited payday lending entirely.

These loans are not only harmful to the borrowers, but to the state's economy. The Insight Center for Community Economic Development found that payday lending had a negative impact of \$774 million on the national economy in 2011. This resulted in the estimated loss of \$169 million for U.S. households who experienced bankruptcies linked to payday lending usage, bringing the total loss to nearly \$1 billion.³ Payday lending costs Rhode Island an estimated net loss of over \$1.6 million.

This is why it is time to put an end to predatory payday lending that negatively impacts Rhode Islanders and our state as a whole. We ask that you recommend passage on H 5160 or H 5331 so that we can address this important issue this session.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in cursive script that reads "Matt Netto".

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³ Lohrentz, T. (2013) *The Net Economic Impact of Payday Lending In the U.S.* Insight Center for Community Economic Development. <http://ww1.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf>