House Committee on Corporations
Public Hearing Regarding House Bill 7211
March 26, 2024

Dear Members of the Committee:

I am writing in support of House Bill 7211 related to financial institutions – licensed activities – lenders and loan brokers – check cashing. Thank you for the opportunity to submit testimony for today's hearing.

My name is Monica Burks, and I am Policy Counsel with the Center for Responsible Lending (CRL), a non-profit, non-partisan policy and research organization dedicated to building family wealth through curbing abusive financial practices. CRL is affiliated with Self-Help Credit Union, a national community development financial institution that provides access to safe, affordable financial services to low-income communities and borrowers.

Although payday and other predatory lenders claim to provide consumers quick and easy cash for occasional needs, the evidence of harm to consumers from these loans is well established and vast. In reality, they cause a long-term cycle of debt. Payday lenders in Rhode Island charge high annual percentage rates (APRs) of 261%, making no assessment of whether the loan is affordable in light of a borrower's income and expenses, and seizing money directly from borrowers' bank accounts.

Trapping people in a cycle of debt, payday lenders strip away over $7.5 million each year from Rhode Islanders, predominantly from low-income communities and communities of color. Nationally, 75% of fees are generated by people stuck in more than 10 loans a year.[i] It is this debt trap which is the core of the business model.

It's not just the short-term consequences of the debt trap that are concerning. Long-term consequences are also quite severe. Payday loans increase the likelihood that borrowers will experience bank penalty fees, bankruptcy, and bank account closures, driving people further out of the mainstream financial marketplace. When payday borrowers default, often after renewing the loan multiple times and paying as much or more in interest as the original loan, they are pushed into deeper financial distress, often facing aggressive debt collection practices, lawsuits and wage garnishment, as well as increased difficulty meeting other expenses and obligations. This also makes it harder for borrowers to obtain more affordable loans, thus reducing access to better credit and increasing reliance on more abusive products.

Policy trends at the state and federal level for decades have been toward reining in the harms of the unsafe loans, ranging from Congress' 2006 passage of the 36% rate cap in the Military Lending Act to voter-enacted 36% rate caps in Connecticut, Massachusetts, Vermont, and New Hampshire. House Bill 7211 would put Rhode Island in line with the Military Lending Act and 22 states and the District of Colombia. Collectively, these protections in other states reach over 115 million people and save residents of these states billions a year in fees that would otherwise be drained from low-income consumers.[ii]

To understand what happens upon the enactment of a rate cap like the one that protects active-duty military, and those in place in over a third of the states, we can look to the experiences of the military and these 23 other states to confirm that, indeed, the sky does not fall. Many states without payday loans have never had them and have repeatedly rejected proposals to legalize them in their states. For other states that once had payday loans but now do not, former payday loan borrowers report being glad to see gone this product that looked easy to get into but was in reality hard to get out of, and they describe a range of other options to deal with financial shortfalls. More importantly, we hear from many former borrowers who have now been able to build assets such as purchasing a car or a home, which was not possible while buried under payday loan debt.

Communities also feel the reprieve when predatory payday loans are no longer entrapping people in a cycle of debt. Payday lenders' high-cost loans strip millions of dollars per year from the communities in which they are located, diverting resources not only from people's pockets, but from other businesses and charities. After rate cap measures, charitable organizations that used to spend significant resources digging people out of the debt trap are now able to better meet people's needs directly, rather than having to pay the payday lender first. Military relief societies have reported the same, saving hundreds of thousands of dollars of aid after the military rate cap was enacted.

We strongly urge you to adopt House Bill 7211. Consumers in New England states with rate caps save an estimated $252.7 million each year, have numerous ways to deal with the financial shortfall, suffer fewer negative consequences such as bankruptcy and bank account closures, and remain supportive of the state's cap. The most effective way for Rhode Island to address the harms of payday lenders' excessive interest rates is to follow the lead of the military and 23 other states to cap the rate on these predatory products, as House Bill 7211 would do.

Once again, thank you for the opportunity to provide these written comments and for your attention to this issue. Should you have additional questions, please contact me at 919-313-8527 or monica.burks@responsiblelending.org

Sincerely,

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Center for Responsible Lending

[www.responsiblelending.org](http://www.responsiblelending.org)

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[i] Consumer Financial Protection Bureau. "Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings" (2013). 201304_cfpb_payday-dap-whitepaper.pdf (consumerfinance.gov)

[ii] D. Davis, C. Rios, and D. Standaert, Center for Responsible Lending, Payday and Car-Title Lenders Drain Nearly $8 Billion in Fees Every Year, updated April 2019, https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-statebystate-feedrain-apr2019.pdf.