

Testimony in Support of H-7211 Relating to Payday Lending

House Committee on Corporations

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The **Economic Progress Institute** supports Representative Alzate's bill **H-7211**, which would eliminate the harms of deferred deposit transactions that drive the predatory payday loan industry in Rhode Island. H-7211 would repeal the statutory carve-out which enables payday lenders to play by special rules instead of by the rules applying to other small loan lenders.

Payday loans, such as those permitted in Rhode Island, are high-cost loans structured to perpetuate an ongoing cycle of debt. This 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** (see *Figure 1*), taking out 10 loans per year due to an inability to pay off the balance with the constantly growing fees.² In brief, as the **Center for Responsible Lending (CRL)** explains, "payday lenders are actually providing access to debt, not credit."³

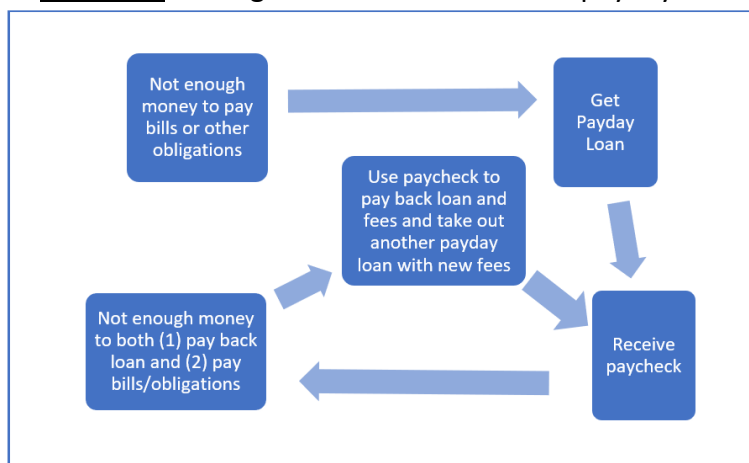


Figure 1: The Payday Loan Cycle of Debt

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. **Payday lenders also increase wealth disparities by disproportionately targeting people of color.**

In 2018, the Rhode Island Advisory Committee to the U.S. Commission on Civil Rights received testimony and adopted unanimously a report which included the following findings:

- **Payday Loans are Targeted at People of Color**
- **Payday Loans Create a Cycle of Debts**
- **Payday Loans Adversely Affect the Rhode Island Economy**

The Committee recommended that "The General Assembly should pass a bill eliminating the statutory carve-out for payday lenders."

Annual payday loans in 2021 exceeded \$33 million. After the closing of some outlets in 2022, there remain ten outlets in the state, nine of which are Advance America locations. **In 2018, payday**

lenders drained \$7.5 million in fees from Rhode Islanders, and in 2022 they drained \$3 million. According to data from RI's Department of Business Regulation, payday lenders issue tens of thousands of loans each year, totaling close to a billion dollars in loans since 2008 (see *Figure 2*).

Industry advocates claim that payday lending meets a need that is not otherwise adequately addressed. However, **there exist better options**. Navigant Credit Union, Bank of America, and the Capital Good Fund (with its mission “to create pathways out of poverty through equitable financial services”) all offer small loans, with low fees and interest rates ranging from 5 to 30 percent.⁴ These options stand in stark contrast to payday loans and their **APRs of up to 260 percent** in Rhode Island. Even putting money on a credit card, with an APR of 23.74 percent, compares favorably with payday loans.⁵

	Number of	Total Value of	Average Loan
<u>Year</u>	<u>Loans</u>	<u>Loans</u>	<u>Amount</u>
2008	95,931	\$35,821,301	\$373.41
2009	124,587	\$44,242,734	\$355.12
2010	143,201	\$53,136,625	\$371.06
2011	181,266	\$69,926,978	\$385.77
2012	213,824	\$82,067,356	\$383.81
2013	227,648	\$87,831,115	\$385.82
2014	246,904	\$95,679,240	\$387.52
2015	234,969	\$91,908,433	\$391.15
2016	234,997	\$92,045,498	\$391.69
2017	232,241	\$91,769,056	\$395.15
2018	177,935	\$71,768,515	\$403.34
2019	122,042	\$49,839,520	\$408.38
2020	104,369	\$41,883,250	\$401.30
2021	82,830	\$33,449,644	\$403.83

Figure 2: Payday Loan Amounts in RI

Without strong federal rules, states wanting to protect their residents from payday lending practices need to take legislative action. Nationally, 18 states and the District of Columbia enforce laws with rate caps of 36 percent or lower, protecting

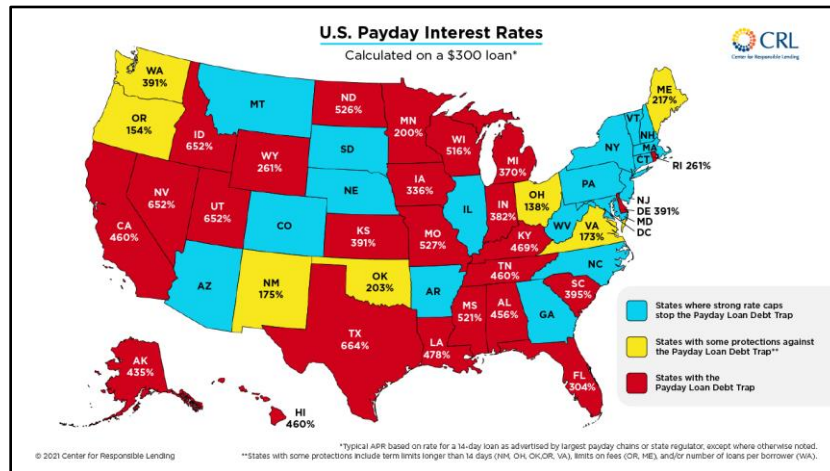


Figure 3: Source: Center for Responsible Lending, 2021

close to 100 million consumers from the predatory lending practices of payday lenders. Among the states in the Northeast, only Delaware and Rhode Island still allow full payday lending, with Maine providing some limits on fees (see *Figure 3*).

The **Center for Responsible Lending** estimated in 2019 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.

The very profit model of the payday lending industry is based upon capturing people in a cycle of debt and is illustrated by one graphic obtained by the Consumer Finance Protection Bureau through an enforcement action. This image, from an ACE Cash Express New Hire Training Document, does not show any exit path from the payday lending cycle of debt (see *Figure 4*). Clearly, new hires are being instructed in how the process is intended to work.

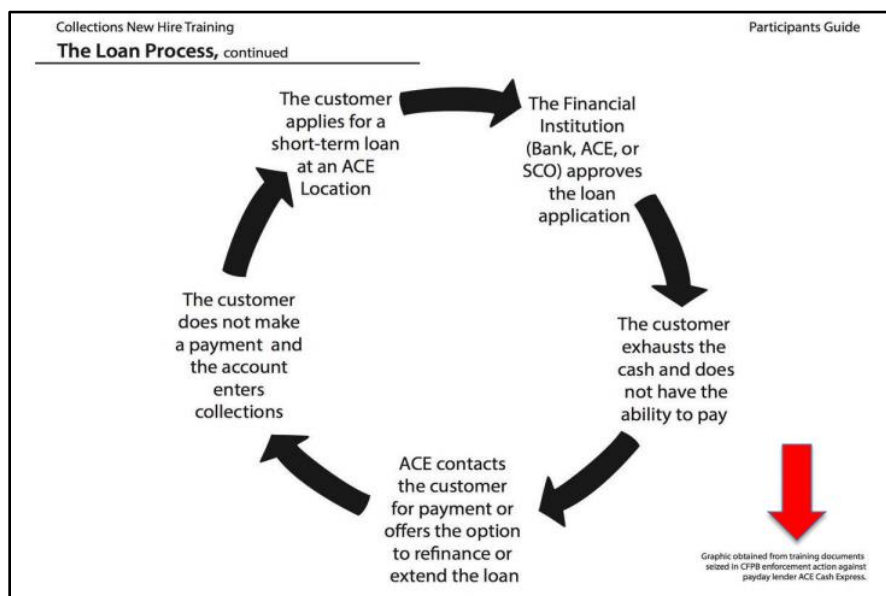


Figure 4: ACE Cash Express New Hire Training Document

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.**

Rhode Island should follow the lead of the Defense Department and Congress and cap loans at 36 percent at most. Payday loans are harmful to consumers and hurt the economy. H-7211 would eliminate payday lending as a separate category, **requiring all lenders to follow the same set of rules.** This legislation would provide Rhode Islanders with valuable protections from the predatory loan industry, and we urge you to send this bill to the House floor.

¹ Diane Standaert, Delvin Davis, and Charla Rios, *Payday and Car Title Lenders Drain \$8 Billion in Fees Every Year*, 2019. (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). For a Rhode Island example of the cycle of debt, see 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/>: The article 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. 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.”

³ 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>.

⁴ Lisa Rowan, “New Small-Dollar Loans From Bank Of America Offer Alternative To Expensive Payday Loans,” *Forbes*, October 14, 2020, <https://www.forbes.com/sites/advisor/2020/10/14/new-small-dollar-loans-from-bank-of-america-offer-alternative-to-expensive-payday-loans/?sh=2bbba8d92306>.

⁵ 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.” See <https://joinbankon.org/>.