State of Rhode Island
COMMISSION FOR HUMAN RIGHTS
180 Westminster Street, Providence, RI 02903 – Tel. 401-222-2661

TESTIMONY

BILL NO.:	2025 H 5042
BILL TITLE:	An Act Relating to Financial Institutions – Licensed Activities
PRIMARY SPONSOR:	Representative Karen Alzate
COMMITTEE:	House Committee on Corporations
DATE:	3/13/25

The Rhode Island Commission for Human Rights ("Commission") supports this bill.

The Commission is the state's primary antidiscrimination law enforcement agency charged with investigating allegations of discrimination in employment, housing, public accommodations, credit and delivery of services.

This bill seeks to repeal those sections of the state's general laws allowing for deferred deposit providers, also known as "payday lenders". In so doing, the bill would ensure that payday lenders operating in the state are subject to the same lending provisions as other "small loan lenders" and, as such, would be bound by the provisions of R.I.G.L. Section 19-14.2-8, which caps the interest rate such lenders may charge at 3% per month, or 36% annually.

According to the Federal Trade Commission, "Many consumers who need cash quickly turn to payday loans – short-term, high interest loans that are generally due on the consumer's next payday after the loan is taken out. The annual percentage rate of these loans is usually very high – i.e., 390% or more." (https://www.ftc.gov/news-events/media-resources/consumer-finance/payday-lending). Currently, payday lenders operating in Rhode Island are free to – and do – charge triple-digit interest rates (when interest is calculated over the life of the loan). (See R.I.G.L. Section 19-14.4-4(4)). Payday lenders are almost exclusively located in urban areas with high concentrations of poor and working-class individuals and families, many of whom are elderly, disabled and/or people of color. These lenders market their products as "short-term transactions" and target individuals and families often in need of money to make ends meet or to pay unexpected or emergency expenses until their next paycheck.

Because of the usurious interest rate these lenders are currently allowed to charge, the recipients of such loans find themselves in a cycle of debt as they are unable to pay the loan when it comes due, and that cycle of debt can deny dollars for household budget items like childcare, groceries, utilities and medical expenses. According to the Center for Responsible Lending (CRL), "The consequences for Americans trapped in their vicious cycle of debt are severe. Taking out a payday loan makes a person more likely to delay medical care, incur overdraft charges, lose their bank account, or file for bankruptcy.[1]

In a November 2020 report entitled *Payday and Vehicle Title Lending Disproportionately Harm Communities of Color, Exploiting and Perpetuating the Racial Wealth Gap*, the CRL observed:

> A legacy of racial discrimination in housing, lending, banking, policing, employment, and otherwise, has dramatically inequitable outcomes that persist today. Communities of color, often largely segregated due to the history of redlining and other racially exclusionary housing policy, experience higher rates of poverty, lower wages, and higher cost burdens to pay for basic living expenses. Payday loans cause particular harm to these communities. … Payday … lenders claim their products provide access to credit to communities that have few other options. Subprime mortgage lenders did the same leading up to the 2008 foreclosure crisis, before their practices led to the erasure of three decades of economic progress for households of color. In reality, payday … lending strips borrowers of income and assets, leaving them worse off … Permitting their unfair and abusive practices to continue unfettered entrenches a two-tier financial system. … By sustaining and exacerbating an existing precarious financial situation, the debt trap reinforces and magnifies existing income and wealth gaps – legacies of continuing discrimination – and perpetuates discrimination today.[2]

Referring to usurious payday loans, renowned civil rights leader and former Georgia State Senator Julian Bond commented, "This legalized form of loan-sharking exploits hard-working families who find themselves in a temporary cash shortage with few convenient or accessible options." Far too many Rhode Islanders in today's economic times live from paycheck to paycheck, whether from employment or retirement/disability benefits, with little or no savings. To allow the predatory practices currently engaged in by payday lenders to continue facilitates the exploitation of Rhode Islanders who can least afford economic hardship and, in the Commission's view, is unconscionable.

Passage of this bill would allow Rhode Island to join the nearly 20 U.S. states (including Massachusetts, Connecticut, Vermont, New York and New Hampshire) and the District of Columbia, which have enacted legislation capping the interest rate payday lenders can charge at or around 36% in order to address the payday loan debt trap.

---

[1] https://www.responsiblelending.org/media/payday-lenders-trap-americans-debt-every-christmas-let-be-their-last

[2] crl-payday-cartitle-comm-of-color-nov2020.pdf (responsiblelending.org)

Because this bill seeks to ensure that the state's most vulnerable residents are protected from predatory lending practices that ensnare them in a cycle of debt which, in extreme cases, can lead to bankruptcy and/or homelessness, the Commission urges passage.

Commission contact: Michael D. Évora, Executive Director, michael.evora@richr.ri.gov, 222.7561