

Testimony before House Financial Institutions on HB 1319

Greetings Mr. Chairman and members of the committee. My name is Erin Macey, and I'm a policy analyst at Indiana Institute for Working Families.

Given the limited time, I'm going to focus my remarks on the policy landscape that led us to this point and the decision you have before you today.

For the bulk of the country's history, states have enforced usury limits. However, in the late 1990's, payday lenders pushed states to make exemptions to their state's usury laws for very short-term paycheck advances, or payday loans. The exemption was justified under three assumptions: these would be very short-term loans, they would be made to borrowers at high risk, and they would be used in emergency circumstances. Payday loan stores quickly popped up across the state, and data now overwhelmingly supports the notion that all three assumptions are false: borrowers are in payday loan debt on average for 4-5 months per year, the lenders collect on 95% of the loans because they have direct access to the bank account and know the borrower's payday, and most borrowers use the loans to pay recurring expenses or other debts, not one-off emergencies.

Because of this and the fallout it has caused for borrowers and their communities, other states, the military, and the Consumer Financial Protection Bureau have all moved to reform the existing payday loan product. The Consumer Bureau's payday rule would have required lenders to *either* assess a borrower's ability to repay the loan and still meet his or her other obligations *or* to limit the number of loans per borrower per year to 6. However, even this rule has been suspended by the Director, who requested a 0 budget for the CFPB going forward.

The lack of a federal rule leaves the task of reform to the states. The bill before you is not reform. North Carolina, Arkansas, Arizona, Montana, and South Dakota reformed payday lending when they imposed rate caps of 36% or less on payday loans. Colorado, Washington, and the seven other states that developed hybrid payday products have, to some extent, curbed the harms of repeat reborrowing & default. As the letter I've given you from Pew Research Center indicates, what we're doing here is not what Colorado did. Colorado got rid of payday loans, set a minimum term of six months, makes loans of \$500 or less, and all fees are refundable upon early payment.

We've been told this will be a credit building product. This is not a credit building product. Research tells us that about half of payday borrowers eventually default. I spoke last week to a borrower from Greenwood who no longer answers her phone because she is still afraid of debt collector calls. She's working to repair the damage caused by a high-cost cycle of debt. And high-cost installment products in other states with APRs around 70 or 90% have similarly high default rates.

This is a dramatic expansion of payday lending – one that would allow a borrower making \$17k/year to take a \$1500 loan where currently they would qualify for \$250. The typical payday borrower pays \$440 in fees per year; under this bill a borrower making \$17k a year could take a year-long loan and pay nearly \$1800 in fees. This is a model that 88% of voters clearly want to see reformed not expanded. It is a request for extreme loosening of Indiana's current installment lending laws - laws that were just adjusted after vigorous debate here in 2013 to increase rates and fees, allowing installment loans that can currently reach 71% APR. 72% APR is criminal loan sharking. What you are here today to decide is whether or not to legalize what is currently considered to be felony criminal loansharking. And the individuals who will follow me have a number of compelling reasons why you should not entertain this request.