

ACORN
Americans for Fairness in Lending
Consumer Action
Consumer Federation of America
Consumers Union
National Association of Consumer Advocates
National Consumer Law Center
National Fair Housing Alliance
National Community Reinvestment Coalition
U.S. PIRG

23 March 2009

Please Don't Co-Sponsor or Support HR 1214,
"Payday Lender Protection Act"

Dear Representative,

We the undersigned consumer, community and civil rights groups urge you not to co-sponsor or support H.R. 1214, the "Payday Loan Reform Act of 2009." Although this bill shares the same title as H.R. 2871 in the last Congress, it will have the exact opposite impact on consumers. Last session's bill placed severe limits on unfair payday loans; H.R. 1214, by contrast, essentially condones the predatory payday loan business model and will stall or stop the significant progress that has been made at the state level to curb usurious lending.

H.R. 1214 provides Congressional approval to payday loans at rates of 390 percent APR for two weeks or 780 percent APR for one week. The loan cap of fifteen cents per dollar loaned in HR 1214 authorizes lenders to charge \$60 for a typical \$400 loan, which is due in one pay cycle. This means that, for the typical borrower with nine loans per year, H.R. 1214 authorizes lenders to collect \$540 in finance charges for a \$400 loan taken out over an 18-week period.

While the bill purports to provide other consumer protections, these provisions will not stop this product from being a debt trap for borrowers because they are easily evaded. They also fail to address the fundamental problem with the payday lending model--requiring the borrower to repay the entire principle and interest from a single paycheck in just two weeks--that ensures the typical borrower cannot pay back a loan without needing to take another. The provisions of HR 1214 haven't worked in states where they have been tried; indeed, the industry has supported most of them at the state level.

Legalizing payday lending at triple digit interest rates runs counter to President Obama's promise to cap payday and other loans at 36 percent annual rates and to existing protections provided by Congress to Service members and their families. In 2006, Congress outlawed loans that are based on holding checks or debit authorization for future payment at the request of the Department of Defense. Our organizations have also endorsed legislation introduced by Senator Durbin (S. 500) and Representative Speier to cap rates for all forms of consumer credit at 36 percent, including interest and fees. Last fall, voters in both Ohio and Arizona soundly rejected payday loan industry ballot initiatives that would have continued payday lending at 390 percent APR or higher, despite the fact that they were bombarded with industry messages about "reforms" similar to the provisions of HR 1214.

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Federal legislation to authorize payday lending, instead of prohibiting the predatory small loan terms, is particularly counterproductive when the economy is in recession and families can least afford triple-digit rates. A growing body of research demonstrates that using payday lending is harmful to borrowers. Using payday loans doubles the risk a borrower will end up in bankruptcy within two years, doubles the risk of being seriously delinquent on credit cards, and makes it less likely that consumers can pay other bills and get healthcare. Payday loan use also increases the likelihood that consumers’ bank accounts will be closed involuntarily. Given the lower bank account penetration rate for minority consumers, this product undermines progress being made to bring unbanked consumers into mainstream financial services.

Although the bill does not preempt stronger state rate caps, it would send a message approving usurious lending at triple-digit rates. The practical impact of Congressional passage of this bill will be to stop the progress of reform in the states. No state has legalized payday lending since 2005. Since then Ohio, Oregon, New Hampshire and the District of Columbia have either capped rates at low levels or repealed payday lending outright. The Arkansas Supreme Court recently overturned that state’s payday loan law for violating the state’s constitutional usury cap.

We recognize your long-standing interest in protecting consumers and urge you not to proceed with H.R. 1214. Please let us know if you would like more information. Your staff can contact Travis Plunkett at the Consumer Federation of America (202-387-6121) or Ed Mierzwinski at U.S. PIRG (202-546-9707 x314) with questions.

Sincerely,

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