

Closing the Debt Trap Without the 36% Rate Limit

This is funnel week. Bills have to come out of committee by March 13th or they are dead for the year. At this point the votes are not there to pass a 36% cap on payday loan rates. It is important that a bill gets out of committee this week. Ending the payday loan debt trap is the major objective. If a bill that lowering the rates charged for payday loans cannot succeed, at least the payday loan debt trap must be closed. Cutting the fees on payday loans alone does not eliminate the debt trap but does make it less painful. The debt trap occurs when people cannot payoff their loan and continue to flip that loan over paying an additional loan fee every two weeks while doing nothing to reduce the amount of money borrowed.

The following package can stop the debt trap:

- Prohibit payday lenders from making loans to anyone who has had payday loans for 90 days in any 12-month period. In effect this would limit the number of loans any borrower can have to no more than 6 a year (from any one lender or any number of lenders combined). This provision is based upon FDIC rules for payday lending by banks or for banks working with third party payday lenders. Enacting a yearly loan limit will stop the debt trap but still allow loans to the occasional users the industry says the loans are designed address.
- Require payday lenders to subscribe to a database service to in order to implement the provision limiting the number of loans a borrower can have in a year. Information in the database would remain confidential except for purposes of enforcement by the banking division. The database can also provide future data to see if the loan limit approach closes the debt trap.
- Require a loan repayment plan that would allow borrowers to pay off the loan in a way that is not more expensive than just flipping the loan over. This would allow people with payday loans a way to pay off the loan without incurring significantly more cost than simply flipping the loan over and remaining in debt.
- Reduce the fees on payday loans. The Senate version cuts the existing fees in half from \$15 to \$7.50 on the first \$100 borrowed, and from \$10 to \$5 on each next \$100 borrowed (maximum amount borrowed at any one time remains at \$500.)

The first three items are necessary to stop the debt trap and will be considered by the House Commerce Committee the week of March 9th. Since the votes are not there to reduce the fees to 36% APR, reducing the fees as much as possible is desirable, but not at the cost of not stopping the debt trap.