CONCERNING DEFERRED DEPOSIT LOAN TRANSACTIONS

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My name is Spiros Protopsaltis and I am the president of the Center for Policy Entrepreneurship. CPE is a private, non-profit public policy research and advocacy organization dedicated to identifying, developing and bringing to life creative and effective solutions to critical challenges affecting Colorado. During the past several months, CPE has been a part of a broad and growing coalition of organizations that support protecting borrowers from predatory payday loans.

CPE supports HB 1310 to protect consumers while still allowing payday lenders to profit.

Last month, CPE and the Bell Policy Center released a report that clearly demonstrates how payday loans trap borrowers in an unanticipated and costly cycle of long-term debt they cannot easily escape. Using data from the Colorado Attorney General's office, this report describes the industry's rapid growth in Colorado since 2000, when state law exempted it from regulations and state usury caps that mainstream lenders must abide by.

We would like to share with you some key findings:

1. **Instead of serving as one-time emergency loans, the terms make it nearly impossible for them to be paid back on time and lead to continuous borrowing.**

The predatory aspect of payday lending is that it is designed to trap hardworking Coloradans into continuous borrowing. Unable to pay back in full the original loan within just two weeks, borrowers are forced to extend it for months by "rolling" it over and paying the same fee over and over again. In 2006:

- Borrowers took out an average of 9 loans
- The average payday loan annual interest rate (APR) was 353 percent
- The average borrower paid $544 to borrow $343
- Almost 2 out of 3 payday loans (65 percent) were either refinanced loans or loans given to a borrower the same day as the previous loan was paid off ("rollover loans"), and

- During 2000-2006, 70 percent of all loans went to borrowers who had 11 or more loans in the past 12 months.

2. **The payday lending industry has experienced exponential growth since the legislature authorized its operation in Colorado and exempted it from the state usury cap, giving it a special pass to charge fees that amount to an APR of over 350 percent.**

- The number of payday lending locations increased by 255% between 2000 and 2006.
- There are three payday lenders for every one McDonald's in Colorado, or 13 payday lenders per 100,000 Coloradans - the 15th highest ratio in the country.
- The number of payday lenders grew 18 times faster than our population during 2000-2006.
- Payday lender loan volume increased 117% during 2003-2006.

3. **The federal government and several states have taken action to place reasonable restrictions on the interest and fees payday lenders can charge and to protect consumers from unfair and predatory repayment terms.**

- In 2007, the U.S. Department of Defense determined that payday loans were a harmful product and Congress mandated a 36% rate cap on payday loans for military personnel and their dependents, which is considered to be the median usury cap throughout the country.
- 11 states and DC have implemented a variety of approaches in regulating payday lending, from criminalizing it to capping the interest rate, while several others are currently considering legislation. New Hampshire just passed a 36% rate cap.
- While some states included a sunset provision in their respective Deferred Deposit Loan Acts to allow them to assess the impact of payday loans and revisit their laws, Colorado's law does not includes such a safeguard. For example, North Carolina let its law sunset, after seeing the devastating impact of payday loans, and now such loans are prohibited.
- House Bill 1310 follows the recently enacted Oregon legislation - a reasonable, simple, cost-efficient and effective means of regulating the industry by capping interest at the 45% state usury cap, allowing a one-time origination fee up to $60 per year, and extending the loan term to a 31-day minimum.

4. **Payment plans do not address the problem. The only way to fix the problem is to end the privilege given to payday lenders that allows them to charge such exorbitant fees and to level the playing field by setting a lower interest rate cap.**

- In states that have legislated payment plans, the debt trap persists. Nearly two of every three loans still go to borrowers with twelve or more loans per year and less than one percent of transactions use the "mandatory" payment plan.
- The only states that successfully prevent the predatory aspects of payday lending are those that enforce a usury rate cap that applies to all small loan lenders. In these 11 states and DC households in need of short-term credit turn to responsible credit options rather than triple-digit interest rate payday loans, saving a collective $1.4 billion in predatory fees each year.
- Payment plan take-up rates are extremely low because they are often unaffordable for the trapped borrower. Most borrowers have to pay more to enter into the payment plan than

they would to simply flip their loan (which can be accomplished through a back-to-back transaction if rollovers are prohibited).
- In Colorado, only 5% of those eligible entered payment plans, according to the preliminary data available from the Attorney General's office. This is consistent with the experiences of several other states with similar payment-plan laws.

5. Payday lending reform enjoys broad public support

- In January, CPE commissioned a poll of active voters to assess public opinion on payday lending legislation. Conducted January 22-28, the poll indicates that the vast majority of Coloradans strongly support legislation that will set a cap on payday loan interest and fees**.**
- Specifically, 3 out of 4 of respondents are in favor of proposed legislation that would "set a cap of 36% on the total combined interest and fees that a company can charge for" payday loans.
- The polling shows overwhelming support, regardless of political affiliation, region, gender, income, education level, ethnicity and age.
- This strong level of bipartisan support is consistent with polls conducted in other states.

The 2000 Deferred Deposit Loan Act enabled the payday lending industry to thrive in Colorado. As the *Denver Post* editorial in support of HB 1310 argued, "The problem is that the industry has an exemption to laws regulating interest rates and has used it to structure loans that are easy to get into, but difficult to get out of without paying hefty fees." The legislation has had unintended consequences that hurt the very Coloradans it was designed to help. If lawmakers truly want to help hardworking Coloradans build assets and promote fair and responsible lending, they must take decisive action on this important issue.

We urge Colorado policy makers to protect consumers by fixing a harmful product that impacts thousands of working Coloradans and put more than $75 million in excessive payday loan fees back into the pockets of working families.

Again, House Bill 1310 provides reasonable reform that helps Coloradans and still allows the payday lending industry to make a profit.

Thank you for the opportunity to share this information with you today. If you have any questions or if you would like to receive additional information on the impact of payday in your districts please call me at 303.551.8111 or email me at spiros@c-pe.org