Testimony of

Ray Landis
Advocacy Manager, AARP Pennsylvania

Regarding HB 2191

Pennsylvania House of Representatives

Consumer Affairs Committee

Harrisburg, Pennsylvania
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Mr. Chairman and Members of the Committee:

My name is Ray Landis. I am the Advocacy Manager for AARP Pennsylvania, representing 1.8 million members in the Commonwealth, Thank you for the opportunity to speak today, I would like to share with you AARP's concerns about HB 2191, which would legalize lending at annual interest rates of 300% or higher. Such an action threatens to harm many Pennsylvanians, including large numbers of the Commonwealth's seniors.

AARP has long been involved in state activity to protect consumers from predatory lending practices. AARP's Public Policy maintains that states should adopt legislation or strengthen existing laws to license lenders, ensure compliance with federal and state consumer disclosure laws and state small-loan interest rate caps or usury laws, require lenders to disclose that the crimmal justice system cannot be used for collections, provide consumers with a private right of action and eliminate unfair, abusive or deceptive practices. AARP believes the enactment of legislation such as HB 2191 would be a step backwards for these principles.

Seniors, many of whom are on Limited or fixed incomes, are ripe targets for predatory lenders' attention.' Older people are increasingly nearing their retirement years with high levels of debt.'' The consequences of unaffordable debt can be devastating, especially at a time in one's life when income typically decreases and remaining working years are limited.

AARP is particularly concerned about the negative impact on Social Security beneficiaries as a result of the focus on older consumers by predatory lenders. As noted by the Wall Street Journal, ''such lenders are increasingly targeting recipients of Social Security and other government benefits, including disability and veteran's benefits.'''' Also, a study commissioned by the WSJ shows that payday loan shops cluster near housing for seniors and the disabled. We know, based on their activities in other states with laws similar to HB 2191, that payday lenders are perfectly willing to make these high-cost loans available to borrowers whose only source of income is a Social Security or disability checks.

The last few years have been a time of high financial stress for many older Pennsylvanians living on fixed incomes. Fortunately, Pennsylvania's seniors are currently protected against exploitative payday loan practices. The Commonwealth's long standing laws make them illegal if they carry interest rates higher than about 24% annually, regardless if the loan is made at a storefront or over the internet. Although claims have been made that internet payday lending is increasing, as AARP members relate their concerns about their financial situations, being trapped in an illegal intcrnct payday loan is not one of them.

The payday loans authorized by HB 2191 carry a dangerous combination of loan terms that result in a long-term insurmountable debt. None of the provisions in HB 2191 will mitigate harms caused this toxic product.

Payday lenders maintain that they provide a benefit by filling the gap left by traditional lenders. AARP does not accept this argument. Even if this were so, purportedly providing a needed service does not justify the harm inflicted on consumers by the loans that they offer.

Payday lenders understand that borrowers often will not be able to both pay their loans ***and*** make ends meet until the next payday, meaning borrowers are forced to re-borrow. When the lenders make these loans, they push poor borrowers deeper into debt and therefore are assured of future business. **As** industry leaders themselves acknowledged, the payday lending business model depends on keeping borrowers in debt.''

This will be particularly true under HB 2191, which authorizes annual interest rates as high as 300% annually due in full in a short-time frame, typically 14 or 30 days. And, if HB 2191 passes, a borrower could owe more than 50% of her take-home pay to apayday Iender every two weeks, for an entire year or longer, with no end in sight.

Provisions in HB 2191 like the rollover ban, cooling off period, and database would not stop this cycle. In states with laws similar to HB 2191, more than 60% of payday loan revenue is generated by borrowers with 12 or more loans a year.' These loans are a debt trap by design, and the business model depends on keeping borrowers stuck in this long-term debt.

Research and experiences of members in other states show over and over again that these loans are not quick, short loans as they are marketed. In reality, they lead borrowers into a long-termdebt trap, leaving them in a worse financial situation than when they begin. For seniors with limited incomes and less ability to recover from a hardship, these consequences are particularly concerning. Thankfully, seniors are protected by Pennsylvania's existing law, which applies equally to illegal storefront and internet loans.

HB 2191 will exacerbate the problemit claims to solve and create untold harm to our state's seniors. AARP Pennsylvania, on behalf of its 1.8 million members, respectfully requests you to oppose HB 2191. Instead we urge you to take legislative action that would protect consumers from lending practices that are harmful to borrowers and society.

Thank you again for your time today.

See Ann McLarty Jackson, Donna V.S. Ortega, Elizabeth Costle, George Gaberlavage, Naomi Karp, Neal Walters, Vivian Vasallo, A *Portrait* of *Older Underbanked and Unbanked Consumers: Findings from a National Survey* (September 2010). Available at http://www.aarp.org/money/credit-loans-debt/info-09-2010/D19394.html.

[ii] See EBRI Notes, *Debt of the Elderly and Near Elderly, 1992–2007*, Vol. 30, No. 10. p.9 (October 2009) available at http //www.ebri.org/pdf/notes pdf/EBRI_Notes_10-Oct09.DebtEldly.pdf.

[iii] Ellen Schultz and Theo Francis, "High-Interest Lenders Tap Elderly, Disabled," *Wall Street Journal* (2008)

[iv] *See* Uriah King & Leslie Parrish, Ctr. for Responsible Lending, *Springing the Debr Trap*, 11-12(2007) (payday lenders and industry observers commenting on the necessity of return customers), *http://www* responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.pdf.

[v] Id.