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Louisiana Budget Project

Dear House and Senate Commerce Committee members:

The undersigned organizations have serious concerns about Senate Bill 365, the Louisiana Installment Loan Act, which would legalize larger payday loans with longer terms, thus making Louisiana's payday lending problem even worse than it is. With installment loans, a $500 loan would carry a 160% APR!

Payday lenders and car title lenders already drain more than $241 million in fees each year from low-income Louisiana residents. The average payday loan borrower in Louisiana is stuck in 10 loans a year, with 87% of loans going to borrowers within two weeks of paying off their old loan. This is the debt trap. Installment loans would allow lenders to strip away even more money from the pockets of Louisianans, since the bill would put an additional tool in the hands of predatory lenders.

Under current law, payday lenders make loans that are less than $350 due in 60 days or less. Some finance companies can already make installment loans of upwards of $1,000 with double-digit interest rates. This bill will allow another product that is a longer and larger debt trap. Installment and car title lenders would be able to make loans of $500 to $875 for terms of 3 to 12 months, at annual interest rates upwards of 160%.

Payday lenders argue they need this bill because a federal rule from the Consumer Financial Protection Bureau aims at stopping the debt trap of these types of loans. The heart of the Consumer Bureau's rule is that lenders should ensure a loan is affordable, so it can be repaid without reborrowing or defaulting on other expenses. Predatory lenders' opposition to this common sense rule confirms everything we know about the debt trap business model. Furthermore, the Consumer Bureau's rule is not scheduled to take effect until August 2019, and it is under heavy attack at the federal level by the same payday lenders pushing to expand their high-cost, debt trap products in Louisiana. Installment loans are simply an expansion of methods to trap customers in triple-digit interest debt.

Payday and car title loans cause people to experience a worsening of their financial problems, including unpaid bills, closed bank accounts, and bankruptcy.African-American households in Louisiana are twice as likely to have used financial services like payday lenders than white households. These harms would still persist with the product legalized under an installment loan provision. Payday lenders would still have access to borrowers' bank accounts, which drives the cycle of repeat loans and exploits low income communities. Car title lenders could make the larger, longer high-cost loans as well, since the bill applies to loans secured by personal property.

Louisiana should be reining in these devastating practices, not expanding them as SB 365 will do. The last thing Louisiana families need is to be trapped in more high-cost debt that is nearly impossible to escape.

Sincerely,

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The Middleburg Institute

Together Louisiana

National Birth Equity Collaborative

National Association of Social Workers- Louisiana Chapter

Louisiana Center for Health Equity

Loyola University New Orleans- Jesuit Social Research Institute

Color of Change

Louisiana Voter- Debbie Hollis

Louisiana Voter- Sue Chenevert

Southern Poverty Law Center

National Association for the Advancement of Colored People- Louisiana State Conference

Community Advocacy- New Roads