New Federal Protections To Stop The Debt Trap Are No Excuse To Expand Payday Lending In Louisiana

The Debt Trap is the Core of the Payday Lending Business Model

Payday lenders drain more than $145 million in fees each year from Louisiana residents through triple-digit interest rate loans that are marketed as short-term solutions to a shortfall but are actually designed to create a long-term debt trap. The typical payday customer is stuck in 10 loans per year. Louisiana payday customers experience the same debt trap as elsewhere. In Louisiana, 79% of the state’s payday loans are lent to borrowers on the same day as they paid back their previous loan, while 87% of loans are made within two weeks of a borrower paying back their old loan.

In Louisiana, payday lenders are pushing SB 365, which would legalize even larger loans with longer terms. Payday loans are currently capped at $350, for terms of 60 days or less, but this bill would allow loans of $500 to $875 for terms of 3 to 12 months, at annual interest rates over 160%. The bill would also let car title lenders make these longer, larger loans since it applies to loans secured by personal property.

New Rule to Stop the Debt Trap Based on Commonsense Principle of Ability to Repay

The heart of the Consumer Bureau’s rule is the principle that lenders should ensure that a loan is affordable, so it can be repaid without re-borrowing or defaulting on other expenses. This is a basic tenet of responsible lending. But payday lenders rely on a business model of repeat borrowing, so they oppose this rule, even though lenders could make six payday loans in sequence to the same customer without testing affordability.

Payday Lenders Objections Confirm Everything We Know About the Debt Trap Business Model

Payday lenders claim the new rule would cut into their profits by up to 80%. While the Consumer Bureau’s estimate is much lower, any lessening of the payday lenders’ profits would be because the rule addresses a business model business model dependent on customers borrowing again and again instead of providing that one-time emergency loan that is successfully paid off.

The payday lenders’ objection to this rule proves what analysts have shown for decades. They are not really interested in providing the one-time or infrequent emergency loans they claim people need. In fact, 75% of all payday loan fees are from borrowers trapped in more than 10 loans a year. If payday lenders were truly providing an infrequent service (at triple-digit interest rates), they would not oppose or attempt to circumvent a rule that limits them to making 6 loans per customer before ensuring that customer can afford the loan terms.

Reject SB 365: It would simply expand available methods for payday lenders to trap Louisianans in triple-digit interest debt.

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