SB 381 Expands Predatory Payday Loans

CRL Bill Analysis

Jared Pone, Policy Counsel

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SB 381 Authorizes Long-Term Predatory Payday Loans

In Louisiana, payday lenders drain more than $145 million in fees annually due to triple-digit interest rate loans.[1] This fee drain hampers asset-building and economic opportunity in the Louisiana communities most impacted by these predatory lending practices.

SB 381 would expand the state's predatory lending problem by authorizing yet another high-cost loan. These loans would be larger and have longer terms than the existing payday loans. Payday loans are currently capped at $350, for terms of 60 days (about 2 months) or less. SB 381 would allow loans up to $1,500 for terms of 3 to 12 months. These larger, longer-term loans would have annual interest rates well into the triple digits.

The harm payday loans cause Louisianans has been well-documented. Data gathered by the Consumer Financial Protection Bureau (CFPB), demonstrate that these loans already trap borrowers in extended periods of high-cost debt as borrowers frequently must take out new loans to cover the cost of repaying the prior loan. Data show that 79% of Louisiana's payday loans are made to borrowers *the same day* they paid back their previous loan.[2] 90% of Louisiana payday loans are made within thirty days after the repayment of the previous loan, indicating that the borrower could not afford to both repay the loan and cover monthly expenses.[3] This is the debt trap.[4]

SB 381 will do nothing to end the debt trap. Instead, it would add another way for lenders to saddle Louisianans with high-cost debt. A detailed analysis is set out below.

SB 381 permits high-cost loans that fuel the debt trap.

Predatory Features of Long-Term Payday Loans	**SB 365 Provisions Codifying These Predatory Features**
Triple-digit interest rates	SB 381 legalizes interest rates over 300% APR for loans lasting up to 1 year. *(See APR % Calculation Chart Below)*
Larger loan amount	SB 381 allows payday lenders to make larger loans up to $1500, on top of the $350 loans already allowed.
No affordability assessment	SB 381 includes no requirement that the loan is affordable in light of a borrower's income and expenses.
Allows lender access to the borrower's bank account	SB 381 codifies the use of electronic access to a borrower's bank account.

SB 381 authorizes triple-digit interest rates for larger, longer-term loans.

SB 381 authorizes payday lenders to make loans that last from 3 months to 12 months. These loans would not replace the short-term predatory loan product already allowed in the state, but rather would expand the offering of predatory loan products. As with existing payday loans, the cost of these loans is extremely high, with annual interest rates of up to 308% for a $500 loan with a 3-month term.

Specifically, SB 381, as passed by the Senate authorizes the following charges on a long-term payday loan:

A. A monthly maintenance fee of 13% of the original loan amount.
B. An additional $50 underwriting fee for loans larger than $400.

Examples

Loan Amount	$1500
Fees	$635 (Monthly Maintenance Fee of $195 for 3 months + $50 Underwriting Fee)
Monthly Payment	$742
Total Payback Amount	$2,227
APR %	272%

Example 1: A loan of $1500 for 3 months

Loan Amount	$500
Fees	$245 (Monthly Maintenance Fee of $65 for 3 months + $50 Underwriting Fee)
Monthly Payment	$258.93
Total Payback Amount	$776.78
APR %	308%

Example 2: A loan of $500 for 3 months

SB 381 legalizes larger loan amounts.

SB 381 allows payday lenders to make triple-digit interest rate loans in amounts up to $1500, in addition to the $350 loans lenders are already authorized to make. Larger dollar amounts mean greater fees for lenders and a deeper debt trap for borrowers.

High fees tied to the larger loan amounts make the loan payments unaffordable for borrowers. With a significant portion of the borrower's paycheck going directly to the payday lender, borrowers frequently struggle to come up with a sufficient amount of money to pay other bills or basic living expenses.

SB 381 contains no assessment of affordability.

SB 381 provides no enforceable standard of a lender's consideration of a borrower's ability to repay. The bill does not require lenders to determine whether the loan is affordable to the borrower in light of the borrower's income, expenses, and other debts. Nor is there anything to stop lenders from targeting borrowers who already have an existing short-term payday or another longer-term triple-digit loan.

SB 381 Conflicts with Louisianans Views on Payday Loans

A 2020 Morning Consult poll shows that Louisiana voters overwhelmingly support an all-in 36% rate cap.[5] **SB 381 would expand the types of high-cost debt, moving the market in the opposite direction from what Louisianans want, which is a true 36% rate cap inclusive of all fees.** Instead of flooding the Louisiana market with more high-cost loans, the legislature can enact an all-in 36% APR rate cap, and stop the payday debt trap.

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[1] Center for Responsible Lending, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year* (updated April 2019), https://www.responsiblelending.org/research-publication/payday-and-car-title-lenders-drain-8-billion-fees-every-year

[2] Consumer Financial Protection Bureau (CFPB), *Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products* (2016), at 108, Supplemental_Report_060116.pdf (consumerfinance.gov)

[3] Id.

[4] *See* Center for Responsible Lending, *Shark-Free Waters: States are Better Off Without Payday Lending* (2017), http://responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-shark-free-waters-aug2016.pdf

[5] Center for Responsible Lending, *Louisiana Voters Overwhelmingly Support 36% Rate Cap* (2020) CRL La. budget FS.indd (labudget.org)