Missouri Catholic Conference

News Release

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MCC Offers Payday Lending Reform Ideas

March 11, 2011, JEFFERSON CITY, MO — Bills to provide more consumer protections against abuses of the payday loan industry are filed every year in the Missouri General Assembly but never get past the committee stage of the legislative process. This year looked to be a repeat of past history, but the Missouri Catholic Conference (MCC) is offering some new reform ideas that are attracting interest by legislators.

The Catholic Church has a long tradition of opposing usurious lending. In his 2009 encyclical *Caritas In Veritate*, Pope Benedict XVI stated: "The weakest members of society should be helped to defend themselves against usury, just as poor peoples should be helped to derive real benefit from micro-credit, in order to discourage the exploitation that is possible in these two areas."

Payday loans are loans of $500 or less. People in emergencies who need cash in a hurry can go to a payday lender and get a loan with few questions asked and no check of their credit worthiness. Borrowers give the lender a post-dated check that the lender can cash in two weeks if the borrower fails to pay off the loan.

If the borrower is not able to repay the loan at the end of the two-week period, he can renew the loan for another two-week period by paying a small amount down on the principal and the fees due from the first two weeks of having the loan. The normal fee is $15 for every $100 loaned.

Critics of the industry view the payday lenders as loan sharks and like to convert the fee charged by the lenders into an annual percentage rate (APR). Viewed this way, the loans have an APR of more than 400 percent. Defenders of the lenders say using APR is misleading because payday loans are short-term loans.

The payday lending issue is back again this year before the same legislative committee as last year, the House Financial Institutions Committee. On Wednesday, March 9, the committee held public testimony on two reform bills, HB 132, sponsored by State Rep. Mary Still (D-Columbia), and HB 656, sponsored by State Rep. Ellen Brandom (R-Sikeston).

Rep. Still's proposal has been around for several years and encountered substantial opposition. HB 132 would lower the interest a lender can charge to a simple annual rate of 36 percent. Several committee members told Rep. Still her bill would shut down the industry and deny people access to small emergency loans.

Rep. Brandom's proposal received a warmer reception from the committee. It does not lower the cap on fees lenders can charge, but it does offer several other reforms, including reducing the number of times a borrower can renew the same loan. Under current law, a borrower can renew the loan six times. No other state bordering Missouri allows any loan renewals. Rep. Brandom's bill reduces the number of renewals to three.

The MCC's Executive Director, Mike Hoey, offered some alternative ideas on how to reform the payday lending industry. The MCC suggestions included the following: allowing only one loan renewal; prohibiting any payday loans under $100; requiring a posted notice in 24-point bold type making it clear to borrowers that payday loans should be considered emergency loans and reminding borrowers that help might be available from friends, family, churches or charitable organizations; and requiring a “cooling off” period before a borrower could take out a new payday loan.

The MCC proposal does not seek to reduce the fee charges, a reform the MCC supports but does not view as a realistic goal in the present General Assembly. In written testimony, the MCC observed: “A borrower who needs to renew a payday loan twice is a bad credit risk and is obviously in financial trouble. The MCC has yet to hear any convincing justification for allowing lenders to repeatedly renew the same loan.”

By repeatedly renewing the same payday loan, borrowers dig themselves into deeper debt. The MCC offered a scenario where a borrower takes out a $300 payday loan and renews it three times. With each renewal the borrower pays $25 down on the principal and the fee charges. At the time of the third renewal, the borrower has paid $123.75 in fees and $75 in principal. The borrower still owes $225 on a $300 payday loan.

By allowing only one loan renewal and requiring $75 down on the principal to renew the loan at all, the MCC proposal helps the borrower avoid quite so large a debt. The MCC proposal also allows the lender to offer borrowers an installment plan whereby the remaining amount owed can be paid off over a 60-day period with no additional fees.

“The MCC proposal is not as far reaching as Rep. Still’s legislation, but offers some important new consumer protections,” said Hoey.

An additional reform idea that the MCC supports, but that will face heavy opposition in the General Assembly, would establish a computer tracking system on payday loans coupled with a prohibition on a borrower having two payday loans outstanding from different lenders. With the tracking system, a payday lender, before offering a loan, would check the tracking system to verify that the borrower does not have a payday loan outstanding with another lender.

Whether any payday lending reform can move forward this year remains to be seen. Lack of action by the General Assembly is already spurring talk of an initiative petition that would bypass the legislature and take the payday lending issue directly to the voters.

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