

Testimony by
State Representative Chris Ross
Prime Sponsor, HB 2191

I have been concerned with the issues surrounding short-term lending, also commonly known as payday lending, for over 10 years now. Over that time, I have come to several conclusions:

- First, there are a significant number of Pennsylvanians who find the need to use short-term, unsecured loans because they don't have adequate savings to cover unexpected expenses.
- Second, all the available options for these people present risks and potentially high costs.
- Third, current attempts to ban payday lending in Pennsylvania simply drive the lenders out of reach of the regulators, exposing borrowers to an even greater risk of being exploited.

Therefore, I am proposing HB 2191 to provide good consumer protections for those in need of short-term, unsecured lending and provide them with a safe alternative to the unsecured internet lending to which they are currently exposed.

Earlier this week, members of this committee should have received an amendment to this bill, along with a description.

The key concerns that I believe should be addressed when considering short-term, unsecured lending are:

- 1) Cost
- 2) Transparency in the Terms of the Loan
- 3) Avoiding the Potential of a Cycle of Debt

1) Cost

HB 2191, as amended, will charge lenders a fee of 12.5% of the value of the loan, plus a loan verification fee of \$5.00. This is typically half of what is currently being charged by Pennsylvania borrowers on the internet, based on an August 2011 study by the Consumer Federation of America.

Overdraft protection, late fees and charges for insufficient funds also are generally more expensive than this suggested rate.

2) Transparency in the Terms of the Loan

HB 2191, as amended, creates clear disclosure notices, including the right to rescind the agreement, warnings about the dangers of inappropriate use of short-term lending, opportunities to use an extended payment plan and to receive free credit counseling.

It is critical that a borrower be able to understand the terms of their loans. Credit card terms are extremely complex and may be unilaterally changed by the credit card company. Bank fees and other late fees are often complicated and difficult to understand. This bill would avoid creating such confusion for the borrower.

3) Avoiding the Potential of a Cycle of Debt

First, rollovers, where the borrower does not need to pay off the loan at the end of the term but may simply continue the loan, are forbidden under this legislation. The borrower must pay off the loan and wait at least one business day before borrowing again.

Second, borrowing is limited to a maximum of \$1,000 or 25% of the borrower's gross monthly income, whichever is less. This helps the borrower control the amount of debt so that they are less likely to be put in a position where they are unable to repay the loan.

Third, if the borrower cannot pay the loan off or is worried that they may become trapped in a cycle of borrowing, they have the opportunity to extend the payment until up to two additional months at no additional cost, and receive credit counseling from a state approved agency at no cost to the borrower.

Borrowing on credit cards afford no such protection and actually makes it easy on the borrower to rollover debt and build up substantial balances that may be overwhelming to pay off.

I think we can all agree that short-term lending exists in Pennsylvania and will continue to do so, despite the apparent ban on payday lenders. The only question we have to answer is whether we, as a state, will choose to regulate it and try to provide reasonable protections for our residents.

I believe HB 2191, as amended, offers important protections and will prevent the abuses that are currently occurring in Pennsylvania.