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456 Percent Interest Should Be Illegal

Alabama law lets payday lenders charge an annualized percentage rate (APR) of 456 percent. Compared to interest charged on other types of consumer loans, 456 percent is predatory and often insurmountable.

Other Southern states have banned this practice. Georgia, North Carolina and Arkansas have all said that consumer lending at triple-digit interest is an illegal exploitation of their residents.

Payday loans violate the ethical codes of most religions, as well as the U.S. military. The Bible forbids usury, or unfair lending, as do the scriptures and tenets of most religions. The military successfully asked Congress to recognize the destructive effects of consumer debt on service families. The Military Lending Act caps interest rates to service members (and their dependents) at 36 percent. The law should be extended to protect veterans and those wishing to join the military.

Payday loans strip wealth from communities. People get stuck in payday loans and take out new loans to pay off the old ones, finding themselves in financial quicksand. Reasonable loan rates would allow people to pay their bills, settle their debts and invest productively.

Lawmakers should level the playing field. Payday loans exist only because of a carve-out in the law. Many lenders are governed by Alabama's Small Loan Act, which includes consumer protections. Because of government loopholes, payday lenders are free to charge eye-popping rates. The Legislature should terminate this favor to special interests and let the marketplace fairly select the winners and losers in the lending industry.

Predatory storefronts contribute to blight. Payday lenders cluster together, driving down property values and cluttering streets with an unsightly landscape. With late-night hours and high cash volumes, they are also correlated with high crime rates.

Borrowers will go elsewhere if payday lenders leave. In states that cap interest rates, former payday customers always find other, better sources of credit. Lending alternatives in the form of traditional banks and credit unions already exist and will flourish with payday lenders out of the picture.

Everyone deserves credit. Payday borrowers often experience damaged credit and increased risk of bankruptcy. Capping interest rates on small-dollar loans helps people enter the financial mainstream and build assets, so that they are less vulnerable to unpredictable expenses.



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A Plan for Payday Lending Reform

Special laws allow Alabama lenders to charge usurious interest rates. The allowable annual percentage rate (APR) on 14-day payday loans soars to 456 percent, far exceeding the 36 percent annual interest rate cap set by Congress for military personnel and their families. With misleading promises of a quick fix, these products trap borrowers in financial quicksand, strip wealth from vulnerable families and leave borrowers with fewer resources to devote to asset development and boosting the local economy. Without regard for financial circumstance or ability to repay the loan, payday lenders claim they care about their customers.

Necessary changes to Alabama's lending laws:

The important statutes governing small consumer loans in Alabama are the Deferred Presentment Services Act (DPSA) of 2003 and the Small Loan Act of 1959. *Note: Banks are exempt from the DPSA. These proposed changes will not affect the bank loan market.*

- Cap APR at 36 percent and set minimum loan term of 30 days. Loans to military personnel, their spouse or dependents, should comply with the Military Lending Act of 2007.
- Limit borrowers to 6 loans per 12-month period (including rollovers).
- All lenders, whether in person or online, must be licensed. Loans by unlicensed lenders, as well as those involving fraud or misleading terms, should be deemed unenforceable.
- All lenders must use a single database (established and maintained by the Banking Dept.) to verify borrower's loan eligibility and record the transaction. No fee for this duty should be passed on to the consumer.
- All lenders should submit an annual report to the Banking Dept., listing loans extended with information on terms and repayment (including lawsuits initiated in pursuit of repayment). The agency should annually report aggregate data on payday loan transactions.
- Lenders should notify a borrower of the availability of an extended repayment plan (four equal monthly installments) at least 15 days before initiating a lawsuit. Lenders should be prohibited from using threats or violence against borrowers in pursuit of repayment.
- Lenders should offer loan funds electronically (instead of cash, if preferred).

SB 282 by Sen. Marc Keahey is a strong reform bill improving Alabama's payday lending laws. **HB 320** is offered by Rep. Patricia Todd. Both bills have bipartisan support.