Oral Testimony

Madam Chairwoman Waters, Ranking Member McHenry, Chairman Meeks, Ranking Member Tipton, and Members of the Committee:

Thank you for the opportunity to testify today. My name is Diane Standaert. I am Director of State Policy and Executive Vice President at the Center for Responsible Lending. We are a non-profit, non-partisan policy and research organization dedicated to building family wealth through elimination of abusive financial practices.

Our organization's nearly 20 years of research on payday and car title loans consistently reveal two things: (1) these loans are a debt trap by design, and (2) the harms of the debt trap perpetuate economic inequality and the racial wealth gap.

Payday and car title lenders charge annual percentage rates of 300% and strip away around $8 billion annually from people typically earning approximately $25,000 a year. The bulk of these loan fees are generated from people stuck in the debt trap: **75% of fees come from people stuck in more than 10 loans a year**. The typical car title loan is refinanced 8 times. Low-income borrowers face a cascade of consequences such as delinquency on other bills, bank account closures, and even bankruptcy. And, an astounding one in five auto title loan borrowers have their vehicle seized.

Borrowers have described the debt trap, in their own words, as "a hole that you can't get out of," "soul-crushing," and "a living hell." As borrowers suffer the harms of these debt trap loans, private equity plays a growing role in fueling the engines of the industry. What people see at the street level as a lender's little storefront on the corner is actually one of many tentacles that private equity firms use to extract hard earned money from people already struggling to make ends meet. And, research has shown time and time again, that these high-cost lending storefronts are disproportionately situated in Black and Latino communities, even when they have the same or higher incomes than white communities.

Thankfully, policy trends at the state and federal level for more than a decade have been to rein in the harms of the unsafe loans, ranging from the 2006 passage of the 36% rate cap in the Military Lending Act to voter enacted 36% rate caps in South Dakota and Colorado, in 2016 and 2018, respectively. Today, 16 states plus the District of Columbia enforce caps of 36% or less, covering nearly 100 million people with this most effective protection against the debt trap. Since 2005, no new state has legalized payday lending.

Today, I would like to emphasize four important points:

- Payday and car title lenders have situated themselves to perpetuate our country's two-tiered financial services system,
- The harms and consequences of payday loans exacerbate racial wealth disparities and disproportionately burden communities of color. Older Americans and people on fixed income are also particularly targeted by these predatory lending practices
- To reduce these harms, the predatory nature must be addressed head on. Competition and alternatives will not reduce the cost or harms of 300% loans.
- Finally, the states, Congress, and federal regulators all have a role to play to ensure that people are not ensnared in these debt traps.

We are thankful for Senator Durbin's leadership in proposing a 36% rate cap that does not override stronger state laws. Congress and federal regulators must reject any proposal that, in the name of innovation or otherwise, preempts stronger state law. Banking regulators should restore or keep guidance against banks issuing their version of payday loans.

Today, on behalf of more than 700 organizations participating in the Stop the Debt Trap campaign, we call on the Consumer Financial Protection Bureau to implement its 2017 payday rule, which simply requires lenders to verify borrowers have the ability to repay a loan. This common sense notion of ensuring a loan is affordable is the bedrock of responsible lending practices, and it is strongly supported by voters across this country -- over 75% among Republicans and Democrats alike. The fact that payday and car title lenders resist such a notion confirms everything we know about their dangerous lending.

In summary, policymakers have a choice: siding with the vast majority of voters who oppose the payday loan debt trap or siding with predatory lenders charging 300% interest rate.