MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Payday Lending Loopholes Hurt Many Marylanders, Including Seniors and Veterans

Position Statement in support of House Bill 1270
Given before the House Economic Matters Committee

Out-of-state payday lenders are exploiting a loophole in Maryland's usury cap to trap Marylanders in high-cost debt. The usury cap protects Marylanders from predatory lending by limiting the interest rate on consumer loans to 33 percent. However, some lenders are bypassing this law by offering open-ended lines of credit that claim to have a 24 percent annual percentage rate but in reality use excessive fees, such as a 25 percent transaction fee that put the effective interest rate into the triple digits. House Bill 1270 would close the loophole that allows for this practice by making the 33 percent rate cap inclusive of fees. For this reason, the Maryland Center on Economic Policy supports House Bill 1270.

Maryland has a long history of protecting consumers. Allowing these new forms of predatory lending practices to continue puts some of the most vulnerable Marylanders at risk. The Consumer Financial Protection Bureau has received a number of complaints about the main lender taking advantage of the loophole, Cash Net USA, and many of those filling complaints identified as seniors and veterans.

Some of the payday loans issued by this company have effective APRs of up to 499 percent. One borrower took out a loan of $500 and, after making the minimum payments for two years, had paid $2,891 in interest and fees and still owed $300. Borrowers are often unaware of the additional fees when they take out a loan, and because the lenders often require access to borrowers' bank accounts, it can be difficult to stop a lender from withdrawing unaffordable payments. In fiscal 2015 alone, 82 Marylanders filed complaints about payday lenders, according to the Maryland Commissioner of Financial Regulation.[i]

High-interest payday loans often lead to unpaid debt, closed checking and savings accounts, and bankruptcy. Individuals who take out payday loans are usually already struggling to make ends meet, and loans that work around Maryland's 33 percent usury cap can be financially disastrous. In addition, because the online lenders taking advantage of this loophole in the usury cap are from out of state, they take money out of the local economy.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Economic Matters Committee give a favorable report to House Bill 1270.

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[i] Eric Pierce, "HB 1270 Fiscal and Policy Note," Department of Legislative Services. http://mgaleg.maryland.gov/2017RS/fnotes/bil_0000/hb1270.pdf

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