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From: JIM WALRATH

Message: PAGES 2 - 8 ARE WISCONSIN DFI MATERIALS
9 - 10 ARE FROM INDIANA DFI
11 - 12 ARE FROM ILLINOIS WOODSTOCK INSTITUTE

POSSIBLE POINTS FOR FINDINGS BASED ON REMARKS OF WISCONSIN DEPARTMENT OF FINANCIAL INSTITUTIONS SECRETARY, LORRIE KEATING HEINEMANN AND DFI MATERIALS

WHEREAS, AT LEAST 31 STATES PROHIBIT OR LIMIT PAYDAY LOAN "ROLLOVERS" IN ORDER TO PROTECT CONSUMERS FROM HAVING SHORT-TERM PAYDAY LOANS LEADING TO LONG-TERM, HIGH COST DEBT, BUT THE STATE OF WISCONSIN, EVEN THOUGH IT CAUTIONS CONSUMERS TO AVOID LONG-TERM PAYDAY LOAN DEBT, HAS NO SUCH PROHIBITIONS OR LIMITS;

WHEREAS, AT LEAST 40 STATES LIMIT THE AMOUNT OF INTEREST THAT A PAYDAY LENDER MAY CHARGE, BUT THE STATE OF WISCONSIN IMPOSES NO SUCH LIMITS;

WHEREAS, AT LEAST 29 STATES HAVE MAXIMUM LOAN AMOUNT LIMITS OF $500 OR LESS, BUT THE STATE OF WISCONSIN IMPOSES NO SUCH LIMITS;

WHEREAS, NUMEROUS STATES IMPOSE A MINIMUM LOAN TERM OF 14 DAYS TO PREVENT PAYDAY LENDERS FROM CHARGING CONSUMERS INFLATED ROLLOVER LOAN FEES, BUT THE STATE OF WISCONSIN HAS NO SUCH MINIMUM LOAN TERMS;

WHEREAS, CERTAIN STATES USE PAYDAY LOAN BORROWER DATABASES TO HELP PREVENT LENDERS FROM ISSUING MULTIPLE OUTSTANDING LOANS TO INDIVIDUAL CUSTOMERS, BUT THE STATE OF WISCONSIN, EVEN THOUGH IT CAUTIONS CONSUMERS TO AVOID MULTIPLE OUTSTANDING LOANS, HAS NO PROCEDURES TO PREVENT SUCH LENDER ABUSES;

State of Wisconsin
Department of Financial Institutions

Jim Doyle, Governor

Lorrie Keating Heinemann, Secretary

Testimony of
Lorrie Keating Heinemann
Department of Financial Institutions
Senate Committee on Agriculture, Financial Institutions and Insurance
and Assembly Committee on Financial Institutions
SB 338/ AB 665
January 13, 2004

Chairman Schultz, Chairman Montgomery, committee members, on behalf of the Department of Financial Institutions, I thank you for the opportunity to speak to you today about SB 338 and AB 665.

I am so pleased that you have taken the initiative to bring this issue up in the Legislature. DFI's mission is to protect and promote Wisconsin's financial strength, which we feel includes the financial strength of Wisconsin's citizens. We want to ensure access to credit while, at the same time, promote the financial solvency of consumers in this state. In 2002, Wisconsin citizens spent $73.5 million on payday loan finance fees. Approximately $56 million went directly out of Wisconsin as 76 percent of our payday lending locations are owned by out-of-state companies. This has a huge economic impact on our communities and is a main reason that this legislation warrants the serious attention you are giving it today.

Today, I would like to tell you about the research we have done at DFI. Many states around the country have already dealt with the issue of payday lending and we are fortunate to be able to evaluate many different options in terms of effective legislation in this area. We have had a chance to share this information with one of the authors of this bill, Representative Jeskewitz, as well as with your staff, Senator Schultz.

33 states and the District of Columbia have passed more comprehensive payday lending regulations and we have taken a look at what they have done. I would like to take a few moments to discuss the state of Florida. In July of 2001, Governor Jeb Bush signed one of the toughest laws regulating payday lending in the country. Florida's law caps the finance fee on a payday loan at 10 percent (plus allows an additional $5 verification fee), prohibits any loan rollover and allows for a maximum loan amount of $500.

Despite worries that this bill would destroy the industry, recent data has shown that since implementation of the new law, the growth rate in the number of licensed pa[illegible] lending locations in Florida is over 10 percent annually. Therefore, the industry maintains a profitable presence and the consumer receives assistance in avoidir[illegible] expensive long-term debt. Florida has one of the strongest laws in the country regulating payday lending but it has been good for the industry and good for th[illegible] consumer.

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...have maximum loan amounts
...g: IA, IL, IN and MN) have loan amounts capped

Financing

Payday Loans

You've probably heard the advertisements on the radio or seen them in the newspaper:

NEED CASH UNTIL PAYDAY?
YOU CAN GET $50 TO $500 WITHIN 15 MINUTES!
NO CREDIT CHECKS.

SOUND APPEALING? Today there are many companies offering to make **"payday loans," "check loans,"** or **"payroll advance loans."** These are all just different terms for the same type of loan transaction.

If you are considering a **"payday loan,"** keep reading.....

Before You Begin....

These loans are not an effective solution for your long term monetary needs!

Payday loans may be helpful when you are having temporary cash flow problems or are facing a financial emergency and need money on a **short-term** basis. You should attempt to pay your loan in full when it matures. If you are unable to do that, you should make every effort to pay at least part of the amount financed before you renew the transaction.

Interest Costs you money!

It's important to pay particular attention to the interest rate on payday loans. The rate on a payday loan may be 500% per year or more. Borrowing $200 for 2 weeks at 500% will cost you $38.36. Compare this to borrowing $200 for 2 weeks at 36% ($2.76) or 12% ($.92).

If this loan is refinanced four times, the cost difference increases dramatically! In fact, it will cost you nearly $200 to borrow $200 for ten weeks:

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PAYDAY LENDING: MYTHS AND REALITIES

MYTH: Rates are high because these loans are risky.

REALITY: High rates are not justified given that the lenders hold a live check and have addi leverage as a result. Aggregate losses of payday lenders are low and returns on investment alone payday lenders are generating returns on investments of 35% to 50%.

While many states have criminal bad check laws, they do not apply to a check accepted by the cre knowledge that it was not "good" when written. This fact does not stop payday lenders from filing c Other lenders simply deposit the checks after the consumers fail to repay and then proceed under insufficient-funds laws to collect the principal and interest, the regular bounced check fees, triple th amount as a penalty, and attorney's fees. This practice is not allowed in Indiana under IC 24-4.5-7-

MYTH: Payday lenders cater to the middle class with an average household income of $35,(

REALITY: The average household income is more like $25,000 to $30,000, the working poor on fixed income. These borrowers are facing an income shortfall or an emergency. Senator I found that even households with$35,000 in gross annual income will be forced to rollover a of as little as $168.

MYTH: Payday loans are cheaper than bouncing checks.

REALITY: Average NSF fee charged by banks and thrifts is $17-$18. Payday lenders may tack additional fees. Total cost may average $40. However, the cost to get one payday loan range $15-$33 per $100 and the average payday loan is at least $200 (cost for this loan is $25-$66). maximum small loan rates are 15% on balances up to $250; 13% on amounts over $250 up tc 10% on amounts over $400 up to $500.) Average customer rolls over or has consecutive lo times. Payday loans fees, on average, greatly exceed NSF fees.

MYTH: Rollovers are rare.

REALITY: In Indiana, the fee of $44 on a $300 small loan with five consecutive small loans, total in fees alone of $220 and the borrower would still owed the $300. Illinois found an ave contracts per payday loan customer during an average 6-month period. Iowa surveyed the p licensees and found that the average number of loans per year was 12.5.

Indiana Small Loan statutes requires a seven day period after the fifth consecutive small loa before another loan can be made. If the consumer cannot pay off the fifth consecutive sma the balance is converted to a simple interest consumer loan payable in installments with a n Annual Percentage Rate of 36%.

MYTH: It is unfair to extrapolate the fees into an Annual Percentage Rate (APR).

REALITY: That is entirely fair since. Congress, under the Truth in Lending Act, has require the APR for over 30 thirty years, so that consumers can comparison shop. Further, usury ca always been imposed as a yearly rate from time immemorial.

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MYTH: Payday lenders provide a needed service.

REALITY: Price gouging is never a "service." Fast cash and no credit check advertising mak product appear easy and painless.... until the next payday.

MYTH: **The payday loan industry is highly regulated so no more regulation is needed. Or "le alone" because we will use a voluntary "best practices" standard.**

REALITY: The payday loan legislation has passed in about 24 states. For the most part, the were drafted by the industry and are intended to permit this type of lending rather than restr statutes contain few restrictions that actually protect consumers. The industry's "best pract voluntary with no teeth if a lenders does not comply. Moreover, these guidelines fall far sho protections necessary to prevent the well-documented abuses.

Excerpts from January 2001National Consumer Law Center by Elizabeth Renuart

FOR MORE INFORMATION

See Web Site: Payday Loans = Costly Cash

Web Resources

Consumer Federation of America (CFA)

The CFA has done an extensive study on payday lenders. You can obtain a copy from its W the publications list under "**Payday Lending**."

Cooperative Extension Agents (Click on "State Partners")

Cooperative extension agents are affiliated with land-grant universities. Some of these profe provide money management education. Check with the university in your area to determine individual who can assist you.

Debt Counselors of America

This internet-based, nonprofit organization sells inexpensive educational materials on mone management and helps individuals develop plans to repay their debts.

National Foundation for Consumer Credit (NFCC)

The NFCC is a nationwide network of nonprofit budget and debt-counseling agencies in alm locations. The agencies provide educational programs and individual counseling sessions, e in-person or by phone and mail. They teach people basic money management skills, such a credit, and assist them in resolving debt problems. Counseling sessions may be free or cha reasonable fee.

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Woodstock Institute Policy Recommendations for Payday Loan Legislation

March 12, 1999

The payday loan industry is rapidly growing in Illinois, subjecting consumers to extraordinary interest rates and extreme loan terms. Illinois has failed to establish legislation that adequately regulates the industry. However, state legislators are working on legislation and have received input from both consumer advocates and lobbyists from the powerful payday loan industry. Woodstock Institute, which works to promote access to safe and sound credit for lower income households and communities, offers policy recommendations on the following key issues:

Excessive Rates

- The state should set a maximum rate structure for payday lenders as it does for the currency exchange industry. Rates should be based on the cost structure of the industry with allowance for reasonable but not excessive profits. If the data to determine such rates do not exist, a study to assess the industry's costs and profitability should be conducted by a neutral researcher with the assistance of consumer as well as industry representatives.

Rollovers, Consecutive Loans, and Concurrent Lending

- The number of rollovers (extensions of the original loan) should be limited to two per loan.
- The fees charged to the consumer for a rollover should be less than those charged for the original transaction.
- A substantial waiting period (e.g., 60-90 days) should be required between loans. This prevents the back-to-back loans that are essentially equivalent to a rollover.
- A lender should be prohibited from making a loan to a consumer who has an existing payday loan with another lender.
- A statewide registry of all payday loans should be established through the Department of Financial Institutions. Without such a registry, the above recommendations will not be effective.

Separate Regulation and Reporting

- Payday lenders should be uniquely categorized by the Department of Financial Institutions. Currently in Illinois, payday lenders are grouped with all other licensees under the Consumer Installment Loan Act.
- Information should be collected annually from each payday lender, compiled by the Department of Financial Institutions, and made available to the public. This information should include (for the past year) the number of loans made, the average loan amount, the average annual percentage rate of the loans, the average loan period, and information related to the number, dollar amount, and associated costs of returned checks.

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For more information, please contact Dan Immergluck, Malcolm Bush, or Marti Wiles at (312) 427-8070.

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