WISCONSIN CATHOLIC CONFERENCE

September 18, 2009
For Immediate Release

Catholic Charities Leader, Others Brief Lawmakers On Need for Payday Lending Limits

The director of Catholic Charities of the La Crosse diocese joined several other experts in the State Capitol on September 16 to make the case for strong regulation of the payday lending industry in Wisconsin.

Deacon Richard Sage, whose agency operates family financial counseling services across the 19 counties of the diocese, told over 50 legislators and staff of the hardship that individuals and families endure when they are "ensnared in unregulated payday loans."

He quoted a mother who had to take several days off work to care for a sick child. Since the leave was unpaid, "in a very short time I started to get behind on bills and so I took out a $400 payday loan," the mother explained. "I've not been able to pay the loan off but have been paying them $88 every two weeks. I've paid them five or six times and I still owe them $400. Can you help me?"

"While payday loans' quickness and easy accessibility make them attractive to people who are suffering from a cash-crunch, the terms are set so that borrowers most often cannot pay off the loan on payday when it's due without leaving a large gap in their budget," Sage explained. "It almost seems that these short-term payday loans are designed to catch working people or those on a fixed income, such as Social Security or a disability check, into a long-term cycle of debt."

Deacon Sage related the story of another borrower who had 14 payday loans along with six credit card bills. Her debt was split: about $6,000 on the payday loans and $6,000 on the credit cards.

"Their household income runs $650 short of making even the basic payments. She's afraid of losing their home," Sage added.

Under current law, while the Department of Financial Institutions (DFI) must license all payday lenders operating in the state, it currently does not have the authority to regulate the amount of a loan, the interest charged, or the number of times a loan can be "rolled over." Under this limited regulation, payday lending in Wisconsin has flourished in the past fifteen years. In 1995, the state licensed less than ten payday lenders. Last year, it licensed 530.

Sage asked legislators to support Assembly Bill 392, which prohibits payday lenders from assessing finance charges that exceed 36% per year. The bill also gives the DFI the authority to enforce the new regulations.

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Deacon Sage concluded his remarks by making a moral argument for regulation. "Catholic Charities is rooted in the rich tradition of Catholic Social Teaching that calls us to stand in solidarity as one human family. We are our brothers' and sisters' keepers and are dedicated to the pursuit of justice and peace. Once profit becomes an exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks creating poverty and destroys the development of people."

Jennifer Johnson, Senior Legislative Council for the North Carolina-based Center for Responsible Lending (CRL) described the predatory characteristics of payday loans: 1) borrowers pay triple digit interest rates (usually 391% APR or more) and high fees; 2) lenders can either hold a borrower's check, or they have access to the borrower's checking account and can withdraw the interest automatically; and 3) borrowers must either repay the loan in full (in a single balloon payment) within a short period, or else renew the loan by paying an additional fee or by taking out a new loan.

In essence, these so called "short-term loans" in reality lead to long-term, high-cost debt. This explains why the payday loan industry does not require any underwriting for the loans: the industry profits more if the loan is not repaid on schedule. Indeed, Johnson added, the CRL has found that 90% of payday loans go to borrowers with 5 or more loans and 62% of loans go to borrowers with 12 or more loans.

According to the CRL, the experience of other states, like North Carolina and West Virginia, shows that the only way to effectively regulate payday lenders is to cap the interest rate they are allowed to charge.

Even though capping the rate at 36% represents a doubling of the rate allowed prior to 1996, when Wisconsin law only permitted rates of 18% or less, it would still level the playing field for responsible lenders (including many banks and credit unions) and save Wisconsin residents over $1 billion.

Michael Trepanier, Executive Assistant at the Wisconsin Department of Veterans Affairs, also spoke in favor of AB 392. He explained that in 2007, the federal government instituted a 36% cap on the majority of payday loans to active duty service men, women, and their families. This was necessitated after the Pentagon found that payday loans undermine military readiness and cohesion.

Other speakers included the bill's sponsor, Representative Gordon Hintz (D-Oshkosh), Sarah Hawks of La Casa de Esperanza in Waukesha, and Linda Ketchum, Executive Director of Madison-Area Urban Ministry.

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Access Deacon Sage's full statement on the WCC's website, www.wisconsincatholic.org. For more information, contact John Huebscher or Barbara Sella, 608/257-0004.

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