



## PAYDAY LENDING

### INTRODUCTION

Payday lending is one of the most prominent of a number of fringe banking practices that have emerged and taken root in communities across Wisconsin over the past several years. Payday lenders market high interest, short-term loans to persons in crisis, to those desperate for immediate cash, and to those who do not, for one reason or another, have access to other traditional sources of credit, or do not believe they qualify for loans from other regulated financial institutions.

### PAYDAY LENDING FROM A CATHOLIC PERSPECTIVE

Catholic teaching holds that we should embrace a preferential option for the poor and vulnerable, embody it in our lives, and work to have it shape our public policies and priorities. Since low-income persons and those in vulnerable situations are most susceptible to the ravages of payday loans, we need to regulate the industry for their sake and that of the common good.

### PAYDAY LENDING IN WISCONSIN

In 1995, Wisconsin licensed two payday lenders. Last year, it licensed 530. While the Wisconsin Department of Financial Institutions (DFI) must license all payday lenders in the state, it does not have the authority to regulate the amount of the loans, the interest charged, or the number of times a loan can be “rolled over.”

Catholic Charities agencies in Wisconsin, which offer family financial counseling services, are seeing an alarming rise in the number of individuals seeking their services due to the unregulated nature of the payday loan industry. Catholic Charities of the Diocese of La Crosse, for example, offers a Financial Counseling Program in five office locations in Western Wisconsin. The agency is a member of the National Foundation for Credit Counseling (NFCC) and is regulated by the DFI so that it can assist people with their debts.

This Catholic Charities agency estimates that one in every three clients on its Debt Management Program (DMP) has a payday loan. This does not include the many people who seek financial counseling and are never put on a DMP. Most clients do not just carry one payday loan account. On average, these clients have three accounts and some have up to 6 or 8 accounts with different payday lenders. The average payday lender charges 485% annual percentage rate (APR), but there also have been cases where the APR is higher than 1000%.

Wisconsin’s DFI website warns the public of the dangers in taking out a payday loan, particularly when these loans are rolled over:

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 increases dramatically! In fact, it will cost you nearly \$200 to borrow \$200 for ten weeks.

Fortunately, Catholic Charities agencies can often help their clients, not only through their programs, but also through referrals to local banks and credit unions that offer alternatives to high-cost payday loans. However, the clients who seek their help are only a small percentage of Wisconsin residents who are harmed by these loans.

## **WCC POSITION**

The WCC supports legislation to place meaningful limits not only on the cost of credit, but also on the amount and frequency of payday loans, and the ability of consumers to seek payday loans from multiple sources.

Providing information is simply not enough. Adding regulatory limits on the practice of payday lending and granting the Department of Financial Institutions the authority to fully enforce these limits, while preserving consumer's rights under the Wisconsin Consumer Act, are also warranted.

To date, only one bill to regulate the payday loan industry has been introduced. Assembly Bill 55 would prohibit finance charges of more than two percent per month on any payday loan or motor vehicle title loan. The WCC expects that legislators will introduce other bills.

## **ACTION REQUESTED**

Write or call your legislator and make the following points:

1. Regulate the payday loan industry by limiting the cost of credit, the amount and frequency of loans, and the number of times a loan can be "rolled over."
2. Give the Department of Financial Institutions the authority to fully enforce these limits.

*For more information, please contact Barbara Sella at 608/257-0004.*