



## WISCONSIN CATHOLIC CONFERENCE

TO: Senate Committee on Veterans and Military Affairs, Biotechnology, and Financial  
Institutions

FROM: John Huebscher

DATE: March 10, 2008

RE: LRB 2221/3 Payday Lending

---

On behalf of the Wisconsin Catholic Conference I offer this informational testimony on the matter of payday lending in Wisconsin.

The Wisconsin Catholic Conference is interested in advancing public policy that promotes the common good and protects the least advantaged in our society. 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 rate, short-term loans to persons in crisis, those desperate for immediate cash, and 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. Inevitably these include many low-income persons and those in vulnerable situations. Accordingly, we encourage efforts to regulate this industry in order to protect vulnerable populations and promote the common good.

Payday lending is not confined to the metropolitan areas, but has grown to reach every corner of the state. Catholic Charities agencies in Wisconsin offer family financial counseling services in many parts of our state. These agencies have seen an alarming rise in the number of individuals seeking our services due to abuses in the payday loan industry. Fortunately, they can often help them, not only through their programs, but also through referrals to local banks and credit unions that offer alternatives to high cost payday loans. But the people who seek our help are only a small percentage of those negatively impacted by these practices throughout the state.

Catholic Charities of the Diocese of La Crosse offers a Financial Counseling Program in 5 office locations in Western Wisconsin. The agency is a member of the National Foundation for Credit Counseling (NFCC) and is regulated by the Wisconsin Department of Financial Institutions (DFI). As a result they are able to assist people with their debts by offering a Debt Management Program.

Staff at Catholic Charities estimates that 1 in every 3 clients on the Debt Management Program has a payday loan. This doesn't include the many people who seek financial counseling and are never put on a Debt Management Program.

In these cases clients don't just carry one payday lending account, on average these clients have 3 accounts and some have up to 6 or 8 accounts with different payday lenders. The average payday lender charges 485% APR and there have been cases where the APR is as high as 1020%. At that rate, the average \$100 loan, paid off one year later, would cost the consumer \$485.00.

Fortunately the average debt per account is less than \$1000. However, left unchecked, this figure can grow rapidly as the consumer "rolls over" the existing loan, or goes on to the next payday lender in a desperate attempt to play catch-up.

Given the situation, some regulation of payday lenders seems appropriate.

This leads us to the question of what kind of regulation best promotes the common good and protects those who are vulnerable. While the dissemination of greater information regarding the true cost and intent of payday loans may be laudable, it does not in the end serve to protect the public or promote the wise use of credit. The public will be better served by an approach that includes some enforcement mechanisms and provides some reasonable limits on the cost of payday loans.

We hope that such legislation will ultimately include meaningful limits on the cost of credit, 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, is also warranted.

We hope that our testimony today provides you with a sense that this is a real-life problem for a growing segment of your constituency. We applaud your efforts to provide some balance to the payday loan equation through the legislative process.

Thank you for the opportunity to present these comments. We hope they prove useful as you deliberate on this matter in the coming months.