



WISCONSIN CATHOLIC CONFERENCE

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

FROM: John Hubscher

DATE: March 18, 2010

RE: Senate Bill 530, Regulation of Payday Lenders

On behalf of the Wisconsin Catholic Conference, I offer this testimony for information on Senate Bill 530.

The WCC urges you to enact legislation that provides “regulation with teeth” for the payday lending industry in Wisconsin.

The WCC’s support for such legislation is grounded both in the tenets of our social teaching and the practical experience of our Catholic Charities agencies. As they minister to families in need of financial counseling, these agencies have encountered first hand the devastating impact of debt and excessive interest payments.

As Deacon Richard Sage, Director of Catholic Charities for the La Crosse diocese, said at a hearing last fall on this issue,

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.

The Catholic Church has long understood that there is a difference between investment loans and consumption loans; the former allow a borrower to grow her business, the latter allow her to meet her essential needs for food, housing, etc. The Church does not oppose investment loans, but she does consider consumption loans unjust if, under the guise of helping a borrower pay her bills, they actually risk leaving her more indebted.

While there is clearly a need in many communities for ready access to credit, there also need to be safeguards.

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Before you today are both AB 447 and SB 530. While AB 447 is by no means perfect, it does begin to provide some much needed safeguards. We urge this Committee to view it as a floor, not a ceiling. We hope that any legislation that comes out of your Committee (whether it be an amended SB 530 or AB 447) goes at least as far as AB 447 and, if possible, takes larger steps.

We would suggest the following changes to SB 530:

- **Permit only one consumer loan at a time.** Payday loans are one of the most expensive ways to access credit and are fraught with danger because of the short time in which borrowers must repay the loan. Limiting a payday loan to one at any given time encourages customers to keep track of their finances and to repay the loan on time. Both AB 447 and SB 530 would institute a statewide database that could be used to enforce this one-loan limit.
- **Require a minimum repayment period for all small consumer loans.** A repayment period of 90 days would give consumers, who typically get paid every two weeks, six pay periods to repay the debt. Such a requirement would make the payments smaller per pay period, and therefore, more affordable within the consumer's budget.
- **Apply the legislation to all consumer loans.** This would include auto title loans. Limiting the bill to those secured by an unfunded check or EFT authorization does not address, and may therefore codify, other unsafe banking practices. In Ohio, for example, which recently passed payday lending reform, lenders have simply obtained new licenses under different state laws so that they can make consumer loans at even higher interest rates.
- **Place an upper limit on interest rates.** We share the concerns of other groups and organizations that prefer a cap on interest rates for payday and other consumer loans. We note that other states and the Department of Defense have established a cap of 36 percent as an acceptable maximum.

As you review these suggestions for improving the legislation, we emphasize that "the perfect should not be the enemy of the good." Reasonable people can differ as to what blend of regulations beyond, or in place of, those included in AB 447 are the best possible response at this time. Whatever you decide, we urge you to remain committed to monitoring the experience of those affected by payday and other short-term consumer loans. We must learn from that experience and build on it as necessary so that we find a way as a state to help lift people out of poverty.

Thank you for considering our views on this matter.