voices for children IN NEBRASKA

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Senator Lindstrom, Chairman – Banking, Commerce, and Insurance Committee
Room 1507, Nebraska State Capitol, Lincoln, NE 68509
RE: Support for LB 904 – Prohibit the charging of certain fees under the Credit Services Organization Act

Dear Chairman Lindstrom and Members of the Banking, Commerce, and Insurance Committee,

Our children, communities, and state are stronger when all Nebraska families are able to work toward financial security. Children can't thrive when families are unable to make ends meet or save for the future. Predatory financial practices can trap families in debt and undercut parents' ability to meet their children's needs. Voices for Children in Nebraska supports LB 904 because it prevents the payday lending industry from evading existing state law and oversight.

With some of the highest allowable loan rates in the nation at 461%, current payday lending laws in Nebraska hurt families and drain money from local communities. The consequences of these policies are most acutely experienced in our most vulnerable communities. We need to work to ensure that families are empowered to become effective financial managers. At the same time, we need to also ensure that financial institutions operating in Nebraska are serving consumers in a way that is ethical and mutually beneficial.

In October of this year, the federal Consumer Financial Protection Bureau (CFPB) issued a final rule governing payday loans and similar loan products. This rule would put in place sensible protections for consumers, including a requirement that lenders must determine a borrower's ability to repay without re-borrowing, limitations on the number of loans that lenders may make to a single borrower, and protections against multiple failed debit attempts against a consumer accounts.[i] While the future of this rule remains uncertain,[ii] LB 904 would simply clarify that payday lenders may not offer similar products under deceptive pretenses.

Businesses licensed under the Credit Services Organizations (CSO) Act currently provide services that are intended to repair a consumer's credit history. In other states that have advanced payday lending reforms, however, lenders have become licensed as a CSO, brokering short-term loans and charging a fee that amounts to a triple-digit interest rate.[iii]

LB 904 ensures that lenders may only operate within the confines of an appropriate regulatory body—the Department of Banking and Finance—and not the Secretary of State, which licenses CSOs. The need for continued oversight and accountability through DBF is clear, as payday lenders are investigated and fined at a rate that is a clear outlier from other financial institutions.[iv]

An overwhelming majority of Nebraskans support increased, not fewer, consumer protections in the lending industry. A recent AARP poll found that 77% of Nebraskans supported a 36% interest rate cap on payday loans. LB 904 would ensure that Nebraska moves in the right direction on payday lending.

Nebraska can't afford inaction on policies that trap families in a cycle of debt. New child development research links parental unsecured debt to poor socioemotional development in children.[v] We must work toward common sense policies that are responsible and based on a borrower's ability to repay, instead of a system that diverts family resources and attention away from positive investments in children.

We thank Senator Vargas for his leadership on this issue and respectfully urge the committee to advance LB 904. Thank you.

Sincerely,

Julia Tse, Policy Coordinator

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[i] Consumer Financial Protection Bureau, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201710_cfpb_final-rule_payday-loans-rule.pdf.

[ii] Though final, the rule will not require compliance of lenders until August of 2019. In January 2018, the CFPB announced it would be reconsidering the rule, and a Congressional Review Act of the rule has been introduced in the U.S. House.

[iii] Diane Standaert and Sara Weed, "Payday Lenders Pose as Brokers to Evade Interest Rate Caps: The Next Chapter in Payday Lender Subterfuge," Center for Responsible Lending, July 2010, available at: http://www.responsiblelending.org/payday-lending/policy-legislation/states/CRL-CSO-Issue-Brief-FINAL.pdf.

[iv] Ken Smith and James Goddard, "The Payday Lending Problem in Nebraska: An Analysis of Non-Compliance with Regulatory Requirements," February 2017, https://neappleseed.org/wpcontent/uploads/2017/02/ThePaydayLendingProblemInNebraska-2.17.pdf.

[v] Lawrence M. Berger and Jason N. Houle, "Parental Debt and Children's Socioemotional Well-being," *Pediatrics* 137, no. 2 (2016), http://pediatrics.aappublications.org/content/pediatrics/early/2016/01/20/peds.2015-3059.full.pdf.