voices for children IN NEBRASKA

7521 Main Street, Suite 103
Omaha, Nebraska 68127

(402) 597-3100
www.voicesforchildren.com



February 5, 2018

To: Chairman Lindstrom and Members of the Banking, Commerce, and Insurance Committee
From: Julia Tse, Policy Coordinator for Economic Stability and Health
**RE: LB 1105 - Change the transaction loan period under the Delayed Deposit Services Licensing Act**

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

Children do better when their families are thriving economically, and research shows that child outcomes are linked to family income. A systemic approach to easing the impact of poverty on Nebraska's children must address immediate need while also building up financial stability and savings among families. Voices for Children in Nebraska supports LB 1105 because it takes a first step in protecting Nebraskans from a loan product that forces families deeper into poverty and endless cycles of debt.

With some of the highest allowable loan rates in the nation at 461%, current payday lending laws hurt families and drain money from local communities. The consequences of these policies are most acutely experienced in our most vulnerable communities, and many lending storefronts tend to be concentrated within or near high-poverty neighborhoods.

We need to work to ensure that families are empowered to work toward investing in their children's futures. 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. 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.[i] 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.

A recent AARP survey showed extremely strong public support for payday lending reform in Nebraska. Of the 950 Nebraskans surveyed, 77% were in support of laws that would cap annual interest rates at 36 percent and 72% agreed that monthly fees should be an affordable share of the borrower's monthly income.[ii]

We are supportive of the intent of LB 1105 in reviving a serious discussion about payday lending in Nebraska but would also urge the committee to consider additional reforms. The extension of the loan term to a minimum of 34 days ensures that borrowers are afforded more time to repay their loans, and we would also recommend:

- **Reducing "churn"** by ensuring that payments and fees are proportional to a borrower's ability to repay the loan without having to take out an additional loan. Easing the debt trap can be accomplished by requiring that payments be affordable and incremental, while also limiting the allowable fees and charges to be a reasonable share of the size of the loan.
- **A maximum loan term of 45 days**, to align the payday lending industry in Nebraska with new federal protections. In October of last year, the federal Consumer Financial Protection Bureau (CFPB) issued a final rule governing payday loans and similar loan products, after years of public comment and input. When enacted, 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.

- **Closure of the CSO loophole**, to ensure that payday lenders do not evade state law and regulation by operating as a Credit Services Organization (CSO). This migration has been observed in many other states, where lenders have become licensed under the CSO Act and brokered loans with fees that are more than 500% APR. In addition to controverting the statutory purpose of a CSO—to repair and improve consumer credit—lenders would no longer be subject to regulation by the appropriate state body, NDBF, and would instead be regulated by the Secretary of State. This is particularly troubling given the volume of infractions among payday lenders that are investigated by NDBF. The frequency of non-compliance found in payday lenders is an extreme outlier among other financial institutions licensed by NDBF.[iii] The loss of oversight through the NDBF would leave borrowers even more vulnerable to exploitation.

Nebraska still has a crucial role to play in protecting its residents from harmful lending practices, and meaningful reform must address the endless cycle of debt that many hardworking Nebraskans are trapped in. Sixteen jurisdictions have prevented short-term payday lending, and more than half of all states have capped interest rates on longer-term loans. It's clear that Nebraskans understand the need for payday lending reform—we all benefit when more Nebraska families can get ahead and invest in their children. We thank Senator Vargas for his continued leadership on this issue and the Committee for their time and consideration. Thank you.

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[i] 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.

[ii] AARP Research, "2016 AARP Nebraska Survey of 18-Plus: Opinions on Payday Lending," available at: https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2016/2016-ne-payday-lending-res-econ.pdf.

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