voices for children IN NEBRASKA

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To: Chairman Williams and Members of the Banking, Commerce, and Insurance Committee
From: Julia Tse, Policy Coordinator for Economic Stability and Health
RE: Opposition to LB 265 - Adopt the Unsecured Consumer Loan Licensing Act

Nebraska families should have the opportunity to invest in their children's future. Access to fair financial products and common-sense consumer protections ensures that one small emergency expense doesn't lead to a cascade of financial ruin. Voices for Children in Nebraska opposes LB 265 because it doubles down on Nebraska's debt trap by creating a new, longer-term, higher-dollar predatory lending product.

The lending model proposed in LB 265 creates a new debt trap for Nebraska families without meaningfully addressing our state's payday lending problem. **Last year, payday lenders extracted over $29 million in fees alone from Nebraskans, trapping the average borrower in 10 loans within just a year's time**.[i] Much like our existing payday loan product, LB 265 creates a new harmful product with loan terms that are unrealistic for borrowers.

- **Unaffordable payments**. Most borrowers can only afford to make payments at 5% of their gross monthly income. LB 265 fails to ensure that lenders assess whether the terms of the loan are affordable for borrowers, and caps payments at 9% of their income and gives lenders direct access to borrowers' bank accounts.
- **Front-loaded charges.** LB 265 permits a non-refundable 20% fee on the first $300 borrowed, and 7.5% thereafter—these fees are fully earned when the loan is issued and cannot be prorated if the borrower makes a prepayment.
- **Potential for excessive loan duration.** LB 265 only sets forth a minimum loan term of 180 days, while also allowing lenders to charge a monthly maintenance fee of $11.25 per $100 loaned—a fee that does not reduce the principal. Without an overall cap on the total interest and fees charged, these two provisions can create an unnecessarily long and costly loan.

We are also concerned with provisions contained in Sections 33, 35, and 37 of LB 265, which allows lenders licensed under the new product created in LB 265 to become licensed as a payday lender and installment loan lender. Together, this language would **permit lenders to present multiple, unaffordable loan products to a borrower who is struggling to make their payment as a convenient "refinancing" option**, without explicitly violating existing statutes in place that prohibit the renewal, rolling over, or deferral of payday loans[ii] and the language contained in Section 21, Subsection 1(b) of LB 265.

LB 265 creates a new, triple-digit predatory loan product that will largely trap borrowers into a spiral of debt that is impossible for most to climb out of. A few examples of the annual percentage rate (APR) on the new product created by LB 265 are as follows:

- $300, 6-month loan: 258% APR, total pay back amount: $562
- $300, 12-month loan: 221% APR, total pay back amount: $765
- $500, 6-month loan: 245% APR, total pay back amount: $912
- $500, 12-month loan: 215% APR, total pay back amount: $1,250
- $1,000, 12-month loan: 210% APR, total pay back amount: $2,462

Rate limits and reasonable consumer protections are necessary to ensure that Nebraskans have access to safe and affordable loans. Without a reasonable payment-to-income ratio, caps on total interest and fees charged, and additional protections that can effectively prevent renewal and rollovers, Voices for Children in Nebraska opposes LB 265. We are thankful to Senator La Grone for his time and consideration on this issue. We respectfully urge you to not advance the bill. Thank you.

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[i] Nebraska Department of Banking and Finance, "45-931 Report to the Legislature," November 2018, https://nebraskalegislature.gov/FloorDocs/105/PDF/Agencies/Banking_and_Finance/680_20181121-091648.pdf.

[ii] Neb. Rev. Stat. §45-919.