



LEAGUE OF WOMEN VOTERS® OF WISCONSIN EDUCATION FUND

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To: Assembly Committee on Financial Institutions
Assembly Committee on Consumer Protection
Re: Testimony in support of AB 392

The League of Women Voters of Wisconsin Education Fund urges support of AB 392. This bill addresses the concerns that arose in the League's yearlong study of payday lending in Milwaukee County in 2006-2007.

The League found that interest and charges for small, short term loans were excessive and exploitive. For example, a video produced by national chain payday lender, Check 'N Go, shows that triple-digit APR (Annual Percentage Rate) is the norm. The example used by Check 'N Go was an admitted 390% APR.

A 2009 research paper for the Center for Responsible Lending shows that APR does matter, allowing the consumer to weigh the various costs of different kinds of financing on an apples-to-apples basis. A payday loan charge of \$15 on a \$100 loan costs 390% APR. The cost of an overdraft on a bank account is about 18% APR. A small dollar amount loan from one of the 60 credit unions in the state that participate, is 16% to 22% APR. It's easy to see which consumer options are less expensive and more sensible. Using a payday loan to prevent a check overdraft or late credit card payment is grossly expensive.

In a July, 2009 report by the Center for Responsible Lending, entitled *Phantom Demand: Payday lenders create their own demand with loan terms that generate rapid re-borrowing*, it is clearly stated that the borrowers' need for repeat payday loans (rollovers or churning) account for 76% of the total volume of loans. If a borrower cannot pay the entire loan including interest and fees at the end of the first two weeks, they must "roll over" the loan – taking out a new one to cover the entire cost of the first loan. In large part, this is due to high fees charged – now nearly \$60 for a \$350 loan – and the short time period – two weeks – when the loan comes due.

We also need to look at the effect that payday lending has on the state's economy. From only two stores in the mid 1990's, payday lenders now have an estimated 524 stores in Wisconsin (*Financial Crisis in Wisconsin and the Need for a consumer Financial Protection Agency*, Center for Responsible Lending, 2009). Unfortunately, most of these stores are not owned by residents of Wisconsin.

Along with the growth in the industry, an estimated, alarming \$168.6 million leaves the State every year now, enriching the out-of-state owners of payday lending stores. That money could be better spent to expand in-state business and create jobs. The payday lending industry argues fallaciously that a 36% cap will put people – their employees – out of work. In reality, the hundreds of millions of dollars raked in by payday lenders can be put to use buying the food, medical care, transportation, clothing and other everyday needs of borrowers now being victimized. Surely that amount of money would expand or create jobs in the State.

We urge you to support AB 392. Thank you.

The League of Women Voters of Wisconsin Education Fund is a nonprofit organization that promotes informed, active participation in government and influences policy through education and advocacy. There are 17 local Leagues in Wisconsin. The LWVWI Education Fund is a member of Wisconsinites for Responsible Lending.