



**LEAGUE OF WOMEN VOTERS® OF WISCONSIN  
EDUCATION FUND**

122 State Street, #201A  
Madison, WI 53703-2500

Phone: (608) 256-0827  
Fax: (608) 256-1761

<http://www.lwwwi.org>  
[lwwwisconsin@lwwwi.org](mailto:lwwwisconsin@lwwwi.org)

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**CONTACT:** Andrea Kaminski  
608-256-0827

**League of Women Voters to Testify in Favor of 36% Rate Cap on Payday Loans**

The League of Women Voters of Wisconsin Education Fund supports the approval of the Predatory Lending Consumer Protection Act (AB 392) which caps interest rates on small dollar loans to 36% APR. The League will testify in support of AB 392 at the October 7, 2009 joint hearing of the Assembly Committees on Financial Institutions and Consumer Protection.

In a year-long study of payday lending in Milwaukee County in 2006 and 2007, the League found that interest and charges for the small loans were excessive. The League also found there were options at 13% to 16% APR from credit unions that met the need for small dollar amount loans and did so at a much more reasonable rate of interest.

Without the cap on interest rates, some people in Wisconsin are paying over 300% APR interest. To make matters worse, these loans result in an estimated \$168.6 million leaving the state's economy each year to enrich the out-of-state-owners of the payday lenders. (*Financial Crisis in Wisconsin and the Need for a Consumer Protection Agency*, Center for Responsible Lending, September 2009)

Borrowers are caught in a downward spiraling debt trap of increasing fees and compounding interest. More than three-quarters of short-term borrowers are unable to pay the entire initial loan and interest back within two weeks and enter the trap. (*Phantom Demand: Short-term Due Date Generates Need for Repeat Payday Loans, Accounts for 76% of Total Volume*, Center for Responsible Lending, July 2009)

The business model of a payday lender is one that depends on borrowers' inability to pay the entire loan plus interest and charges back in the time allotted. The borrower must "roll over" the loan incurring more fees and interest charges. Some borrowers pay as much or more in interest as the original loan amount.

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

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