Maryland Consumer Rights Coalition

Yes on SB 527– Close the Payday Loophole

Payday loans seem complicated. ***But the answer is really simple: 33% is enough.***

33% is the amount that the Maryland General Assembly decided three decades ago was the right interest rate for a consumer loan. It doesn't matter if the loan is structured as an open-line of credit, a credit service organization, or anything else. 33% is enough.

SB 527 simply says any consumer loan or unsecured consumer credit must not exceed 33% (inclusive of all fees and charges).

What SB 527 Does:

- Affirms that an unsecured consumer loans made through an open-line of credit (inclusive of all fees and charges) cannot exceed 33%

What SB 527 Does NOT Do:

- Prohibit installment lending
- Prohibit fees and charges (as long as they don't exceed 33%)

A company can continue to make installment loans and to include fees and other charges, as long as the cumulative cost of credit does not exceed 33% - Maryland's usury cap for consumer loans.

Why Do We Need SB 527?

CashNetUSA/ENOVA, an out-of-state payday lender, is offering loans through Maryland's open-line of credit to cash-strapped consumers. The interest rate for these loans ranges between 300-400% per loan when you factor in fees and extra costs. Since Maryland has not regulated the interest rates on open-lines of credit, these out-of-state lenders can legally offer these usurious, debt-trap loans to financially fragile Marylanders.

Will This Limit Access to Credit?

No

- While access to credit is critical, there are a number of products offered by credit unions, the subprime market, non-profits and employers that provide small dollar loan assistance in Maryland, but do so within the legal 33% rate. *Access to credit must also be access to affordable, sustainable credit - not 300% credit*.
- Religious institutions also provide short-term loans, utility and telecommunications companies may agree to an extended payment plan, and credit counseling agencies may help arrange for extended payments to creditors.
- Studies from the Pew Charitable Trusts, Southern Bancorp Community Partners, NC Office of the Commissioner of Banks, and Department of Defense report each found that without access to high-cost payday loans, cash-strapped consumers cut back on expenses, borrowed from friends and family, or used a credit card.
- In a North Carolina study, twice as many former borrowers said that the absence of payday lending had a positive effect on them as those reporting a negative effect.

What Are the Benefits to Passing SB 527?

- Ensuring sustainable and affordable credit for cash-strapped Marylanders
- Saving Maryland $141,016,533. According to the Center for Responsible Lending that is how much Maryland saves by maintaining a 33% rate cap.
- Protecting our veterans and our inactive Guard units-at the federal level, the Military Lending Act bans loans that exceed 36% for active military. However, these rules don't apply to veterans and inactive Guard units. SB27 will extend the same protections to our veterans as to our active military members.
- Keeping payday lenders out of Maryland - any amendments to weaken our rate cap or allow new, additional fees is an invitation to payday lenders to see Maryland as a welcoming state for 300-400% payday loans
- Moving in the right direction - as it becomes less clear what role the federal government and the Consumer Financial Protection Bureau will play in protecting consumers, there is a greater need than ever for state legislatures to ensure that legislation and regulation is enacted to protect consumers.

For three decades, Maryland has proudly affirmed a 33% rate cap. Passing SB527-without any amendments-simply continues this proud tradition by proclaiming that 33% is enough.