



SB 527 Shut Payday Lender Loophole: Usury Cap Quick Fix

An out-of-state payday lender has recently begun making loans to Maryland consumers with effective interest rates well in excess of Maryland's 33% usury cap. The payday lender is styling its Maryland product as an open-end line of credit with a 24% APR, but loads it with fees that put the effective rate in the 300% range, depending on the terms of the individual loans. Servicemembers, seniors, and others in Maryland have already been harmed by the payday lenders' exploitation of our laws.

Maryland lawmakers can nip this problem in the bud with a simple technical fix, by making the 33% interest rate cap inclusive of fees for lines of credit.

Maryland's Usury Cap

Maryland's long-standing 33% usury cap has thwarted payday lenders from trapping borrowers in triple-digit interest debt. The harms of payday loans in states where they are allowed are well-documented: they routinely trap borrowers in high-cost debt, leading to unpaid bills, overdraft fees, closed bank accounts and bankruptcies.

Maryland has always acted quickly to slam shut schemes designed to evade the usury cap. It's time for Maryland to do so again to close a loophole being exploited by payday lenders.

The Payday Lender Loophole

From CashNetUSA's webpage, the product advertised in Maryland notes an Annual Percentage Rate as 24%, but the fees increase the cost exponentially, far beyond that cost.

The fees: These loans carry a **transaction fee** of 25% of the amount borrowed. So if a customer borrows \$100, they get charged \$25. There is also a fee called the **minimum interest charge**. This fee amount depends on the amount of the loan. As an example, for a \$500 loan with monthly payments, the minimum interest charge is \$100. The whole schedule can be viewed on the CashNet website.

The minimum payment: The minimum payment will always be at least \$100, unless the account balance falls below that amount. Clearly, this is not an affordable payment for someone who is typically struggling to cover housing, groceries, transportation, childcare, etc. For larger loans, the minimum payment can go much higher. And in fact, in some cases, a borrower making the minimum payment *will never pay the loan off*.

The following scenarios lay out the costs of three loans of different terms. They are conservative; the loans could become much more costly for some borrowers depending on the amount they borrow and whether they continue to draw down additional advances over the course of the loan.

Scenario One: \$300 loan with bi-weekly payments, with fees, has an effective APR of **499%**.

Scenario Two: \$400 loan with monthly payments, with fees, has an effective APR is **306%**.

Borrower pays **\$1,305 in fees and interest**, more than *three times* as much as originally



borrowed.

Scenario Three: \$500 loan with monthly payments. Making the minimum payment every month, after two years, the borrower has paid **\$2,891 in fees and interest**, and *still owes \$300*.

Of that \$2,891, *only \$166 is due to the disclosed 24% APR interest*; the rest comes from the excessive fees that CashNetUSA loads onto its Maryland product.

Marylanders are Already Hurting

Payday lenders are widely regarded as predatory lenders who intentionally trap their customers in debt for long periods of time. Former borrowers report regret for ever taking out payday loans and describe the high costs and the financial problems they experienced.

Servicemembers, seniors, and other Marylanders who complained to the Consumer Financial Protection Bureau about CashNetUSA's Maryland product are no different.

Below are some sample quotes from these complaints, and there are more:

- “This company is taking advantage of people that is in need if I had that kind of money than I wouldn't been borrowing any from them. I am trying to get some assistance because I am rebuilding my credit and this is the last thing I need.”
- “I received a phone call in regards to a pay day loan from XXXX from Cash Net USA I want them reported. Not only was I disrespected but I was threatened. I was told that I would be arrested at my place of employment within XXXX hours if I didn't pay {\$500.00} at that moment.”
- “The lender withdrew funds from my bank account a few day from the normal pay date. When I called I was informed that due to the holiday they redrew the funds earlier and it resulted with my account being overdrawn.”
- “... I accepted an online loan offer from CashnetUSA for {\$1400.00}. I've repaid them more than 4 times the amount I borrowed. In the meantime I learned that "payday " loans were banned in Maryland as of XXXX XXXX...”
- “I live on widow's pension. This is very hard on me”

A Simple Fix Can Protect Maryland's Usury Laws:

To stop payday lenders from making predatory debt trap loans to Maryland consumers with effective interest rates in the triple digits, Maryland lawmakers must simply amend the law to ensure that the fees added to unsecured open-end lines of credit do not cause the cost to exceed 33% annually. This brings



Maryland Consumer Rights Coalition

the costs in line with the costs of other consumer loans under Maryland law.

Maryland has a long, proud history of protecting its consumers from usury. Its authorization of lines of credit is not intended to allow payday lenders to trap borrowers in long-term high-cost debt they cannot afford and will have great difficulty paying off. Those who care about struggling families and the integrity of Maryland's usury laws should move quickly to close off this workaround that out-of-state payday lenders have created to circumvent the intent of Maryland's usury law.