TESTIMONY BEFORE
COMMERCE COMMITTEE, LOUISIANA HOUSE OF REPRESENTATIVES
REGARDING HB 528
ON BEHALF OF INCLUSIV
AND LOUISIANA COMMUNITY DEVELOPMENT CREDIT UNIONS

APRIL 29, 2019

Good morning. Thank you, Chairman Carmody, and the members of the House Commerce Committee for this opportunity to speak with you in support of House Bill 528. And thank you for your interest in this subject. My name is Jules Epstein-Hebert and today I am providing testimony on behalf of Inclusiv and the network of community development credit unions (or, CDCUs) throughout Louisiana. We are strongly in favor of setting reasonable limits on interest rates and charges for small dollar loans while promoting convenient access to affordable credit for Louisianan consumers.

Inclusiv is a national network of over 270 credit unions – member owned, regulated financial cooperatives – with a mission of helping low- and moderate-income people and communities achieve financial independence through credit unions by providing access to safe and affordable financial products and community development services. Expanding access to financially vulnerable or formerly excluded individuals – that is, those who may have no other alternative than predatory lenders – is at the heart of what Inclusiv credit unions do.

The majority of our members in Louisiana have been certified by the United States Treasury Dept. as community development credit unions for their proven focus on low-income communities and people who lack access to financing. CDCUs in Louisiana collectively represent $4.6 billion in assets under management and have more than $3.5 billion in loans outstanding. These institutions closed more than

$1.5 billion in loans in 2018, including $248 million in Payday Alternative Loans and unsecured lines of credit. The need for payday loans is being met by responsible actors in the marketplace.

The loopholes in Louisiana's Deferred Presentment and Small Loan Act encourage out-of-state actors to take advantage of the current permissiveness in this state. The majority of payday lenders in Louisiana are headquartered out of state, and Tennessee- and Texas-based payday lenders are currently charging Louisianans over 700% APR. But this is not merely a local problem. States throughout the nation are grappling with the effects on their economies of predatory lenders, and some successes point to a way forward. In passing this bill, Louisiana would join 16 other states and the District of Columbia that have enacted rate caps of about 36%, saving a combined $2.2 billion dollars annually in fees for their citizens. And these measures remain popular with voters as evidenced by several successful ballot initiatives in Arizona, Montana, Ohio, South Dakota, and Colorado last fall.

This bill is not a case of a solution in search of a problem. Louisiana payday loans carry average annual interest rates of nearly 400%, and cost Louisianans $145 million dollars in fees each year. Do we want to encourage the kinds of businesses that need these margins to survive? This is rarely a short-term fix for the borrower. 87% of payday loans made in Louisiana are made within two weeks of a previous loan being repaid, and the cycle repeats itself with borrowers taking an average of 9 such loans per year. This debt cycle is extremely difficult for borrowers to escape as debts pile up with payments often in excess of the original loan amount. Predatory loans can even lead to further financial hardships such as delinquency on other bills, increased overdraft fees, involuntary loss of bank accounts, and even bankruptcy.

We feel strongly about this issue because it cuts to the core of Inclusiv's mission of extending credit to underserved populations while offering them the tools and services to build stability and wealth. In addition to offering affordable small dollar loans to Louisianans, our member credit unions provide support services such as financial counselling. One New Orleans credit union that participates in our financial counselling program, upon surveying clients, found that the number one issue for respondents was poor credit. A study of national program participants found that 58% of clients who were engaged in the program for at least 6 months improved their credit scores, with an average improvement of 38 points. 60% of those clients with collections debt reduced their collections. The results are clear: combining responsible financial products with support services creates a more stable foundation for building wealth.

Some fear this bill will lead to the end of loan funds in Louisiana. Make no mistake, I would not be here today speaking in support of HB 528 if I thought it would lead to the demise of Louisiana's loan fund industry – consumers deserve practical options. In fact, I sit before you today as a representative of a community development loan fund; one that makes loans to other financial institutions. Consumers need access to financial resources, but do triple-digit interest rates truly represent access? We support HB 528 because it specifically prohibits predatory lenders who are currently charging your constituents unreasonable and exorbitant interest rates that lead to deep cycles of debt. This bill does, however, allow lenders to collect up to 36% APR [including fees], which should be sufficient to allow for a profitable business and insulate lenders from any potential losses.

On behalf of Inclusiv, thank you for your dedication to the citizens of Louisiana, and for using your power to protect the consumers and businesses of this state. Thank you.

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