FOR IMMEDIATE RELEASE
February 4, 2025
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Institute Joins Indiana Organizations in Expressing Concern Over Payday Lending Expansion Bill

Indianapolis, IN – Today, the Indiana Community Action Poverty Institute joined other organizations to stand against attempts from payday lending lobbyists in ways that would place Hoosiers at great risk. HB 1174 would introduce additional fees, including up to an 8% “monthly service fee” on the original principal of a loan, and allow for lenders to charge increased interest rates (up to 36%, in contrast to the current cap of 25%). As a result, some loans could reach well into triple digit APRs. The risk of this, as highlighted by numerous reports from the Indiana Community Action Poverty Institute, is that consumers–particularly those with low incomes–ultimately lose out on much of the money they seek to borrow through such fees and increased interest, potentially trapping families in cycles of debt that take generations to escape.

“Financial drains are a core area of focus for the Institute, and we feel great concern with this law that ultimately undermines the best interests of Hoosiers by increasing opportunities for lenders to take advantage of households in precarious positions,” said Erin Macey, Director of the Indiana Community Action Poverty Institute. “At the Institute, we hear from many individuals who experience a singular moment of need, whether that be to pay for medical bills for children or to turn on the heat in a particularly pernicious cold snap. The issue with loosening restrictions on these loans, however, is then that payday lenders can turn one moment of financial distress into a lifetime of financial struggle.”

Wes Tillett, Executive Director of the Lafayette Urban Ministry, echoes these concerns: “We need to protect the most vulnerable members of our society, not exploit them. Indiana needs to stand against any action that expands predatory loans. LUM urges the Indiana legislature to protect all Hoosiers from those seeking to turn others' financial difficulty into their own financial gain."

During the hearing earlier today, many groups testified in opposition, including:

Alexander Mingus, the Indiana Catholic Conference: “A general concern that we get from our church’s teaching is charging a high level of interest to low-income borrowers.”

Andrew Bradley, Prosperity Indiana: “Our association has perennially elevated the issue of consumer protections as a top priority. Our members are concerned that as basic costs are increasing…families are forced to make trade-offs and they look for relief. Increasing costs on existing products is going to force more Hoosiers into less responsible options."

Brian Lohsl, Indiana United Ways expressed concern about ALICE families, and Gina Leckron, Habitat for Humanity, urged the committee to reject the proposal. "I come to you today speaking as a concerned lender. Already, we have many who are struggling with existing payday loans and cannot pay them back. I think the worst thing that we can do is offer a larger product that gets them into trouble twice as fast." Lindsay Haake, Citizens Action Coalition, expressed concern for individuals making difficult decisions about whether to have heat or eat.

While neutral on the bill, Stephen Taterka, Office of the Attorney General's Consumer Protection Division, illustrated how the bill departed from typical lending laws. "While we take no position on this bill, we thought it might be helpful to illuminate how this bill works. It has a provision for these monthly service fees. I've been doing this work for 40 years and it's the first time I've seen something like that in the context of loans. While it's based on the amount loaned, it recurs every month and that's significant." Stephen shared that on a $2000 loan, this fee would result in a $160 per month recurring charge in addition to interest and other allowable fees.

At the close of the hearing, Representative Hal Slager shared "I couldn't help but notice that the only three people who testified in support of the bill are those that stood to make money." He urged the committee not to put the state's seal of approval on the proposal.

The committee also discussed and advanced an Earned Wage Access bill after substantial committee discussion about an amendment to classify "direct-to-consumer" EWAs as small loans and subject them to the fee limitations and consumer protections in that section of the code. Right now, there are no limits on what EWA providers can charge and no safeguards to prevent borrowers from taking multiple advances at once, something Indiana some borrowers are currently doing. The Institute remains concerned about a regulatory scheme for these products that does not include fee limits or prevent multiple advances.

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About the Indiana Community Action Poverty Institute

The Indiana Community Action Poverty Institute engages in research and promotes public policies to help Hoosier families achieve and maintain financial well-being. We believe that when Hoosiers are financially stable, they can achieve their full potential and better contribute to their communities. The Institute is a program of the Indiana Community Action Association.