Good morning Chairman Teshka and Members of the Committee,

This is a conversation we've had multiple times in the statehouse, and since many of the committee members are new to the IGA or new to this committee, I want to give a brief history for context.

- In 2016, the payday lenders sought to add to their portfolio by offering 6-month loans at 180% APR. This died in a Senate committee.
- In 2017, the payday lenders came back with a proposal to add loans at 240% APR that again died in committee.
- In 2018, a payday-industry backed bill passed the House but gave Governor Holcomb "heartburn" and was not heard in the Senate.
- By 2019, the Senate Financial Institutions Committee had had enough, and passed a 36% APR cap – similar to the military lending act and a number of other states. But an array of lenders including the payday lenders, OneMain, which is known for taking a security interest in a person's car for collateral and packing their loans with insurance products, and Security Finance, which has been sued multiple times for repeatedly refinancing vulnerable individuals on the order of 20 to 30 times - slipped a 70 page amendment into a Commerce bill at the last minute and squeaked through the Senate by one vote and died in the House.
- In 2022, another bill squeeked through the Senate and was rejected in the House.

Across all of these hearings, representatives of veterans groups, churches, township trustees, housing organizations, constituency organizations representing groups like seniors, communities of color, or victims of domestic violence, borrowers themselves have shown up here to oppose these bills. Only the industry has supported them.

Over this time, we've become very familiar with the industry's talking points.

Tribal Lenders

You will hear / have heard that this bill will save people from tribal lenders. This is not supported by the evidence.

1. If you look at tribal lenders, you'll notice that there are often states they do not lend in – and these are typically states that have strong rate caps and aggressively enforce them. I went online yesterday to River Valley Loans and they don't lend in Arkansas (17%) West Virginia or South Dakota
2. In fact, a recent analysis of tribal lenders found that tribal lenders commonly avoid the six most aggressive states and that in these case, very few people who file for bankruptcy have tribal loans.
3. Furthermore, Pew Research Center has found that people in states without high-cost lending are not more likely to go online and take loans.
4. In fact, expensive loans that lead borrowers to struggle can drive them straight to tribal lenders. One borrower we spoke to started taking payday loans when her family lost income because her baby was in the NICU, fell behind on those, and took tribal loans to make up the difference. Finally, she turned to her church for support.

Helpful or Harmful

I think we can generally agree that a loan – especially an expensive one – is not the solution to every financial shortfall. And in this bill, we make loans much more expensive:

- On large loans up to $25,000, we are now allowing a 36% interest rate where previously we had a 25% rate – on a 5-year loan, that's an increased cost of [over $29,000 in finance charges or roughly $10,000 more];
- A new "monthly service fee" - at 8% on the original principal of a $2500 loan, that would add $200 a MONTH on top of the interest and any other fees.

- Depending on how the fees are interpreted, if it’s not contained by the loansharking cap, could mean we had even more expensive – and unlimited – payday loans.

When we talk about lending to subprime borrowers, we are talking about folks with low credit scores, which is based on:

1. Payment history: Someone who is struggling to pay bills on time
2. Amount owed: Someone who has a lot of outstanding debt
3. New credit: Someone who has taken out new loans recently
4. Credit mix: Someone who has more high-risk credit options

Is this someone you’d recommend a $1500 at 180% APR to? The more you increase the cost of credit, the more easily a lender can target and make money even when a borrower will struggle and fail. Lenders will talk about it in terms of a default rate or risk – but each default is a person who is racking up overdraft fees, unable to pay their landlord, at risk of a car repossession, and potentially in need of social services.

So you might rightfully ask, then what do people do in states that ban or limit the rates that can be charged on loans? The Department of Defense was first to look at this after enactment of the country’s Military Lending Act suggested that prohibiting high-cost loans “expands the consideration set of options.” In other words, people do a variety of things when an easy fix isn’t right in front of them. Instead of taking on incredibly expensive debt, they:

1. Negotiate with their existing creditors, such as getting on a payment plan for a medical bill or securing a little more time from a landlord

2. Use much less expensive forms of credit; loan volumes from credit unions and banks in states that curb high-cost loans go up, and folks who may not have realized they were eligible or that these are more affordable options turn to them
3. Delay a purchase until it is affordable. We heard last week about going out to birthday dinner via a cash advance. Maybe that waits four days?
4. Turn to social services sooner. Someone who is underwater financially is grabbing an anchor thinking it's a lifeline and will likely turn to a church, township trustee, or social service provider when that realization drags them further under.
5. Adopt non-monetary strategies. If the car breaks down, they carpool. Maybe a family member helps with the utility bill for a month.

The most recent of these studies - released in 2024 out of Texas - looked at three states that recently had high-cost lending and either banned payday loans or moved to a more restrictive APR cap (New Hampshire, Montana, and Arizona) – they found that not only did borrowers in those state use fewer payday loans and other alternative financial services like overdrafts or pawn loans, they also experienced less difficulty paying their bills.

We are currently a society fueled by debt. In the third quarter of 2024, credit card debt was $1.17 trillion – a record. We just exceeded the pre-pandemic record for car repossessions. Medical debt in collections in Indiana alone is estimated to be $2.2 billion. People in your communities are struggling and they need your support – but they don't need more expensive debt.

I urge you to vote no on this bill.