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SISTERS OF CHARITY
OF LEAVENWORTH

OFFICE OF JUSTICE, PEACE, AND INTEGRITY OF CREATION

## Testimony in Support of HB 2189

Chairman Kelly and Members of the Committee,

My name is John Shively, and I am the Director of the Office of Justice, Peace, and Integrity of Creation at the Sisters of Charity of Leavenworth and we are testifying in support of HB 2189. The Sisters of Charity follow in the tradition of St. Vincent de Paul and St. Louise de Marillac, who began the daughters of charity with a particular emphasis on serving those living in poverty. It is in this same tradition that my office supports this bill. At its core, payday lending as it currently operates hurts those on the economic margins and the unbanked (those without access to traditional financial institutions or lines of credit). So often, these are people experiencing poverty and financial distress. [1] [2] [3]

In the early 1990s, there were fewer than 500 payday loan storefronts in existence nationwide; by 2017, that number had risen to 17,000, or roughly an increase of 3000% in just three decades. At one point, the industry had more than 22,000 locations across the country. [4] [5] This astronomical growth is a testament to both the great need that exists for small dollar access to credit, but also the amount of money the industry was making to support those stores. According to the State Bank Commissioner's Office, there were $266 Million in payday loans created in Kansas in 2018. [6]

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[1] https://www.pewtrusts.org/-/media/assets/external-sites/health-impact-project/hip-2016-payday-lending-report.pdf, "The way current financial institutions operate, and where they are located, also make it harder to build wealth and place less costly small credit out of reach for many people. For example, banks typically do not offer small loans because they consider them to be risky and not profitable. Financial institutions are also not as likely to be located in poor and minority communities…" Pg. 21.

[2] https://www.fdic.gov/analysis/household-survey/ ; "As illustrated in Figure ES.3, about half of unbanked households cited "Do not have enough money to meet minimum balance requirements" as a reason for not having an account—the most cited reason." Pg. 3

[3] Alice Gallmeyer and Wade T. Roberts, "Payday lenders and economically distressed communities: A Spatial Analysis of financial predation," The Social Science Journal 46 (2009): 521-538.

[4] https://fraser.stlouisfed.org/title/inside-vault-6107/fall-2014-586646

[5] https://research.stlouisfed.org/publications/page1-econ/2019/04/10/fast-cash-and-payday-loans

[6] http://www.kslegislature.org/li_2020/b2019_20/committees/ctte_h_financial_institutions_and_pensions_1/documents/testimony/20200217_08.pdf

In 1993, Kansas was among the first states to enact consumer protections on payday loans.[7] Since then, unfortunately, our statutes have lagged statutes in other states such as Ohio, Nebraska, and Colorado, whose reforms have successfully brought down costs to borrowers while maintaining credit access. This bill goes a long way to establishing reasonable protections for Kansas consumer, for example capping the interest rate at 36% APR, whereas under the current statute the APR can be as high as 391%. The bill would also limit loan amounts and allow for installment plans, permitting borrowers to repay over time rather than collecting on the loan via one-time balloon payments.

There is a substantial chance you will receive testimony asking you to allow the free market to work and enable consumers to make their own decisions. This is an essential line of argumentation to address because it is a fair one when the market is working appropriately. However, where market forces *do not work as intended,* it is right for intervention, especially when current market forces are exploitative to consumers. As we discussed above, most of these borrowers do not have access to traditional forms of credit with low interest. In other words, they are a captive market. Borrowers have the choice to either borrow from payday loans (or loans with similar interest rates) or not to take out the loan at all. Data from the Consumer Financial Protection Bureau found that about 70% of borrowers used payday loans for recurring expenses such as utilities, rent, or food. [8] What kind of choice do hard-luck families have when they are fighting to stay in their homes, to keep food on the table, or keep the heat on in the middle of winter – all against the backdrop of an unrelenting pandemic? Families struggling to survive will do whatever it takes and accept whatever terms are presented to them.

Along the same lines, the market for payday loans fails to work fairly because borrowers are price inelastic in their demand. Their concern is not to shop around to each payday loan store and to compare prices to get the best APR. Borrowers are primarily concerned about meeting some immediate financial need and worry about the cost later because "at least we can

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[7] https://www.ustatesloans.org/law/ks/; "Kansas was among the first states to start regulating payday loans on the state level. The same legislature enacted in 1993 (and amended in 2004) still governs the payday lending industry in the state."

[8] https://www.pewtrusts.org/-/media/assets/2016/06/payday_loan_facts_and_the_cfpbs_impact.pdf

stay warm tonight." Studies and interviews indicate borrowers are also more concerned about geographical convenience, hours of operation, lack of paperwork, and speed of access to funds rather than price. This lack of real price competition in the market ultimately benefits the industry, not the consumer.

Catholic Social Teaching makes clear that "The economy exists for the person, not the person for the economy." [9] As they currently exist, payday loan rates are a modern form of usury in which people are exploited for the economy. These rates are fundamentally in conflict with the value of human dignity and work. We believe that we have a moral responsibility to pass payday loan reform for our fellow Kansans. Payday loans can and should work for both the good of the payday loan store and the good of the working poor, and we believe this bill will further that objective. I want to thank you for your consideration of this bill and for reading my testimony today.

[9] https://www.usccb.org/resources/catholic-framework-economic-life-0