



204 SW 8TH AVE • TOPEKA, KANSAS 66603 • PHONE 785-227-9247 • FAX 785-861-7438 • WWW.KSCATHCONF.ORG

Proponent Testimony for HB 2267

Michael Schuttloffel, Executive Director, Kansas Catholic Conference

2017 Special Committee on Financial Institutions and Insurance

October 11, 2017

Chairman Longbine and Members of the Committee:

Thank you for the opportunity to comment on HB 2267, legislation designed to enhance protections for the borrowers and taxpayers impacted by the over 350 “payday loan” entities in Kansas.

Consideration of this issue should always begin with the fact that the vast majority of payday loans are taken out by people in or near poverty. While marketed as a simple and straightforward way of borrowing funds to pay for basic needs, these loans all too often prove impossible for borrowers to repay in the required timeframe, thus requiring them to take on yet more debt. This snowball effect, where financially vulnerable individuals are trapped in a cycle of debt, appears to be the very business model of the payday loan industry. Whereas traditional financial institutions go to great pains to ensure a borrower’s ability to repay, the payday loan industry makes money precisely by loaning to people who cannot fully repay, thus necessitating more lending. Considering the highly regulated nature of most of the financial services industry, it is shocking that these kinds of financial instruments, plainly targeted at economically struggling Americans, have proliferated with so little scrutiny.

The effects of this dynamic ripple out beyond just the borrowers. Once trapped in debt, borrowers turn to private charities and, inevitably, the state for assistance. Our country learned a painful lesson ten years ago with the housing crisis about lending that is not properly connected to an ability to repay. All of today’s accumulated payday loan debt piled high upon low-income Americans is like a cancer eating away at our communities, and eventually the bill will come due, not only for those individuals caught in a cycle of debt, but for society as a whole. We can take small steps now to reduce the recklessness of the current situation, or we can do nothing and hope that there will somehow be no broader consequences.

MOST REVEREND JOHN B. BRUNGARDT, D.D.
DIOCESE OF DODGE CITY

MOST REVEREND JOSEPH F. NAUMANN, D.D.
Chairman of Board
ARCHDIOCESE OF KANSAS CITY IN KANSAS

MOST REVEREND EDWARD J. WEISENBURGER, J.C.L.
DIOCESE OF SALINA

MOST REVEREND CARL A. KEMME, D.D.
DIOCESE OF WICHITA

MICHAEL M. SCHUTTLOFFEL
EXECUTIVE DIRECTOR

HB2267 is modeled after existing law in Colorado that has been in effect since 2010. The bill would cap payday loans at 36% and would limit payday loan payments to an affordable share of the borrower's income (5%). Despite what you will undoubtedly hear today, the legislation allows for the continued availability of small dollar credit products, while rendering them safer and more affordable. Available data confirms that in Colorado, access to loans decreased by a mere 2% after passage of its payday loan law, while the cost to the consumer decreased by 42%. Loan chains who claim they could not do business in Kansas if this law were to pass here currently operate profitably in Colorado under a similar law.

As members of the committee know, the Consumer Financial Protection Bureau's (CFPB) recently promulgated final rule addresses the issue of payday lending, however it does not obviate the need for HB 2267. The new rule does not put limits on rates and fees, and in any event there will likely be challenges to the CFPB's action in the courts and in Congress before the rule is scheduled to go into effect in 2019.

It is long past time for the Kansas Legislature to give this issue the attention it deserves. The fact that Congress has passed a law to protect military families from payday lending should tell you all you need to know about this industry's practices. Lending at an unfair interest rate -- also known as usury -- has been condemned and banned throughout much of human history, across cultures, political systems, and religious traditions. If practices that are intentionally exploitative of vulnerable people can be justified merely by rote appeals to the free market, then it is time to legalize prostitution and drugs in Kansas as well. In a society that regulates the kind of light bulbs and toilets you are able to purchase, the freedom to charge financially desperate individuals a 400% interest rate should not somehow be sacrosanct. Kansas needs a more sensible policy that reins in the excesses of the payday loan industry.

Thank you for your consideration.