

**Opening Statement
Senator Susan M. Collins
Special Committee on Aging**

“Payday Loans: Short-Term Solution or Long-Term Problem?”

July 24, 2013

Mr. Chairman, thank you for holding this hearing to examine the impact of “payday” loans on American consumers, and for assembling such a comprehensive group of witnesses to share their views with the Committee. I am particularly pleased that the Committee will be hearing from Eric Wright, a staff attorney with the Maine Bureau of Consumer Credit Protection. Since the Bureau

was established in 1975, it has earned a well-deserved reputation as a leader in the field of consumer protection. Some two decades ago, I had the privilege of overseeing the Bureau when I served as Commissioner of the Maine Department of Professional and Financial Regulation.

Payday loans are typically unsecured “close-ended,” small-dollar amount loans of short duration, with high up-front costs. Repayment of the loan is typically structured as a single “balloon payment” tied to the borrower’s next paycheck or some other regular source of income.

Payday loans are usually made without “underwriting” – in other words, without a credit check or other attempt to determine the borrower’s ability to repay. In years past, the borrower would simply give the lender a check to be cashed on the borrower’s next payday, which explains why this kind of financial arrangement came to be known as a “payday” loan. Today, it is more likely the borrower will authorize the lender to draw funds directly out of the borrower’s savings or checking account on a pre-set date.

Studies show that payday loans are relied upon by low and moderate income consumers

who need the short-term flexibility that these loans provide, or who have bad credit and cannot get a traditional bank loan or credit card. According to a study by the Federal Reserve, two-fifths of all households considered “underbanked” have used payday loans, and most of these households have done so in the past year. By contrast, only 1 in 20 “fully banked” households has ever taken out a payday loan.

While payday loans can provide consumers with a way to get cash quickly when they need it, the high borrowing costs built into the loan fees can make it difficult or impossible for low-

income borrowers to repay them. Too often, borrowers who get trapped in a cycle of debt are then subjected to aggressive – even abusive – collection practices by some payday lenders.

For many years, the Maine Bureau of Consumer Credit Protection was able to protect my constituents from the worst of these abuses, largely because Maine law tightly regulates unsecured consumer debt, and requires lenders who wish to provide these products to register with the State and abide by statutory limits on fees and interest rates. For these reasons, Maine’s experience with

payday lenders differs from that of other states. “Storefront” payday lenders have not been a problem in Maine, as they have been elsewhere. Banks, also, are not a source of abusive payday loans in Maine. In fact, Will Lund, the long-time Superintendent of the Maine Bureau, has told me that the Bureau has never fielded a consumer complaint over a payday loan where the lender was a state- or federally licensed bank.

But that does not mean that Mainers can’t be victims of abusive payday loan practices. With the advent of the Internet, on-line and off-shore lenders have direct access to Maine

consumers, and not a day goes by when the Bureau doesn't get a call from a victim of an unscrupulous on-line lender who has trapped the consumer into paying off a loan that was never legal to offer in Maine in the first place.

I understand that on-line payday loans still make up a minority of the total payday loan volume nationally, but as the CFPB noted in its recent white paper, on-line payday lending is growing rapidly, and may eventually overtake storefront lending. This raises troubling issues, since on-line lenders typically get authorization from their borrowers to draw funds directly from their bank accounts. Since

**so many of the abusive payday loans affecting
Maine consumers were made by on-line
lenders, I am particularly interested in the
witnesses' views on these types of loans.**

**Again, Mr. Chairman, thank you for calling
this important hearing.**