

# Legal Assistance Resource Center

## ❖ of Connecticut, Inc. ❖

363 Main Street, Suite 301 ❖ Hartford, Connecticut 06106  
(860) 616-4472 ❖ cell (860) 836-6355 ❖ RPodolsky@LARCC.org

### H.B. 5512 -- Payday loans

Banks Committee public hearing -- March 11, 2014

Testimony of Raphael L. Podolsky

Recommended Committee action: **NO ACTION**

This bill caps the interest rate of payday loans at 12%, but permits a number of collateral charges to be added. The bill is unnecessary because payday loans are already effectively prohibited in Connecticut. In effect, this bill affirmatively authorizes payday loans and then subjects them to a low rate cap. While this is not necessarily undesirable, on balance we think the stronger protection for consumers is to stand by the existing statutes and not adopt the bill.

Payday loans are loans made to advance the amount of a worker's paycheck, with the loan repaid from the next week's wage payment. The problem is that many of these one- and two-week loans turn into much longer-term loans, because the current paycheck has been assigned to pay the previous week's loan. The worker needs to take out another loan to meet current needs, leaving the worker trapped in repeat extensions. As this goes on for week after week, the total cost of the loan rises and rises. Although the dollars may have seemed small for one week, annual percentage interest rates (APRs) on payday loans are often 300%, 400%, or more.

Existing Connecticut law does not refer specifically to payday loans but effectively prohibits them by limiting the APR to 12% unless the lender is licensed under the Connecticut Small Loan Act. That statute limits the interest that small loan companies can charge and also requires that they have a physical office within the state. Existing law thus already does what the proposed bill would do, which is to force the rate sufficiently low that the payday loan industry is not interested in seeking out Connecticut residents as customers.