



NEW YORKERS FOR RESPONSIBLE LENDING

THE NYS LEGISLATURE SHOULD REJECT THE “SHORT-TERM FINANCIAL SERVICES LOAN ACT” S.3841-A/A.7047-A

S. 3841-A/A. 7047-A WOULD CREATE A SPECIAL CARVE OUT FOR PREDATORY LOANS. New York State, in its wisdom, has long banned the making of usurious short-term loans, setting the state’s general and criminal usury caps at 25%. The bill (S. 3841-A/A. 7047-A) would create an exclusive, permanent exemption from the state’s strong usury laws – for licensed check cashers only. Although they provide important services, check cashers should not be granted a special interest rate exemption. This would present a dangerous slippery slope and open the floodgates to destructive, high-cost loans. If New York permits check cashers to make usurious short-term loans, the state will be hard-pressed to ban payday lenders, which have long clamored to break into New York’s lucrative market, and others from doing the same.

S. 3841-A/A. 7047-A WOULD AUTHORIZE PREDATORY LOANS AT UNPRECEDENTED RATES. In an effort to mask the true cost of these loans, the bill does not specify the rates or fees that check cashers would be permitted to charge. Instead, the bill would give the NYS Banking Superintendent unprecedented authority to set maximum fees and interest. There is no upper limit on what the Superintendent could set, and Superintendent would be required to ensure that fees and interest rates are high enough to guarantee a profit to the check cashers – *i.e., in the triple digits*. There is no similar law in the country that contemplates guaranteed profit in return for making short-term loans.

S. 3841-A/A. 7047-A WOULD HARM FAMILIES AND COMMUNITIES – NOT HELP. Like payday loans, the loans would be short-term, carry triple-digit interest rates, and be made without regard to people's ability to repay. There would be no underwriting of the loans to consider people's other debts and obligations – basic principles of responsible lending. Like predatory mortgage lending, the abusive short-term loans proposed in the bill threaten the well-being of communities. Despite industry claims of offering a quick financial fix, these loans are designed to ensnare borrowers in a cycle of long-term, often insurmountable debt.

PASSAGE OF THIS BILL WOULD BE A MOVE IN THE WRONG DIRECTION. New York has been a leader among states in consumer protections against abusive financial services and products, for example, prohibiting predatory mortgage lending practices. New York legislators would do great harm to low and moderate income communities, and would lower the bar nationally, by opening the door to a new wave of predatory lending in New York.

THE EXISTENCE OF INTERNET PAYDAY LENDING DOES NOT JUSTIFY LEGALIZING USURY IN NYS. Some bill proponents claim that since payday lenders are soliciting New Yorkers through the internet, the state should license check cashers to make similar loans. This rationale makes no sense as a matter of public policy. We should not open the door to usurious lending in New York just because some entities are violating the usury law through internet payday lending. The state should crack down on this illegal practice, as Pennsylvania and other states have recently done.

NEW YORK STATE SHOULD PROMOTE ACCESS TO SOUND, AFFORDABLE, FAIR CREDIT. Instead of rolling back critical consumer protections, the NYS legislature should affirmatively promote community development financial institutions and other responsible lenders that are in the business of meeting community credit needs in a safe and non-discriminatory manner. The state should work with credit unions and small banks to market their existing products effectively, so that New Yorkers can build a formal relationship with responsible lending institutions and gain access to safe and affordable financial products. That many New Yorkers are struggling financially, having trouble getting from paycheck to paycheck, does not justify the legalization of exploitative lending practices.

New Yorkers for Responsible Lending (NYRL) is a state-wide coalition that promotes access to fair and affordable financial services and the preservation of assets for all New Yorkers and their communities. NYRL's 154 members include community development financial institutions, community-based organizations, affordable housing, first-time homebuyer, and foreclosure prevention groups, advocates for seniors, legal services organizations, and community reinvestment, fair lending, and consumer advocacy groups. For a list of NYRL members, go to <http://nedap.org/programs/nyrlmembers.html>.