



NEW YORKERS FOR RESPONSIBLE LENDING

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The ASSEMBLY STANDING COMMITTEE ON CONSUMER AFFAIRS AND PROTECTION and ASSEMBLY STANDING COMMITTEE ON BANKS

Public Hearing on Financial Services for Low-Income Consumers

**October 5, 2006
New York, New York**

Comments of Saara Nafici, New Yorkers for Responsible Lending, representative

My name is Saara Nafici, and I am here today representing NYRL - New Yorkers for Responsible Lending - a coalition of more than 120 organizations from across the state of New York. [See attached list of members.] NYRL is comprised of a wide range of community-based organizations, neighborhood councils, community financial institutions, affordable housing and first-time homebuyer groups, advocates for seniors, and legal service organizations united in promoting access to fair and affordable financial services and preservation of assets for all New Yorkers and their communities. NYRL is committed to fighting predatory lending practices in the financial services industry through a variety of means, including policy reform, education and outreach, research, and direct services. I am here today to touch upon several predatory lending practices and fringe financial services as they relate to low-income consumers here in New York.

First, I'd like to thank both committees for calling this hearing today, as the State Assembly has the responsibility for taking a leadership role in effecting positive change in terms of how low-income New Yorkers obtain access to fair and affordable credit. NYRL members look forward to working with the Assembly in the future to address some of these issues.

With members all over New York State, NYRL has seen a growing variety of lending practices that present themselves as good credit opportunities for low-income consumers, but in fact are predatory in nature and actually harm the financial well-being of New York consumers.

One such practice is payday lending. Payday loans are small, short-term loans secured by the borrower's post-dated check. When annualized, the APR for these loans can

reach 250%, in addition to fees and other charges. **NYRL strongly opposes any efforts to permit payday lending in New York State.** We support continued prohibition of abusive payday lending in New York State, and oppose exempting payday lenders from New York State's 25% small loan usury cap. We call on the legislature to support small community-based financial institutions that responsibly offer alternative emergency loans at affordable rates.

Similarly, many low-income New Yorkers are subject to unaffordable and abusive credit when they take out tax refund anticipation loans, or RALs. Tax preparers arrange these loans when preparing their clients' income tax filings. Advertised as "rapid refunds," RALs are actually extremely high-cost loans with exorbitant fees and APRs into the triple digits. Deceptively marketed, tax refund anticipation loans drained an estimated \$185 million from New York families in 2003, the most recent year for which data are available. Despite the low risk of these loans, which are secured by the borrower's tax refund and tax credits, RALs typically carry annual interest rates from 70% to 700%. IRS data show that in New York State, nearly eight out of every ten of these loans were made to low-income tax filers, most of whom receive the Earned Income Tax Credit. **With the assistance of responsible tax preparers, low-income filers receive their full refunds and tax credits truly rapidly – through electronic filing and direct deposit of their refunds and tax credits into a bank or credit union account.** New Yorkers for Responsible Lending encourages the legislature to support volunteer income tax assistance (VITA) sites, as well as community-based financial institutions, which provide responsible short term loans.

Rent-to-own stores are another exploitative service targeted at low-income communities. Consumers who are unable to purchase household items outright, or are unable to obtain credit to finance such purchases, turn to seemingly benevolent rent-to-own stores. **However, rent-to-own stores are notorious for their abusive practices,** including: overstating the "cash price" for items to gouge borrowers, repossessing items without notice, and misrepresenting refurbished items as new. These businesses have found ways to circumvent regulations designed to check their practices. New Yorkers for Responsible Lending urges the Assembly to institute more effective regulation to put an end to the exploitative practices of rent-to-own centers.

NYRL encourages the New York State Assembly to restore our state's prohibition against "bounce protection," which the New York State Banking Department removed through regulatory action last year. Bounce protection is a high cost, often usurious, overdraft loan tacked onto checking accounts without notice to consumers, and at a cost that is not reasonably related to any risk incurred by the bank. Misrepresented as a 'courtesy' service by the bank, bounce protection amounts to an extremely lucrative profit-generating program for the banking industry, which disproportionately affects low- and moderate-income consumers.

New Yorkers for Responsible Lending believes that the state legislature can play an active and important role in ensuring that low-income consumers in New York have access to fair and affordable credit and financial services. The services and products that I have briefly outlined today all follow a pattern of circumvention of state laws, with

aggressive and often deceitful marketing, all the while taking advantage of consumers' lack of financial sophistication. Given this landscape, sufficient funding of educational programs and outreach around financial literacy is an initial step the Assembly can take to address this growing problem, working in partnership with community-based organizations – many of whom are members of NYRL. But financial literacy is not the solution to the absence of strong laws and enforcement. The Assembly must strengthen the laws governing these services, as well as ensure strict enforcement of consumer protection laws. As aggressively as scam artists develop new ways to cheat hard-working New Yorkers of their savings and earnings, our elected officials should be just as aggressive in combating predatory consumer practices.

Thank you once again for calling this timely hearing. NYRL members look forward to working with Assembly members now and into the future to educate and build the financial strength of New York's residents and communities.