

**Testimony to the Economic Matters Committee
HB 79 Commercial Law-Credit Services Businesses-Limitations on Fees
Position: Favorable**

January 21, 2010

The Honorable Dereck E. Davis, Chair
House Economic Matters Committee, Room 231
House Office Building
Annapolis, MD 21401
Cc: Members, Economic Matters Committee

Honorable Chair Davis and Members of the Economic Matters Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances and protects the interests of consumers through education, advocacy, and training programs. MCRC works to ensure fairness and safety in the marketplace. Our members include consumer advocates, practitioners, and low-and-moderate income families throughout Maryland.

MCRC believes HB 79 is needed to close a loophole in Maryland's Credit Services Business Act and to support the legislature's intent to prohibit payday lending in Maryland. Payday loans are not legal in Maryland and never have been. Yet, as MCRC's 2007 report "*Limiting the Cost of Being Poor*" documents, payday lenders will go to extraordinary lengths to circumvent Maryland law. The Maryland Consumer Loan Act caps the cost of a \$500 small loan at 33 percent APR. Ten years ago, check cashers tried to get Maryland law amended to authorize payday loans at 391 percent APR for a two-week loan. Ten years ago, the Maryland legislature rejected that initiative and refused to make payday lending legal.

Then, payday lenders partnered with banks in a "rent-a-bank scheme." Working with out-of-state banks, the payday lenders claimed to be brokering loans for their partner banks. To redress this issue, the Maryland legislature amended the credit services organizations law to prevent this practice. Undeterred, payday lenders then tried to disguise payday loans as secured transactions or as payments for other services. Ace Cash Express changed its loan design to claim that such transactions were "secured." In 2002, the Maryland Credit Services Business Act was amended to include secured transactions.

Recently, online lenders have tried again to subvert the Maryland legislature's decision to cap loans at 33 percent. Online payday lenders are partnering with predatory service organizations to charge interest plus service fees making the raising the APR to up to 600 percent, far exceeding the Maryland's rate cap.

HB 79 clarifies that all fees be included within the 33 percent cap. Closing this loophole protects Maryland consumers from predatory payday lenders and is consistent with past actions the Maryland legislature has undertaken to maintain a 33 percent rate cap in the state.

MCRC urges the Committee to support HB 79 to ensure that loans are brokered in such a way that the 33 percent cap is inclusive of all transaction costs.

Respectfully submitted,

A handwritten signature in black ink that reads "Marceline White". The signature is written in a cursive, slightly slanted style.

Marceline White
Executive Director, MCRC