Consumer Federation of America

NATIONAL CONSUMER LAW CENTER INC

FOR IMMEDIATE RELEASE:
Wednesday, August 27, 2008

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Scorecard Shows Many States Fail to Protect Consumers From Abusive Lending Practices

States Urged to Provide Stronger Protections against Rate Gouging Lenders

WASHINGTON, D.C. -- Many states are failing to provide adequate protections for consumers against abusive lending practices according to a new report by Consumer Federation of America, Consumers Union, and the National Consumer Law Center. The report rates the states on how well they protect consumers from excessive interest charges on certain small dollar loans.

"Americans who fall prey to abusive lending practices pay more to borrow money and often end up trapped in an endless cycle of debt," said Jean Ann Fox, director of financial services for Consumer Federation of America. "Unfortunately, many states aren't providing consumers with the protections they need to avoid being ripped off by modern day loan sharks."

States have historically taken the lead to ensure that consumers are not subject to abusive lending practices. The report evaluates how well states have exercised this responsibility by examining the statutory maximum annual percentage rate (APR) of interest for four typical small dollar loan products and whether these products' interest rates are limited by the state's criminal usury cap. The four loan products evaluated in the report are payday loans; auto title loans; six-month, $500 unsecured installment loans; and one-year, $1,000 unsecured installment loans.

States received a "Passing" grade if the loan product's APR was 36 percent or less or if they prohibited payday or auto title loans. States that did not have a cap on the loan product's APR or those that allowed a loan product's APR to exceed 36 percent received a "Failing" grade.

The 36 percent rate cap on small loan lending became a part of civil law in most states by the mid-twentieth century to address the widespread problem of loan sharking. In 2006, Congress enacted a similar 36 percent cap for extensions of credit to active-duty service members and their dependents because of concerns that many were being trapped in debt by abusive lending practices.

Based on a review of existing state laws governing the four loan products, the report found that:

- Eight states and the District of Columbia protect consumers against abusive lending practices for all four small dollar loan products: Arkansas, Connecticut, Maryland, New

Jersey, New York, Pennsylvania, Vermont, and West Virginia. Massachusetts came close to earning a "Passing" grade for all four loan products but interest and fees for $500 unsecured installment loans in that state push the total rate to 37 percent.

- Fourteen states fail to protect consumers against abusive lending for all four products: Delaware, Idaho, Illinois, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Mexico, South Carolina, South Dakota, Tennessee, Utah, and Wisconsin. New legislation taking effect in New Hampshire on January 1, 2009 will cap interest for car title and payday loans at 36 percent, taking the state out of this category.

- States scored the worst when it came to payday loans. Thirty eight states fail to protect consumers against high cost payday loans. Twenty four states fail to protect consumers against abusive six-month, $500 unsecured installment loans and twenty one states fail to protect consumers against expensive auto title loans.

- States scored better when it came to protecting consumers against abusive one-year, $1,000 unsecured installment loans. Thirty three states and the District of Columbia received a "Passing" grade.

"The current subprime mortgage crisis shows how abusive lending practices harm not only individual consumers, but also the overall economy," said Elizabeth Renuart, attorney with the National Consumer Law Center. "Now that the economy is so tight for cash-strapped consumers, it is more important than ever for states to provide reasonable protection against rate gouging by small lenders. Reasonable rate caps are essential to protect consumers, lenders who charge reasonable rates, and the economy. After all, nations have imposed usury caps since at least Biblical times in recognition of the consequences to society when the price of debt drives citizens to destitution."

A copy of the Scorecard can be found online at:
http://www.consumerfed.org/pdfs/small_loan_scorecard_08.pdf and www.paydayloaninfo.org.

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