

[DATE]

The Honorable Ellen Corbett, Chair
Senate Judiciary Committee
State Capitol, Room 2187
Sacramento, CA 95814

RE: AB 377 (Mendoza)

Dear Senator Corbett:

We are writing on behalf of [name of your organization] with respect to Assembly Bill 377 (Mendoza), addressing deferred deposit transactions, commonly known as payday lending. We are opposed to this measure because it potentially increases the maximum loan amount from \$300 to \$500 (increasing the likelihood of a debt spiral for consumers) and expands Internet payday lending. Moreover, the bill will do nothing to truly address the debt trap created by payday lending and may hamper efforts to establish true reform of this troubled industry by creating the illusion of reform.

[INSERT A BRIEF PARAGRAPH DESCRIBING YOUR ORGANIZATION]

Under existing law, the high cost of payday loans, together with the short two-week repayment term, virtually ensures that cash-strapped borrowers will not be able to meet their basic expenses and pay off their loan at their next payday. It follows, then, that increasing the amount of debt payday borrowers owe will only increase the likelihood that payday borrowers will not be able to pay off the loan at their next payday, and will be more likely to land in the debt trap.

Internet payday lending is not specifically authorized in California; the law is silent on the subject. Yet this bill would specify certain electronic notices that must be used in Internet lending, establishing a *de facto* authorization of Internet lending and potentially expanding the scope and volume of payday lending in California.

Moreover, the bill purports to aid troubled payday borrowers by requiring payday lenders to offer a repayment plan once in a 12-month period. However, experience in other states such as Florida, Oklahoma and Washington shows that payment plans do little to help end the debt trap. The average number of loans per borrower per year in those states is comparable to the national average of 9.

Indeed, as proposed in AB 377, few borrowers would actually choose the payment plan. Today, many borrowers who are unable to repay their loan end up taking out a new loan to pay off the outstanding loan. It is this practice that leads many into the payday loan debt trap. Under AB 377, borrowers would be given the choice of continuing that practice—which costs them \$45 out of pocket—or opting for the payment plan, which requires an initial payment of \$75. It is easy to see that many

borrowers are going to choose the option that is cheaper in the short term, and simply take out a new payday loan. Few would choose the payment plan.

We do not think that increasing maximum loan amounts, legitimizing Internet payday lending and offering unattractive re-payment plans provide meaningful reform. We urge you to reject this measure and support efforts that provide meaningful reform and help end the debt trap for low-income borrowers.

Thank you for your consideration,

Sender's Name

Sender's Title

cc: Senator Tom Harman, Vice Chair, Senator Dean Florez, Senator Mark Leno, Senator Mimi Walters, Senator Darrell Steinberg, Assembly Member Tony Mendoza, California Reinvestment Coalition