Even during the best economic times, high-cost payday and installment lenders prey upon the financially vulnerable and trap them in triple-digit interest debt, leaving them far worse off than when they started. During periods of sustained crisis, this harm will be far greater if not reined in. For consumers experiencing income instability, high-cost debt they cannot afford to repay will only deepen their economic hardship.

The Californians for Economic Justice Coalition, of which California Reinvestment Coalition is apart, recently pushed for, and your office signed into law, AB 539. This victory secured a 36% annual percentage rate (APR) cap (plus the federal funds rate) on loans between $2,500 and $10,000 where there previously was no rate cap. However, for loans below $2,500, including payday loans of up to $300, Californians remain vulnerable to high rates of interest. In 2017, California borrowers paid an average of 377% APR on their payday loans, according to the Department of Business Oversight (DBO). Moreover, since the last economic crisis ended in 2009, lending in the $300 to $2,499 space has more than tripled, highlighting the need for responsible, fair, and affordable credit during times of financial turmoil.

It is clear that high-cost, small dollar lenders target low-income Californians and our communities of color, and that these loans are a debt trap by design. According to the California Department of Business Oversight (DBO), in 2017, 74% of payday loan borrowers had an annual income below $50,000, 83% of total payday loans were issued to consumers who had previously borrowed a payday loan, and 61% of payday loans made to the same borrower were made the same day that their previous transaction ended. Making matters worse, payday lenders can take direct access to consumers’ bank accounts and seize income, including stimulus checks and unemployment insurance that should be going towards people’s basic necessities like food and rent. This leaves consumers vulnerable to overdraft fees, delinquency on other bills, an involuntary loss of their bank account, and even bankruptcy. It is evident that these high-cost debt traps are the exact opposite of what low-income Californians need now: increased access to government-provided benefits and access to low- or no-cost financial services.
During this time of crisis, California should limit interest rates and be vigilant in protecting consumers. Specifically, we urge Governor Newsom to issue the following guidance with respect to loans below $2,500 that are untouched by AB 539, effective immediately and for a minimum of 120 days, or until the state of emergency is lifted (whichever is longer):

- On new loans issued and for loans made as of March 4, but renewed on or after the date your office issues this order, cap rates at 15% APR, inclusive of all fees and charges. This would make California the most protective state in the country for loans in this dollar space.
- For all new loans issued, and for loans made as of March 4, but renewed on or after the date your office issues this order, such loans shall remain capped at 15% APR, inclusive of all fees and charges. This will prevent these loans from becoming triple-digit debt traps once the crisis ends.
- Order that when payments become due, balloon payments shall be prohibited.
- For new loans issued and for loans made as of March 4, but renewed on or after the date your office issues this order, urge that lenders take payments manually rather than by direct deposit, to protect consumers from bank fees that drive people deeper into debt.

To adequately protect consumers, we urge your office to set a clear implementation plan of these emergency guidelines that includes lenders losing their license if they are found to be in violation of these rules (WI guidance example).

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