Date: July 28, 2014

To: **Missouri Public Service Commission**

From: Robin Acree, Executive Director

GRO – Grass Roots Organizing

RE: **Rule Making, Public Comment**

Case Number **AW-2014-0329**

ATT: Natelle Dietrich, Director of Utility Operations

GRO – Grass Roots Organizing is a nonprofit membership organization made up of mainly rural Missouri households (1,265 individuals) plus a little over 200 growing sustainers statewide. The organizational mission is to create a grassroots voice to win economic justice and human rights for all Missourians. Our group is approaching a fourteen year milestone of standing with and standing up for marginalized Missourians and Americans.

We educate to activate consumers to work on vital civic and economic issues. We seek improved access to decent jobs, public benefits, such as Medicaid, energy assistance, housing, education and social services. A few of our successes include running local and state ballot initiatives, getting an automatic door for enhanced accessibility at the Columbia post office, preventing demolition of affordable housing, attracting a Federally Qualified Health Center (FQHC), and providing IRS volunteer income tax assistance (VITA) for area residents.

GRO advocates for all types of consumer protections, including predatory lending reforms. We get especially concerned when private for profit entities prey upon the most vulnerable in our State. The payday pitched short-term loans aggressively entice and ultimately trap our fellow Missourians in a spiral of long term debt. Attached is a document called “Payday Loan Fact Sheet” that outlines some of the problems we perceive with this loan product.

Missouri policy makers, regulators and state agencies must be diligent and proactive to protect residents. So, even if the PSC rule is not full-proof or fail-proof, NOT having a rule at all, leaves companies, consumers, and our Commissioners at risk. They would risk the public’s perception of promoting this type of storefront, exposing their customers to predatory products and increasing the likelihood of further payment arrearage crisis as a result.

Public regulated utilities must remain trusted reputable companies. A PSC rule to prevent using these types of “shady” lending business as payment center location now and in the future is necessary. We often refer to this lending industry as “whack-a-mole”. Their attorneys and corporate lobbyists are really good at getting around consumer laws, protections and fair debt practices to advance their profits. The political environment must shift towards the people.

Several years of direct consumer experience educating and advocating shows us that our Missouri constituents find themselves in payday loan debt initially from a financial household emergency—such as not having the rent payment or facing a utility shut-off. Fred while unemployed used his wife Jeannie’s disability check at a payday lender (unbeknownst to her) to keep the lights and the heat on. The couple’s marriage suffered and they filed Chapter 13.

Terry needed to pay his household bills. Fees, charges and credit problems the loans caused landed him homeless for six months. Monica went to a payday storefront for $330 to avoid disconnection and eviction. Found her way in a courtroom drama for $787 plus court costs. The harm is documented in these stories and the connection to borrowing money to pay a utility bill to prevent disconnect is clear enough.

Payday lenders market multiple products and inflated priced services from high poverty area store locations (rural and urban). The industry's overall business model is to get a potential loan customer in the store once to get them as returning customer. The argument that the utility bill payment center and loan making are somehow totally separate, we find absurd. And, with no other Missouri business is it legal to take a postdated check to present as "payment." Often for consumers it is an act of desperation. If you don't have the money today—most likely you won't have it next week either.

See page 6 of "Show Me the Predatory Lending," by Brenda Procter summarizing the harmful financial consequences of payday loans:

http://extension.missouri.edu/cfe/wcap/Show-MePredatoryLendingReport.pdf

See this report cited in Brenda's report highlighting that payday loan access is associated with delinquency on other bills such as utility bills

Melzer, B. T. (2011). The real costs of credit access: Evidence from the payday lending market. The Quarterly Journal of Economics, 126, 517–555

http://qje.oxfordjournals.org/content/126/1/517.full.pdf+html

Here are links to a couple of articles describing what happened in Arizona in 2007 when the gas and utility companies severed their ties with payday lenders as bill payment centers

http://www.opportunitystudies.org/wp-content/uploads/2011/11/AZ_Payday_Loan.pdf

http://tucsoncitizen.com/morgue/2007/06/22/55362-stanton-sw-gas-ditches-payday-loan-link-after-column/

The PSC is charged with the mission to ensure that Missourians receive safe and reliable utility services at just, reasonable and affordable rates. And, that you will provide an efficient regulatory process that is responsive to all parties, and perform duties ethically and professionally.

Please do the right thing to protect Missouri utility customers. We ask that the Missouri Public Service Commissioners proceed with rule making in case number **AW-2014-0329.**

Just the Facts: Beat Back the Payday Attack with these Seven Tips

1. **Payday loans are a dangerous product**. Most lenders expect loans to be repaid within 14 days to coincide with a typical borrower's payday. For many consumers, this means that most of their paycheck will pay the full cost of loan, and leave little to nothing to cover remaining expenses. In this situation most borrowers will either get a new payday loan to cover their remaining expenses, or get a second loan from another company to cover the first payday loan. This debt trap can continue for months or years until the borrower can fully pay the initial loan principal with enough funds remaining for other expenses.[1]

2. **Payday lenders tout loans as reasonable.** Payday lenders frequently cite statistics that show that up to 94% of their loans are paid on time. They often claim as evidence that payday loans are fair for consumers. In fact, data from the Center for Responsible Lending (CRL) shows that these loans are only paid on time because ***94% of all borrowers become repeat borrowers within 30 days***. 87% open new loans within two weeks, and 50% of repeat loans are originated the same day.[2]

3. **Payday loans trap borrowers in a cycle of debt.** A 2013 CFPB study confirms these findings: Two-thirds of payday loan borrowers take out seven or more loans in a year. Most of those transactions occur with 14 days of a previous loan being repaid. The median borrower takes out out ten payday loans from a single lender during a year, paying $458 in fees for $350 in principal.[3]

4. **Payday industry targets people of color in high poverty areas**. A study conducted by NPA of neighborhoods in Illinois, Kansas, Michigan and Missouri found that neighborhoods with a high population of African-Americans or Latinos have on average two payday lending locations within one mile, six payday lenders within two miles, and 12 payday lenders within 3 miles. Predominately white areas, in comparison, had an average of two payday lenders within two miles, and about four payday lenders within three miles.[4]

5. **Payday puts profits before people.** NPA's study confirmed the findings of a previous study conducted by CRL in California, demonstrating that the payday lending industry is directly profiting from structural racism: "since payday lenders do not compete on product or pricing, locating a store near people who are more likely to try this service—

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[1] Parrish, L & U. King. 2009. "Phantom Demand: Short-term Due Date Generates Need for Repeat Payday Loans, Accounting for 76% of Total Loan Volume." Center for Responsible Lending.
[2] Montezemolo, Susanna. 2013. "The State of Lending in America and its Impact on US Households." Center for Responsible Lending: http://www.responsiblelending.org/state-of-lending/reports/10-Payday-Loans.pdf
[3] Consumer Financial Protection Bureau (CFPB). 2013. "Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings." CFPB: http://1.usa.gov/1aX9ley
[4] National People's Action (NPA). 2011. "Credit Segregation: Concentrations of Predatory Lenders in Communities of Color

and then become trapped by repeat borrowing—is critical… Even when controlling for all other variables, **race and ethnicity are among the most important factors explaining payday lending storefront locations**.[5]"

6. **Usury is unlawful and immoral.** In states where payday lending has been effectively banned; banks, credit unions, state and local governments, for-profit companies and nonprofit agencies have stepped up to fill the void with small-dollar loans and other alternatives at reasonable rates.[6]

7. **Predatory lenders' use deceptive marketing tactics to entice and keep consumers coming back.** Independent installment lenders, however, are not a cure-all. While some studies have shown that with proper regulation, installment lending can be an affordable payday alternative,[7] a recent ProPublica investigation has shown that Installment loans can be deceptively expensive. Installment lenders typically "push customers to renew their loans over and over again, transforming what the industry touts as a safe, responsible way to pay down debt into a kind of credit card with sky-high annual rates, sometimes more than 200 percent… when state laws force the companies to charge lower rates, they often sell borrowers unnecessary insurance products that rarely provide any benefit to the consumer but can effectively double the loan's annual percentage rate.[8]"

[5] Li, Wei, et al. 2009. "Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California." Center for Responsible Lending.
[6] Center for Community Capital. 2007. "North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options." University of North Carolina: http://ccc.sites.unc.edu/files/2013/08/NC_After_Payday.pdf
[7] Pew Charitable Trusts. 2013. "Payday Lending in America: Policy Solutions." http://www.pewtrusts.org/en/research-and-analysis/reports/2013/10/29/payday-lending-in-america-policy-solutions
[8] Kiel, Paul. 2013. "The 182 Percent Loan: How Installment Lenders Put Borrowers in a World of Hurt." ProPublica: http://www.propublica.org/article/installment-loans-world-finance