AB 3010

California Deferred Deposit Transaction Law

Assemblymember
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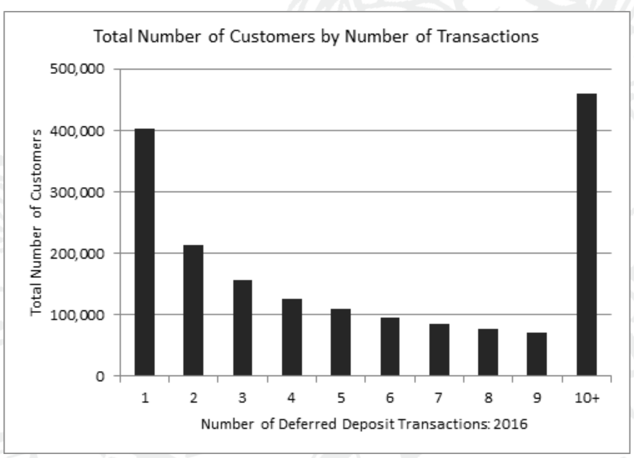
37TH DISTRICT

AB 3010 maintains access to capital for California consumers through payday lending while instituting responsible practices that prevent consumers from entering a cycle of debt.

BACKGROUND

In 1996, in an attempt to bring clear statutory authority and greater accountability to the check cashing industry, the Legislature passed and the governor signed SB 1959 (Calderon). This created the California Deferred Deposit Transaction Law. Later, SB 898 (Perata) shifted the responsibility for oversight and administration of payday lending to the California Department of Business Oversight (DBO). Highlights from DBO's 2016 *California Deferred Deposit Transaction Law – Annual Report and Industry Survey* include:

- Total dollar amount of payday loans: $3.14 billion.
- Annual average percentage rate for payday loans rose to 372 percent.
- Senior citizens represent the largest age group taking out payday loans.
- 460,521 customers took out more than 10 payday loans in 2016.



As this data shows, nearly a half-million Californians are taking out more than 10 payday loans over the course of a year, paying an average percentage rate of 372 percent with a substantial number of these loans going to the elderly. This activity represents a significant burden to these individuals, their families, their communities and the state.

As a result of these and other concerns, the federal Consumer Financial Protection Bureau (CFPB) issued a final rule governing several lending practices including payday lending. The CFPB established an ability to repay principle that included a one-loan-at-a-time practice and the use of a national real-time database for lenders to access loan history data for consumers.

Uncertainty over the commitment of the current administration to enforce these rules has led the author to introduce this legislation to protect California consumers.

THIS BILL

AB 3010 seeks to maintain access to capital for California consumers through payday lending while restraining practices that lead consumers into a cycle of debt by implementing the following:

- **One-Loan-at-a-Time.** No consumer can take out a second payday loan from any payday lender until the first loan is satisfied.

- **DBO database.** The Department is given the authority to establish a real-time database that lenders can use (and DBO can track) to ensure they are not violating the One-Loan-at-a-Time provision.

PURPOSE

The goal of AB 3010 is to maintain access to capital for California consumers through payday lending while instituting responsible practices that prevent consumers from entering a cycle of debt.

The underlying rational for a One-Loan-at-a-Time approach to payday lending rests on the consumer's ability to repay. If a borrower does not have the ability to repay the first payday loan it becomes even more difficult to manage a second. Additional fees required with each new loan continue to erode the borrower's ability to repay ultimately pushing them into a financial situation where keeping up with the loan fees is all they can manage. As the borrower digs themselves deeper into a financial hole, paying off the loan slips further out of reach. Research done by the CFPB and contained within their final rule concerning payday lending highlights this concept. The CFPB concluded that in order to ensure consumers are not taking out multiple loans at a time a real-time database needs to be available to lenders and regulators.

An Industry Concern: Payday lenders argue that this bill would reduce access to capital for Californians. A review of the policies in other states suggests otherwise. CFPB research shows minimal impacts on access to capital in Virginia, Washington, and Colorado after those states implemented more drastic restrictions than proposed by this bill. The goal of this legislation is to reduce the number of borrowers that end up in an untenable financial situation, while maintaining access for borrowers that can repay the loans.
As noted in the chart contained in the background section of this sheet, current law allows a substantial number of borrowers to take out more than 10 payday loans over the course of a year.

Even with a One-Loan-at-a-Time policy in place a consumer would still be able to take out one loan a month for a total of 12 loans in a year. The author believes that this level of access to payday loans maintains the ability of Californian's to use payday loans to meet those unexpected emergencies while maintaining a prudent approach to borrowing.

AB 3010 presents a well-researched approach to payday lending that is consistent with federal CFPB rules that protect consumers with only a moderate impact on industry.

SUPPORT

California Reinvestment Coalition
Coalition for Humane Immigrant Rights
Consumers for Auto Reliability and Safety
Consumers Union
East Bay Community Law Center
Law Foundation of Silicon Valley
Mission Economic Development Agency
New Economics for Women
Public Counsel
San Francisco Office of Financial Empower

OPPOSITION

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