Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Vincent C. Gray**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: JUN 25 2007

SUBJECT: **Fiscal Impact Statement: "Payday Loan Consumer Protection Act of 2007"**

REFERENCE: **Bill Number 17-132 as Introduced**

Conclusion

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation would result in a negative fiscal impact on the local General Fund of $123,000 in FY 2008 and an overall impact of $527,000 for the FY 2008 through FY 2011 period.

Background

Current District law prohibits, with exceptions, businesses from charging interest on loans at annual rates exceeding 24 percent. The proposed legislation, Bill 17-132, addresses two of the current exceptions to the 24 percent interest rate cap: for loans secured by checks held for "deferred deposit," and for certain loans in excess of $1,000.

The proposed legislation would amend Chapter 3 of Title 26 of the D.C. Official Code to restrict certain lending practices conducted by financial institutions in the District of Columbia. Specifically, the proposed legislation would amend sections § 26-301, § 26-317, and § 26-319 of the D.C. Official Code to remove the special provisions for "deferred deposit" transactions, which are currently exempt from the usury laws of the District.[1] A "deferred deposit" loan (commonly known as a "payday loan") is a short-term cash loan secured by the borrower's

[1] The "Check Cashers Act of 1998" (D.C. Law 12-111) created the current exemption for deferred deposit transactions.

personal check held for deposit after an agreed upon period of time (typically two weeks). A borrower must repay the loan amount plus a finance charge (under current District law, capped at 10% of the loan amount) and a fee (under current District law, fee ranges from $5 to $20, depending on the loan amount) within the specified time period. These charges translate into annual percentage rates (APR) of greater than 300 percent. The proposed legislation would limit the interest charges in such transactions to 24 percent per annum.

In addition to eliminating the usury exception for deferred deposit transactions, the proposed legislation would amend D.C. Official Code § 28-3301(d) to increase the ceiling for loans subject to the District's interest rate cap of 24 percent per annum from $1,000 to $2,500.

The likely outcome of the legislation is the cessation of payday lending in the District by removing the special provisions that exempt deferred deposit transactions from the District's interest rate cap and by raising the loan ceiling subject to the interest rate cap.[2]

Financial Plan Impact

Funds are not sufficient in the FY 2008 through FY 2011 budget and financial plan to implement the proposed legislation. The proposed legislation will reduce revenue collections by an estimated $123,000 in FY 2008 and $527,000 in the FY 2008 through FY 2011 period.

There are currently six businesses, which operate at 49 locations in the District, with payday lending authority.[3] The fiscal impact of the proposed legislation arises primarily from the revenue loss resulting from the likely reduction (in several cases to zero) of taxable business income of the 49 District vendors authorized to make deferred deposit loans. Of the 49 vendors, approximately 20 are "mono-line" vendors providing deferred deposit transactions only. The absence of these 20 vendors would result in a corporate income tax loss to the District of approximately $72,000 in the first year. In addition, with the closure of 20 vendors there would be the loss of an annual $200 license renewal fee per store, or a $4,000 reduction in District revenue.

For the remaining 29 vendors, there is likely to be a reduction in business activity resulting from the effective prohibition of deferred deposit transactions. Assuming a vendor revenue reduction

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[2] Eleven states, including Maryland and West Virginia, have statutorily banned or effectively prohibited payday lending by subjecting these loans to the small loan or usury laws of the state, which is what the proposed D.C. legislation would do. Even though a typical payday loan is for two weeks, the corresponding APR for these loans ranges from 300% to 500%, depending on the loan amount. The proposed District legislation would reduce this triple-digit APR to a maximum of 24%. This would make payday loans significantly less profitable, which would probably lead to an effective end of the practice in the District. The on-the-spot "check cashing" business is not targeted by this legislation.

[3] Source: D.C. Department of Business, Securities, and Banking. Three of the businesses with payday lending authority account for 46 of the 49 locations in the District.

of approximately 35 percent, the District would forego about $47,000 in corporate franchise tax revenue in the first year.[4]

Estimated Impact to the Financial Plan of the Payday Loan Consumer Protection Act of 2007 ($ in 000s)					
Item	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**4 - Year Total**
Reduced Revenue Collections	$119	$125	$130	$137	**$511**
Reduced License Fee Collections	$4	$4	$4	$4	**$16**
Net Annual Impact	$123	$129	$134	$141	**$527**

Note: Future year revenue loss is based on the OCFO's estimated growth in corporate tax revenue from the May 2007 revised quarterly revenue estimate.

[4] The estimate of 35% is derived from an analysis of the revenue sources of First Cash Financial Services, Inc., a company that provides payday lending, among other financial services. In FY 2006, "cash advance and credit service fees" comprised approximately 35% of the company's total domestic revenues. Thus, it is reasonable to estimate that removing payday lending would reduce revenue of a typical check casher that provides multiple services by about 35%. Source: First Cash Financial Services, Inc., *2006 Annual Report*, page 25.