HABITAT FOR HUMANITY OF INDIANA

Blocking predatory lending in Indiana

In early 2018, Habitat of Indiana played a pivotal role in stopping state legislation that would have authorized new types of high-cost loans offered by payday lenders, with interest rates up to 222 percent per year. In spite of huge financial and lobbying support from the national payday loan industry, Habitat and its coalition partners were able to persuade the state Senate to block the payday lending expansion, securing an important victory for very low-income residents targeted by destabilizing, high-rate loans.

Background

"Payday" loans are high-cost, small-dollar loans that are paid in lump sum out of a borrower's next paycheck. In Indiana, the median loan is $300 with an effective annual percentage rate of 382 percent. Frequently, one payday loan leads to another. The typical borrower takes out 10 loans per year, paying high fees with each loan. Indiana law currently limits the highest rates to loans of $50 to $605, but under the state's current loan sharking law, lenders can offer larger loans of up to $1,500 with APRs of up to 72 percent.[1]

For Habitat Indiana, the issue of payday and other high-cost loans is personal, affecting both potential and existing Habitat homeowners. In 2016, an Evansville couple nearly lost their home to foreclosure after taking out payday loans. Like many other borrowers, they did not fully understand what they had signed up for. They had to take out other payday loans just to pay off the first. With the majority of their income going to lenders to cover ballooning balances, they soon missed housing payments.

Fortunately, the Evansville affiliate became aware of the homeowners' situation and was able to forge a plan with them to return to financial stability. However, high-risk loans remain an ever-present, destabilizing force in many Indiana communities. According to a 2015 study, storefront lenders in Indiana are nearly as common as McDonald's. In very low-income communities, they are especially ubiquitous, making them a tempting remedy for families with no other options to fall back on when experiencing a small financial crisis.

Payday and other high-cost loans negatively affect homeowners as well as Habitat applicants. "We have people that can't get a house with us because of payday debt," explains Gina Leckron, Habitat Indiana's state director. At Evansville Habitat, for example, 42 percent of applicants are turned away because of nonmedical debt issues, according to Executive Director Beth Folz. "We've not tracked how much payday lenders are part of that," she says, "but this tells you that debt is a huge issue."

High-rate loan debt may start with something as simple as being short on a heating bill. In poorly insulated rental homes, utilities can run as high as $300 per month in Indiana. The original $300 loan can balloon into hundreds if not thousands more if other loans are needed to pay off the first. The growing debt becomes a difficult cycle to break out of, leading to lasting credit damage and difficulty later on qualifying for even the 0 percent-interest mortgages offered by Indiana affiliates.

[1] Indiana Institute for Working Families, *Payday Lending Policy Brief*, December 2017 (incap.org/documents/PaydayLendingPolicyBrief_2017.pdf).

Payday lending expansion plans

Indiana House Bill 1319, introduced in 2018, would have allowed payday lenders to charge up to 222 percent APR —triple the existing cap —for loans of $605 to $1,500. While not technically "payday" loans, the new loans would be issued by payday lenders and repaid in installments rather than being secured by a paycheck. To improve reception in the legislature, sponsors later amended HB 1319 to include a payment-to-income limit of 20 percent, a longer-than-typical payback period of three to 18 months, and plans for a statewide loan database.

Despite these changes, the extremely high interest rates authorized by the bill greatly concerned Habitat Indiana and its coalition partners. "For very-low-income families, many of whom are already paying 50 percent of their income on housing, a loan eating up another 20 percent means there's not enough left over for basics like getting to and from work, putting food on the table, paying for medicine for kids, etc.," Leckron explains.

For context, the U.S. Department of Defense forbids lenders operating on their bases from charging interest rates greater than 36 percent. Fifteen states have also implemented a cap of 36 percent or less to protect borrowers from the debt trap of higher-interest loans.

Advocacy

Habitat Indiana and its coalition partners faced formidable odds in opposing HB 1319. Leckron describes it as "David and Goliath." The national payday lending industry has spent $1.1 million on lobbying at the Statehouse since 2007. For this bill alone, it spent more than $250,000, hiring four lobbyists, including two ex-legislators. The industry has also contributed at least $600,000 to campaigns since the 2008 election cycle.[2]

On the other side of the bill stood Habitat Indiana and other members of the Prosperity Indiana coalition, a statewide association of nonprofits engaged in housing development, employment-generation, business development and social services. Other allies included faith leaders and the Indiana Institute for Working Families research center.

This was not Habitat Indiana's first involvement in state legislation, but it was easily its most challenging to date. Formed in 2001, Habitat Indiana first got involved in state legislation in 2011 to secure a SAFE Act exemption for Habitat affiliates having to pay mortgage-licensing fees under new federal law. Since then, Habitat Indiana has acted on various issues affecting affiliates and Habitat's constituents generally, often as part of coalitions. Recent victories include preserving a state tax credit for Individual Development Accounts, which help low-income individuals save for things like down payments and higher education.

State director Leckron shepherded Habitat Indiana's transition into legislative advocacy. At Truman Heritage Habitat, she saw firsthand how elected officials do not necessarily understand the issues of low-income people — and the impact of minor add-on costs for affiliates and low-income homeowners— unless someone speaks up.

Habitat Indiana was already in the habit of reviewing proposed state legislation, and in conversations with other nonprofits, when HB 1319 was introduced in 2018. In January, 23 members of the Prosperity Indiana coalition traveled to the statehouse to testify on the bill. However, the legislators allotted only enough time for a handful of them to speak. Additionally, three lobbyists from the payday lending industry had the last word and rebutted most of what opponents had said.

The bill narrowly passed the House, 53-41. The House speaker took the rare step of voting on the bill (in favor), signaling that this was a priority for him. Other attempts to expand payday lending had been proposed in previous years but had never passed the House. Habitat and Prosperity Indiana resolved to intensify their efforts in the Senate.

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[2] indystar.com/story/news/politics/2018/02/27/loan-shark-rates-bill-dies-senate-committee-despite-push-payday-lenders/378608002/.

Habitat had already scheduled a state Habitat Lobby Day for early February, so affiliates used the occasion to put the lending issue on Senators' radars while also thanking them for participating in a recent "Statehouse Build" on the lawn of the state Capitol. In total, 33 affiliate leaders spoke to nearly 40 senators on the issue.

Habitat Indiana had been educating affiliates about the payday lending issue for a while, so affiliates were prepared to speak knowledgably not just about families impacted by the legislation, but also about the legislation itself. Speaking about families was especially powerful for legislators, as many had met and worked alongside partner households during the previous year's Statehouse Build. Also, as lenders with a combined portfolio of more than $400 million and a successful repayment record, affiliates were able to make a strong case for fair terms. As Leckron says, "It's not that very-low-income borrowers don't have the ability to repay these loans. It's simply that they need affordable terms."

Impact

On Feb. 28, Republican Sen. Mark Messmer blocked the payday lending bill from a hearing in his committee, effectively killing the bill for the 2018 session. "There was a lot of negative reaction from the advocacy groups," he said, explaining his motive.[3]

Coalition members credit two tactics for turning the tide and delivering this victory: 1) Op-eds by the faith community opposing the bill; and 2) Habitat's Advocacy Day. Habitat's involvement changed how the opposition was seen, Leckron explained. As one legislator told Leckron, Habitat's role signaled that opponents were not just the usual "group of bleeding-heart charities." Also, Habitat Indiana has developed a strong reputation at the Statehouse as a housing provider, the product of several years of relationship building between affiliates and legislators, including invitations to house blessings and other activities. In 2017, Habitat was designated "Charity of Choice" by the state legislature.

Habitat's participation in the payday lending victory sets it up to pursue bigger legislative achievements next. Coalition partners are already working on a "36 is the Fix" campaign for the next legislative session to lower the state felony loan sharking law interest rate cap from 72 percent to 36 percent. (A similar effort was proposed in early 2018 as SB 325, but it failed to advance. See "Resources" below.) As before, Habitat Indiana will not be driving this effort but is "on the team." This frees up the organization to focus on housing-related conversations, such as the governor's new workforce housing initiative and the possible creation of a tax credit for donating to homeownership organizations like Habitat.

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Lessons

1. **Relationships are fundamental**. Habitat worked diligently to build relationships with legislators long before the payday lending issue came up. "Our advocacy is ultimately relational, not transactional," Leckron says. "We don't always ask them for things — that's been really key to our success."
2. **Habitat's reputation can be powerful.** Habitat is viewed differently from other community development organizations and developers in Indiana. This was not really clear to Leckron until the most recent legislative session. For many legislators, Habitat is seen as "more closely aligned with Republican values." At the same time, Habitat is viewed as distinct from for-profit developers. This distinction became apparent during Habitat's successful advocacy to exempt single-family homebuilders from new fire-sprinkler requirements. It was significant for one legislator that Habitat was among those concerned about the issue because, in his words, "it's not just greedy builders."
3. **"We should have been doing advocacy all along."** Before Habitat's communication with legislators on the SAFE Act exemption and other issues, "We weren't even on their radar," Leckron says. Now legislators

[3] southbendtribune.com/news/business/committee-chairman-kills-divisive-indiana-payday-lending-bill/article_17694995-1e06-51ae-9d1f-6a5d6a18e500.html.

call Habitat from time to time to discuss issues or even to ask for help with home construction, such as when a tornado hit Indiana in 2012.

4. **Engage selectively in issues that matter to your affiliates.** Getting affiliates involved in Statehouse lobbying was a challenge initially. Many affiliates were not sure if advocacy was for them, just as Leckron herself had wondered earlier in her career. For many, the SAFE Act exemption issue was their first involvement. The fact that this and many issues since have directly affected their interests helped encourage affiliates to take a first step. Affiliates now trust that Habitat Indiana will not call on them unless it is an important issue, Leckron says. Also, since getting involved, affiliate leaders have become more confident that their voice matters and that they can make a difference.
5. **Know when to hold your political capital, and when to use it.** Habitat Indiana did not lobby the speaker of the House during their effort to stop HB 1319. They knew he was supporting the bill, and they did not want to risk turning their relationship adversarial before next session's discussions about a workforce housing tax credit. "We have to walk a tight line sometimes between advocating and not burning bridges," Leckron says. Going forward, that also means leading on affordable housing issues but playing a supportive role in upcoming payday lending advocacy to reduce interest rates to 36 percent.

Resources

- Gina Leckron, State Director, Habitat for Humanity of Indiana; (317) 454-8090; **gina@habitatindiana.org**.
- INCAP Fact sheet HB1319: **incap.org/documents/HB1319FactSheet-opposevssupport-draft2b.pdf**.
- SB 325 Reform Bill: **iga.in.gov/legislative/2018/bills/senate/325**.
- HB 1319: **iga.in.gov/legislative/2018/bills/house/1319**.
- Payday Lending Policy Brief: **incap.org/documents/PaydayLendingPolicyBrief_2017.pdf**.

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