EXHIBIT 2
DATE 2-15-05
HB 494

Testimony – HB494

Good morning Chairman and Members of the Committee.

My name is Jessie Lundberg. I am a foreclosure prevention counselor with a HUD Housing Counseling Program in Missoula. I am also the coordinator of the Montana Alliance for Responsible Finance, a statewide anti-predatory lending coalition.

I am here this morning to talk about "Fast, Easy Cash." Driving through Helena this morning on my way to the Capital I counted seven payday lenders, all advertising "Fast, Easy Cash". You've all seen them – you can't miss them. So just how fast and easy is it? Many of the payday loan borrowers I have worked with tell of payday lenders ignoring the 25%-of-income limit, giving borrowers loans they could not afford to repay. Others explain how they were surprised that payday lenders didn't even ask whether the borrower owed on other payday loans, or any other debts.

So by all indications, payday loans are fast and easy to get into. Our concern is that the fast and easy part stops there. **Ninety-one percent of all payday loans are made to repeat borrowers with five or more payday loans per year.**[1] Once the borrower is stuck in the loan, they have little control over how soon they pay it off. The average payday loan customer "rolls over" their loan ten times per year, paying off a loan that is due by taking out a new one[2].

This "Fast Easy Cash" has turned out to be a fast, easy way for subprime lenders to cash in on hardworking families in times of crisis. As a foreclosure counselor, I have worked with several families who got caught up in payday loans trying to make ends meet, and ended up narrowly avoiding foreclosure, although some families have not been so fortunate.

Over the past year, I have worked with Representative Franklin and concerned organizations across the state to address the problem of predatory payday lending in Montana. I am here this morning, along with several other proponents of this bill, to tell you that predatory payday lending is devastating families in our state, and I will share with you some of these stories. I have no doubt that opponents of House Bill 494 who are here today will be able to provide examples of families who will say just the opposite, that in fact they found the loans to be beneficial. And that's fine. Those customers who like these loans at 650% APR, should absolutely love them with the 36% APR proposed in House Bill 494.

Is there a need for short term loans to help out in emergencies? Absolutely. The demand for these loans is undeniable. Does that demand justify unethical and predatory lending practices? We do not believe it does. There exists a demand for

[1] Keith Ernst, John Farris, and Uriah King, "Quantifying the Economic Cost of Payday Lending," Center for Responsible Lending, 2003 (www.responsiblelending.org)
[2] Renuart, Elizabeth, "Payday Lending Myths and Realities." Indiana Department of Financial Institutions, January 2001. (www.dfi.state.in.us/ucc/PaydayMyths.html)

many products and services that we know to be harmful to families and communities – illegal substances being one of the best examples. Like substance abuse, the problems caused by predatory payday lending create a burden on entire communities, whose social service agencies have to pick up the pieces after a family hits rock bottom.

Is it a stretch to compare addictive drugs to payday loans? Not as much as one might think. From the experiences families relate, it can be hard to tell the difference. I hear things like, "It was a downward spiral." "We thought we would be able to use it just once but then we couldn't get out." "It took all of our money until we couldn't afford to pay our rent." For a family struggling to make ends meet, payday loans can become the drug that offers a financial quick fix while steadily deteriorating their financial health. Not exactly the picture of a helpful financial product.

No state in the country has adopted higher payday or title loan fees than Montana. Under HB494, payday loan fees would be capped at an annual percentage rate of 36%, consistent with national model consumer protection legislation. Twenty states require payday lenders to comply with annual percentage rate caps of 36% or less, and payday lenders continue to operate in those states. We feel an APR of 36% is more than fair; anything higher is simply taking advantage of desperate borrowers.

Opponents of our proposed consumer protection provisions will claim that our proposed fee cap will put them out of business, and low income borrowers need this service, or they will be left without any means to obtain emergency credit. Our response to that is two-fold. One, this type of predatory credit does not help borrowers, but digs them deeper into debt. It is never helpful to extend credit that is beyond a borrower's ability to repay, and this is one of our biggest complaints about payday lending – there is no underwriting and little consideration of whether the loan is within the borrower's means. The lenders know they are likely to get their money one way or another - charge-offs and defaults are surprisingly low.

Two, we are working with the Montana Credit Union Network and credit unions across the state to develop affordable community-based alternatives. There is certainly a need for short-term emergency loans, and we feel it can be met responsibly and ethically, in a way that actually helps the borrower to regain financial stability, not destroy it.

I would like to share with you two excerpts from testimony we will submit from payday loan borrowers, and then close.

(Excerpts from Testimony of Michael & Leslie McNulty and S.S.)

I would like to close with an analogy that's a favorite of the payday loan industry. They like to say that payday loan fees shouldn't have to be measured using an Annual Percentage Rate because it's a short term loan that is not designed for that purpose. They like to say that it's like taking a taxi ride and asking what the fare would be from

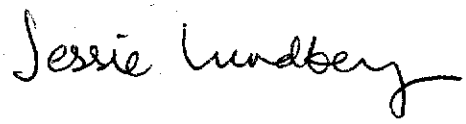
New York to LA, and how ridiculous we must be to ask them to do that. I have three things to say to that:

1) The federal Truth in Lending Act requires all lenders to disclose loan costs using annual percentage rates so that consumers can fairly compare different credit options, and know what they are getting into.
2) When you read payday loan industry reports, as you will see on the handouts I passed out, you might find it interesting that they are quick to cite the profit on a single payday loan as an annual percentage rate in the hundreds, while discouraging the same disclosure to customers.

3) Lastly, if you ask a payday loan customer how well the taxi ride analogy fits the nightmare they went through, I think they would put it differently. It's more like they got in a taxi expecting a ride across town, and instead they were taken for a ride across the country before they were let out, broke and possibly even homeless.

Montana families and communities don't need predatory payday lending. They work hard and they deserve fair credit. Please protect Montana consumers by supporting House Bill 494.

Thank you.



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February 2, 2005

Testimony letter
WORD (futures)

Dear Representative,

I am writing to give you testimony for my experience with predatory lending. I am 29 years old, a single mother, I have a BS and I am an RN with a high profile job at a hospital here in Missoula. I have all of the debt that goes along with starting out as a teen mother; I finished high school and went to college at the time of "welfare reform" when assistance with day care and cash was harder to get than pulling teeth. I used student loans and worked as a library assistant along with other odd jobs to get through school. I ended up with > $40.000 in loan debt and terrible credit from accepting credit cards that came in the mail (with $300.00 limits that never got paid), and selectively paying what bills I could manage while keeping a roof over my sons head. Needless to say I have not been able to borrow money "the normal way" through a bank because of all I did to survive getting here. To make things worse I fell short of money after sustaining a back injury at work in which I was off duty for two weeks. I had already sent off my rent check and expected my automatically deposited check to be more than it was. To prevent the rent check from bouncing it was suggested to me from a friend to get a pay day loan. I went to the company and with my pay stub, ID and a bank statement they gladly handed me $300.00 cash. My rent check didn't bounce, I was happy. However, pay day came around again and I didn't have the money to cover expenses plus the loan with interest. I felt desperate to stay above water. Due to my back injury I was placed in a light duty position and was not allowed to work extra shifts. Sometimes its all a blur because of the stress of it all. When my next check came I didn't have enough for the interest and the loan so I decided to get another loan. I was so nervous that they wouldn't give one to me if they knew I had one already… the next service didn't ask, they simply handed me another $300.00. With the combined interest on the two loans I had to pay $124.00 every two weeks. I was in no position to have a bill for $248.00 a month. The two-week pay period started to seem like only two days and I had to get another loan. I thought I had stumbled upon a solution when I found an agency that would let me borrow for a whole month. I got a third loan and it was another $300.00. This did nothing to help me, I was now renewing the loans and paying $313.00 a month in interest. My other bills went by the wayside. My credit card balances maxed-out, I deferred my student loans, I was behind in rent and we were not eating very well. I ended up moving in with a friend because for the first time since I was 17 years old I couldn't care for my son and myself. I don't come from a family with money reserves so asking for help wasn't an option. I ended up with 7 payday loans equaling the cost of the loan and $>900.00 a month in interest. I have to make excuses at work to come in late on paydays so I can get to the bank and get the money out before checks go through, go renew them all and put the $300.00 back in and wait for the bills to start bouncing. I am drowning. I have paid them down a few times and paid a few of them off only to find myself renewing one then another to make ends meet. I feel humiliated and devastated by this situation. I recently got a tax return and a new apt. I am working on paying each loan $50.00 down each

payday to try to get rid of them but it is very difficult. The other hard part about paying off the loans is that you can only pay it down in increments of $50.00. So, if I go and pay off a loan + interest, I am paying for example $365.00 then to pay it down you can renew it for $250.00. And so forth every two weeks. In all I think I have paid >$6000.00 in interest on these loans. I have been struggling through this cycle every two weeks since June of 2004 and am at my wits end.

Anything you can do to change the ability of these lenders to charge so much in interest would be helpful. It would be even more helpful to do away with them completely. It might force us all to look at how we (Montana families) can survive.

Because of my job and position in the community I do not feel comfortable releasing my name with this testimony. I can be reached through Naomi Thornton at WORD.

(Date)02/09/2005

House Business and Labor Committee
Montana House of Representatives
PO Box 200400
Helena, MT 59620-0400

RE: HB494 – Written Testimony

Greetings Chairman Keane and Members of the Committee:

Thank you for the opportunity to testify about an issue that has seriously affected our family's life in the past year. **We ask you to support HB494, to add better consumer protections into the payday lending laws.** It is in the best interests of working families like ours. Otherwise, families will continue to be taken advantage and harmed by these loans, like our family was.

My wife and I and our 4 children lived in Kalispell up until 5 months ago. I was working full time but like many families we were barely making ends meet. One month, I thought I would try a payday loan so that we could pay our rent, and we planned to pay it back in two weeks after I was paid. We were told that the loan would be due in two weeks, and that is when I postdated my check for.

The payday lender (Quik Check) cashed our check after holding it for only a week. We do not know how they did this, but what happened was when our landlord went to cash our rent check, it would not clear because there wasn't enough money left in the account. We had tried to time it so we could pay our rent on time, and then pay off the payday loan a week later.

Instead, our family was evicted because of what happened with the rent check. We found ourselves homeless, and had to come to Missoula to stay with relatives until we can get back on our feet. I have been sued by the landlord and other companies , also I am facing felony bad check charges in Flathead County, even though I wrote the rent check and other checks in good faith that the money would be there. This never should have happened, and wouldn't have happened if the payday lender had followed their agreement that both parties had signed, and agreed to.

Also, the loan Quik Check gave me was for $300.00 dollars At the time I was making about $1200.00 dollars a month, supporting a family of 6. I didn't know the loan was not supposed to be more than 25% of my income, which this loan definitely was.

Based on our experience, the payday loan situation was a devastating one, and we weren't even in the loan for one week. The Quik Check got their money and left us to sort out the damage. **Please vote for HB494 to make sure that families who need help are protected from being taken advantage of, and payday lenders are held accountable. Thank you.**

Sincerely,

Michael & Leslie Mc Nulty

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February 14, 2005

House Business and Labor Committee
Montana House of Representatives
PO Box 200400
Helena, MT 59620-0400

RE: HB494

Greetings Chairman Keane and Committee Members:

We urge you to support HB 494, which will protect Montana borrowers from predatory payday loans by replacing critical consumer protections into the Deferred Deposit Lending Act. In order to stop predatory payday lending, HB 494 will:

- Create a responsible APR cap of 36% (currently there is no APR cap; the average payday loan has an APR of 600-700%.)
- Require payday lenders to disclose loan costs using APR consistent with the federal Truth in Lending Act, so borrowers may compare credit costs;
- Require a fair period of time for repayment so borrowers are not trapped in a cycle of repeat payday loans;
- Require payday lenders to accept partial payments toward principal; and
- Create civil liability in cases of lending violations, regardless of whether violations were intentional.

As a Community Housing Development Organization (CHDO), we are concerned that payday loans threaten the ability of low and moderate income families to enjoy stable housing and become first time homeowners. Families need access to fair and affordable credit opportunities in order to overcome emergencies without becoming trapped in a cycle of overwhelming finance charges and debt. We understand that families have emergencies, and often have limited options. This is why we are thrilled to work with the Montana Credit Union Network and its member credit unions as they develop affordable short term loans to meet this need in a way that won't hurt families and communities.

At the same time, families will remain vulnerable to predatory lending practices unless these practices are prohibited. We believe that HB494 will most importantly protect Montana consumers, while providing a fair opportunity for the payday lending industry to continue in a way that is responsible and ethical.

Please support HB494 to ensure Montana families do not lose hard-earned income, assets, and opportunities to predatory payday lenders.

Thank you,

Judy Smith
Interim Director
homeWORD

Addition to homeWORD Testimony – HB 494

One senior couple who came in for assistance through our foreclosure prevention counseling program had taken out two payday loans, and were trapped in a cycle of taking out two new loans each week to pay off the old ones when they came due. They were paying $300 per month in finance fees, for two loans totaling $600.

They were losing their house to foreclosure even though she worked two jobs, and he had also returned to fulltime work from retirement. The couple ended up having to sign the deed back over to their lender to avoid foreclosure, and became renters at the age of 61 and 62. When their housing counselor offered to help them try to work something out with the payday loans, they declined, saying, "They (the payday lenders) are really nice. They don't harass us; we just go in and pay them every two weeks and they leave us alone, so we are not worried about them." Of course, the payday lenders were holding signed checks that basically provided security for these loans, so they wouldn't need to worry too much about losing their money.

This is an extreme case but demonstrates how a person can be trapped in multiple payday loans and not even comprehend the damage that is being done.