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April 22, 2014

To All Vermont Employers:
A Letter from the Vermont Attorney General

Via Press Announcement

Re: Illegal Lending in Vermont

Dear Vermont Employers,

There has been a recent rise in illegal and predatory lending activities, particularly over the Internet. We are writing you in connection with the Attorney General's response to the issue, and to request your assistance in these efforts

Financially-distressed consumers are increasingly borrowing high interest, small-dollar loans from online lenders, with damaging consequences. As the Center for Responsible Lending recently described, such loans are "designed to trap individuals in long-term debt" and have a "devastating impact on families' financial well-being."¹ Contrary to industry defenses, the loans are not typically used for short-term or emergency expenses.²

In Vermont, our office has investigated one lender who funded 427 loans (\$993,025 in principal), and earned \$888,950 in interest and fees alone, at an average annualized interest rate of 136%. As an individual example, one Vermont consumer complained of taking out a \$400 online loan (at over 300% annualized

¹ See Center for Responsible Lending, "CRL issue Brief," October 4, 2013, *available at* <http://www.responsiblelending.org/payday-lending/research-analysis/State-Enforcement-Issue-Brief-10-4-FINAL.pdf>

² See National Consumer Law Center, "Stopping the Payday Loan Trap," June 2010 ("Various studies have found that 40 to 60% of consumers take out payday loans to cover routine expenses like utility bills, rent or groceries, or nonessential items"), *available at* http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-stopping-payday-trap.pdf

interest) and paying back over \$1,000 within five months (mostly through automatic withdrawals from his bank account)

Vermont has strict laws regulating commercial money lending, including by requiring a state license to lend money (8 V.S.A. § 2201), and capping interest rates at 12-24% annually (9 V.S.A. § 41a) Vermont also bans “payday loans” (i.e., loan advances contingent on a postdated check). See 8 V.S.A. § 2519(a)(13)

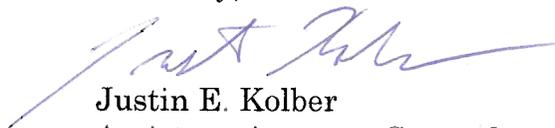
Despite Vermont’s laws, out-of-state, online lenders often fail to comply with state law Therefore, the Vermont Attorney General has taken action to address the illegal lending problem from several angles: enforcing Vermont law against responsible parties (such as lenders and their processors), and requesting assistance from those who play a role in the web of illegal lending (such as television networks and internet providers that advertise for lenders, and financial institutions who can work more closely with consumers). We have also published consumer tips, including alternatives to online loans.

We are writing to request that all Vermont employers consider offering salary advances for their employees. This would provide a legal,³ low cost, and more financially-secure alternative for cash-strapped consumers. By offering salary advances on reasonable terms (such as allowing repayment plans over a limited number of months), you would be providing a tremendous benefit to Vermont consumers, and helping to diminish a growing public policy problem.

For example, the United Way of Chittenden County has implemented a successful income advance loan program under its “Working Bridges” employer collaborative program The “Working Bridges” loan program connects employers and financial institutions, to help employees meet emergency needs, begin savings and build credit. Please consider this program by visiting:
<http://www.unitedwaycc.org/resources-for-companies/working-bridges/>

Please feel free to contact me with any questions or suggestions for how we might better protect Vermonters. Thank you for your assistance

Sincerely,



Justin E. Kolber
Assistant Attorney General

³ If the employer is not charging any interest or fee for the advance (i.e., the employer only requires repayment of the exact amount advanced), then it is not a loan. If the employer receives some compensation (i.e., charges a fee or interest), then under 8 V.S.A. § 2201(d)(1), no lending license is required for anyone who lends an aggregate of no more than \$75,000 in one year at interest rates of no more than 12%