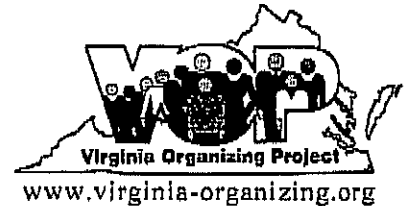


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October 1, 2006

The Honorable Harvey Morgan
Chairperson, House Commerce and Labor Committee
General Assembly Building
Post Office Box 406
Richmond, Virginia 23218

Dear Delegate Morgan,

I am writing to you on behalf of the statewide membership of the Virginia Organizing Project with a clear message: Virginia's payday lending system is in need of drastic reform! As chairperson of the House Commerce and Labor Committee, we hope you will do everything legislatively possible to correct the many, many problems related to payday lending.

There are 776 payday lending operations in the Commonwealth, owned by various companies. That's three times the number of Starbucks' stores and twice the number of McDonald's restaurants in our state.

In some neighborhoods, these establishments are literally on every block. Payday lenders notoriously target military personnel, low-wage workers, single mothers, and the elderly, as well as communities of color that have seen traditional banks flee from their streets.

The reason lenders set their sights on these special (and especially vulnerable) populations is because folks living paycheck to paycheck are far less likely to pay back a payday loan. That may sound strange — why would lenders want customers to default? Because payday lenders make their exorbitant profits from people caught in the "debt trap."

Payday borrowers can rarely pay back the full amount of the loan (known as a "balloon payment") within two weeks of receiving it. After all, if you need \$300 to take care of a car repair, chances are you won't be able to miraculously produce an extra \$300 from your next paycheck, usually dedicated to food, transportation, health care and childcare. Even when borrowers enter the store on payday to repay their debt, store employees encourage them to "float" the loan by paying the fees (and none of the principal) to roll it over. In Virginia, these fees are \$15 for every \$100

Delegate Harvey Morgan
October 1, 2006
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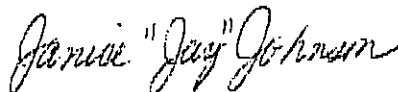
borrowed, or up to 782 percent annual percentage rate! In the \$300 example above, you would have already paid \$45 for the original amount and then you would pay another \$45 every two weeks — without reducing the debt a cent. And so the cycle of debt continues! The Center for Responsible Lending estimates that the average payday borrower pays \$800 to borrow \$325.

Perhaps the General Assembly could not have predicted how much of a problem that payday lending would become when they passed the Payday Loan Act of 2002. But now it is abundantly clear. Last year alone, more than \$167 million in fees were sucked directly out of hard working Virginians' paychecks and deposited directly into the pockets of out-of-state lenders.

The legislature now has a chance to correct the egregious error of legalizing this industry by passing Delegate John O'Bannon's House Bill 619, which would repeal the Payday Loan Act and require that payday lenders follow the same rules as every other financial institution, including having their loans be subject to a much more reasonable 36 percent annual percentage rate cap.

Thank you very much for your attention to this important matter.

Sincerely,



Janice "Jay" Johnson
Chairperson