HB 2089:

Payday Lending Modernization

DCBS | Consumer and Business Services

Division of Financial Regulation

Background

To help Oregonians avoid a cycle of high-interest debt, the 2006 Legislative Assembly adopted HB 1105.

HB1105:

- Set a 36 percent interest rate cap on payday loans
- Limited origination fees to $10 per $100 loaned
- Established a minimum loan term of 31 days
- Limited lenders to two renewals
- Implemented a seven day cooling off period

Background cont.

The 2007 Legislative Assembly, extend 36% interest rate to title and consumer finance lenders:

HB 2204 (title loans):

- 36 percent interest rate
- $10 per $100 loaned origination fee, and
- 7 day “cooling off” period for title loans

HB 2871:

- Capped origination fee at no more than $30
- Extended the 36 percent interest rate to longer term consumer finance loans

Background cont.

In 2010, SB 993:

- Prohibited more than one origination fee during the term of a loan, including all renewals
- Limited title lenders to one loan per title

ORS 725A does not clearly prevent a payday lender from making multiple loans to a consumer so long as it is not within 7 days of the “expiration” of a loan.

The payday loan problem

Nationwide:

- 80 percent of payday loans are made within 14 days of a previous loan
- 4 out of 5 payday loans are re-borrowed within a month
- 1 in 5 payday loans ends in default

In Oregon:

Stop The Debt Trap, surveyed 400 Oregonians earning $20-$30k/yr.

  - 31 percent were unable to repay a payday loan without re-borrowing
  - 24 percent had more than one loan at a time
  - Individuals earning $15K-$25K most likely to use payday loans

The payday loan problem

In Oregon:

- Licensees can loan up to $50,000
- Payday lenders lend a maximum of $300
- Will offer to lend more if consumer returns the next day.
- Do not, generally, offer renewals
- Examination of one payday lender revealed:
  - 16,000 next day loans resulting in an additional $436,981 in fees charged to consumers
    - 5,991 second day loans
    - 4,637 third day loans

The payday loan problem

In Oregon:

- Licensees can loan up to $50,000
- Payday lenders lend a maximum of $300
- Will offer to lend more if consumer returns the next day.
- Do not, generally, offer renewals
- Examination of one payday lender revealed:
    - 16,000 funded the day after the original loan, resulting in approximately $437,000 in additional fees charged to consumers
        - 5,991 the day after that ($179K); and
        - 4,637 the day after that ($139K)

Doing the math

Customer A: one $600 loan	
Principal	$600
Fees	+ $30
Interest	18.34
Total	$648.34
Effective APR	94.86%

Customer B: two $300 loans	
Principal	$600
Fees	$60
Interest	18.34
Total	$678.34
Effective APR	153.73%

Why we are here

HB 2089 limits payday lenders to issuing one loan to a consumer at a time.

This requirement:

- Allows consumers to pay the loan back
- Maintains balance between consumer access to loans and preventing a cycle of high-interest debt
- Limits lenders not consumers

Alternatives to Short Term Loans

Bridge services, offered by many banks and credit unions, provide short-term relief for consumers.

Examples are:

- Skipping payments
- Overdraft protection
- Forbearance

Alternative small dollar loans are offered by many:

- Credit unions
- Some consumer finance lenders offer payday alternatives
- Peer-to-peer lending

Thank you

Department of Consumer and Business Services,
Division of Financial Regulation