

Strengthening Payday Loan Laws: Affordable financial services for hardworking Oregonians SB 545 – SUPPORT

Background

Many hardworking Oregonians rely on short-term “payday” loans to buy food and pay their bills. These loans, unlike those in many other states, are unregulated and have exceedingly high interest rates. Payday loans do not provide helpful credit, but instead drive families into chronic debt.

The payday lending industry has grown tremendously in recent years – between 1999 and 2003, the number of loans increased 138% and the value of the total loans increased 236%. There are now more licensed payday loan stores (227) in Oregon than there are McDonalds. This growth has come at the expense of working families and children.

Current payday loan regulations

There is no minimum loan term, and the industry standard is 14 days. This short loan term, coupled with high interest rates – typically 15-20% – creates an Annual Percentage Rate (APR) of 360% to 500%.

A loan can currently be renewed, or rolled over, a maximum of three times and the amount of the loan can be no more than 25% of monthly net income.

Example:

Mary and her two children have a monthly net income of \$1,200. Her car that she needs for her job breaks down, and she takes out a \$300 loan for 14 days at 15% interest. She renews the loan three times, paying an additional \$45 of interest each time for a total of \$180 of interest. Mary is unable to pay down the principal of the loan without the children going hungry. A collection agency is now contacting them about the loan.

Proposed payday loan regulations

- In order to lower the effective APR, a minimum loan term of 31 days should be established with a cap on interest at 15% of the principal.
- The limit of three renewals would be maintained, and a principal reduction of 25% of the original loan amount for each renewal would be required.

Costs

There are no anticipated state costs to the regulation changes.

Benefits

- Hardworking Oregonians will have access to more affordable financial services.
- Ever increasing cycles of debt will be reduced.
- Women with children and military families, who are often the target for predatory payday lending, will have improved options during short-term financial crises.

This bill is sponsored by the Senate Commerce Committee and Senator Ryan Deckert (D), Beaverton. For more information on the Payday Loan proposal, contact Angela Martin, Oregon Food Bank at (503) 282-0555 ext. 204 or amartin@oregonfoodbank.org; or Patti Whitney-Wise, Oregon Hunger Relief Task Force at (503) 963-2290 or patti.ww@hcs.state.or.us.