Background Brief on …

Short Term Loans

Prepared by: Janet Adkins

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Legislative Committee Services
State Capitol Building
Salem, Oregon 97301
(503) 986-1813

History

With various restrictions lifted on the financial services industry nationwide beginning in the 1980s, many traditional financial institutions like banks and credit unions withdrew from the small short-term consumer loan market. Businesses offering payday loans, title loans, and check cashing services began serving the need for short term loans in the mid-1990s. The growth in these segments of the industry has been dramatic in Oregon and throughout the country. Oregon's Short-Term Personal Loan License was created in 2000 to regulate payday and title loan services.

Payday Loans

Payday loans are small, short-term (less than 60-day) loans made to a borrower with regular income evidenced by a paycheck (or other income check) stub. The borrower typically provides a post-dated personal check to secure the loan. Payday loans provide a growing number of borrowers with a quick and simple form of credit, but raise concerns because of how quickly fees can build up and create long-term credit problems. If current fees of 15 to 20 percent on seven to 20 day loans are expressed as Annual Percentage Rates **(APRs)**, they can exceed 500 percent.

Beginning July 1, 2007, Oregon law will limit the total interest and fees that lenders may charge on payday loans to a ten percent origination fee plus up to 36 percent interest as calculated on an annual percentage rate basis. Other provisions taking effect in July include limiting to two the number of times a payday loan may be renewed and requiring at least a 31 day length of term for the loan or renewal. Until these changes take effect, there is no limit on interest or fees and no lower limit on the length of the loan.

Oregon law currently requires payday lenders to be licensed by the Department of Consumer and Business Services **(DCBS)**. The law also requires very specific disclosures to borrowers, including the level of interest calculated on an APR basis. The agency's regulatory framework includes an initial review of a license applicant's qualifications, annual reporting by the licensee, periodic examination of records at the licensee's place of business, and special investigations. Administrative sanctions for violations of the law include license suspensions or revocations, cease and desist orders, and civil penalties.

States that allow payday lending have developed various other restrictions such as caps on interest rates or amount borrowed, requiring partial pay down of principal before rollover (renewal), or limits on the number of loans a borrower can have at one time. Twenty-six states cap interest rates. The caps in these states vary from 10 to 25 percent for the loan period, with most being 15 percent. Thirteen states specify minimum loan lengths, varying from five to fifteen days.

A number of Oregon cities, including Portland, Eugene, Gresham, Oregon City, Beaverton, Bend, and Silverton, have passed ordinances requiring 25 percent payment on principal before loan renewal, as well as installment repayment plans.

Title Loans

Car title loans are secured by the title to the borrower's vehicle. Most title lenders are also licensed as payday lenders or conventional lenders. No caps on interest or fees are currently in place and title loans will not be covered by the caps that will apply to payday loans beginning July 2007. Title lenders are regulated by DCBS with requirements for disclosure and business practices similar to payday lenders.

Check Cashing Services

Check cashing services and fees/interest are not currently regulated in Oregon. Most other states regulate providers of such services and about half of states cap the rates they may charge. Check cashing services will not be covered by the caps that will apply to payday loans beginning July 2007.

Pawnbrokers

Pawnbrokers make loans secured by goods. Pawnbrokers are regulated by DCBS and their interest and fees are currently capped at a set-up fee of 10 percent plus three percent per month interest (36 percent APR).

Conventional Small Loans

Finance companies make loans of up to $50,000 for a loan term of more than 60 days. Most conventional consumer finance companies are national, and many are associated with nationally chartered banks.

Credit Unions

Credit unions have begun offering payday-like loans to their members in the past few years at lower interest and fees than payday lenders. In July 2006, DCBS and the Credit Union Association began publishing information to make the public aware of these services. The credit unions have noted a definite demand for the loan product.

Recent Legislation

As noted above, Senate Bill 1105 (April 2006 Special Session) requires a minimum 31 day term and two rollover limit for payday loans, and allows, in effect, a 13 percent fee for the first 31 days (10 percent origination fee plus three percent monthly interest). This would be the equivalent of 153 percent APR. Each 31 day rollover would be limited to the three percent additional interest. The legislation also prohibits a payday lender from making a new loan to a borrower within seven days of the date that any previous payday loan made to the borrower expires. It also limits dishonored or insufficient funds check fees to $20 per loan in addition to fees charged to the lender by the bank and disallows recovery of damages or attorney fees from borrowers for dishonored checks. And, as indicated previously, these provisions will begin to apply to loans made or renewed on or after July 2007.

Staff and Agency Contacts

David Tatman, Director
Finance and Corporate Securities Division, DCBS
503-947-7475

Janet Adkins, Legislative Committee Services
503-986-1621