June 2010

Inside this Brief

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

Background Brief on …

Short-Term Loans

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 days) 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.

Since July 1, 2007, Oregon law has limited the total interest and fees that lenders may charge on payday loans to a 10 percent origination fee plus up to 36 percent interest as calculated on an annual percentage rate **(APR)** basis. A payday loan can be renewed three times and lenders are required to wait at least a 31 day period for a renewal. Until these changes took effect, there was 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. As of March 2008, payday lending is currently regulated in 41 states through interest rate caps and/or minimum loan lengths.

Prior to the enactment of legislation in the 2006 Special Legislative Session and the 2007 Legislative Session, a number of Oregon cities, including Portland, Eugene, Gresham, Oregon City, Beaverton, Bend, and Silverton, passed ordinances requiring 25 percent payment on principal before loan renewal, as well as installment repayment plans. In Portland and Gresham, a loan can be renewed two times as opposed to three times in other parts of the state.

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 and are regulated by DCBS with requirements for disclosure and business practices similar to payday lenders. Title lenders are limited to charging no more than an annual rate of 36 percent, but are also allowed a maximum one-time origination fee of $10 per $100 of the loan amount or $30, whichever is less.

Title loans are limited to a minimum term of 31 days and a lender may only renew a title loan twice. Lenders are also prohibited from making a new loan within seven days of the expiration of the previous title loan. Licensees must also participate in the DCBS database that tracks payday and title loan lenders.

Check Cashing Services

As of January 1, 2008, check-cashing businesses must be licensed by DCBS and must follow statutory limits on fees that can be imposed on their services. Fees for checks issued by federal, state, or local governments may be up to $5 or two percent of the face value of the check, whichever is greater; checks from other cities or states or payroll check fees are limited to $5 or three percent of the face value of the check whichever is greater; and fees for other payment instruments charge may be up to $5 or 10 percent of the payment instrument. In all cases, fees are limited to $100.

Money transmitters operating under a valid Oregon license do not have to be licensed. However, licensed money transmitters do have to comply with the limits on fees charged, fee posting requirements, record keeping, and other requirements of the law.

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, with an APR of 36 percent.

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.

The APR on a consumer finance loan is limited to 30 percent above the Federal Reserve discount rate or 36 percent, whichever is greater, and lenders can charge a one-time origination fee of $10 per $100 of the loan's amount.

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 of Oregon began publishing information to make the public aware of these services.

Staff and Agency Contacts

David Tatman
Administrator
Department of Consumer and Business Services
Finance and Corporate Securities Division
503-947-7475

Theresa Van Winkle
Legislative Committee Services
503-986-1496