DEPARTMENT OF CONSUMER & BUSINESS SERVICES

NEWS RELEASE

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Oregon takes additional steps to protect consumers from high-cost loans

"We must prevent unfair lending that hurts the working poor," says Governor

Salem, Oregon — Governor Ted Kulongoski and the Oregon Department of Consumer & Business Services (DCBS) today announced three new proposals to prevent the spread of high-cost loans.

"These measures will tighten payday loan restrictions and better protect consumers from harmful lending," said Governor Ted Kulongoski. "We must not allow lenders to charge excessive interest rates and fees to the working poor — no matter what type of business license they have."

In April, Governor Kulongoski signed payday loan legislation to protect consumers from excessive 500 percent interest rates. Some payday lenders have begun applying for other types of lender licenses to avoid the new consumer payday loan protections.

DCBS, which regulates payday and other lenders, proposed the following protections:

- New rules to more accurately define the type of lending business that can be carried out under a "conventional" consumer finance license. Conventional consumer finance lenders generally make longer-term installment loans based on a consumer's credit history. They differ from short-term lenders — also known as "payday" or "title" lenders — who provide high-cost single repayment loans without credit checks. The proposed rules will require conventional lenders to have experienced employees on staff and use a business model that reflects the type of lending activity traditionally associated with the conventional lender license.
- Greater scrutiny of pending license applications to ensure that applicants meet appropriate standards (pending rule adoption).
- Legislation extending the interest rate cap on payday lending to apply to title lenders. Title lenders make short-term loans secured by the title of the borrower's car, with high interest rates similar to payday lenders. According to the Oregon Department of Justice, interest rates for title loans can be capped only by legislation, not by rule.

In Oregon, payday loan stores nearly doubled in the past five years, growing from 184 in 2001 to 360 by the end of 2005. With interest rates often exceeding 500 percent, payday loans create acute financial burdens and credit problems for consumers.

In addition to the Oregon Legislature, many cities in Oregon have passed laws restricting payday lending, including Bend, Oregon City, Silverton, Troutdale, Gresham, and Portland. The U.S. Department of Defense has also raised the issue, calling on Congress to pass strict regulations on payday loans offered to military personnel and their spouses.

"Since the Legislature passed the new payday lending legislation, we have been concerned that some payday lenders were planning to continue their practices under a different license," said Cory Streisinger, DCBS director. "We don't believe that's what the Legislature and the public want or expect, and these proposed rules are intended to keep the two types of lending businesses separate."

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The department's Division of Finance and Corporate Securities discussed the proposed rules with an advisory committee of conventional consumer finance lenders, payday lenders, and consumer advocates prior to the announcement. The committee expects to meet again in the next few weeks.

"Conventional consumer finance companies' trade practices differ greatly from payday lenders," said Lee Holzman, president and chief operating officer of Reliable Credit Association Inc., an Oregon-based conventional consumer finance company since 1958, with offices in Milwaukie, Salem, Eugene, and Medford. "Since Oregonians do not experience the problems with conventional consumer finance companies that they seem to experience with the payday loan industry, we welcome new rules to help clearly differentiate us."

In July, the governor and DCBS promoted payday loan alternatives and worked with the Oregon Association of Credit Unions to highlight more than 20 Oregon credit unions offering alternatives with significantly lower interest rates and fees. The department launched a new promotional campaign, including a new 1-800 hotline (1-800-SAFENET) and Web site (www.211info.com) to help consumers find information about these lower-cost loans.

In addition, DCBS proposed legislation for the 2007 Legislative session to extend the restrictions on Oregon payday lenders to out-of-state payday lenders, including Internet-based lenders. The department is concerned that out-of-state lenders that make loans to Oregonians might try to evade the new restrictions by failing to become licensed.

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The Division of Finance and Corporate Securities (DFCS) helps ensure that a wide range of financial products and services are available to Oregonians and protects consumers from financial fraud and abuse. It does that by licensing financial institutions and service providers, regulating the sale of securities in Oregon, investigating complaints and alleged violations of financial-service laws, and providing education and other resources to consumers. For more information, visit www.dfcs.oregon.gov.

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DFCS is part of the Department of Consumer and Business Services, Oregon's largest regulatory agency. The department administers state laws and rules, and protects consumers and workers in the areas of workers' compensation, occupational safety and health, financial services, insurance, building codes, and targeted contracting opportunities for small business. For more information, visit www.dcbs.oregon.gov.