Oregon: Then and Now

Steve Hanson of Cash Connection

In late 2006, and again last year, the Oregon legislature adopted measures aimed at the financial service center industry. Critics said the measures were prudent steps to help protect consumers; the industry said they would significantly impact consumers' access to credit and other financial services, thus hurting their overall financial well-being. Who was right? While it is still too early to say with absolute certainty, it seems clear that the industry… and consumers … have taken a hard knock.

WHAT THE LAWS STATE:

Both payday loans and check-cashing activities were impacted by recent legislation. HB 2202, which was signed into law in the spring of 2007, placed numerous constraints on check cashers, including:

- The new requirement of a check casher license unless this activity is incidental to a retail business.
- Fee limits of two percent on government checks, three percent on all payroll checks, and 10% on all other checks.
- A maximum fee of $100.00 to cash any check.
- Licensee may not limit the amount of cash it disburses on a check.

On the payday loan side, legislation was adopted in 2006, and then supplemented in 2007, which includes the following requirements:

- Prohibits loans or renewals of less than 31 days.
- Maximum interest rate of 36% per annum.
- A one-time origination fee for a new loan of 10% of the amount advanced with no additional origination fee at renewal. These two elements equate to an APR of approximately 154% for a 31-day loan.
- A maximum of three renewals, then a mandated payment plan.
- A maximum origination fee of $30.00.
- A mandated cooling-off period of seven days after an existing loan is due or is paid.
- A maximum fee of $20.00 for any dishonored check, regardless of the number of times it is returned.
- No other fees or penalties can be charged other than the above.

In addition to these restrictions, the annual license fee per location is now $1,200.00 (up from $520.00 in 2006).

HOW THE LAWS IMPACT THE INDUSTRY:

What has all this meant to the industry? Plenty. The combined effects of the new laws have been dramatic to the payday advance loan business. Previously, the average loan periods were 10-12 days, compared to the current minimum term of 31 days. Whereas the typical fee for a payday loan was $18.00 to $20.00 per $100.00 under the previous regulations, now the maximum fee for a $100.00 loan for 31 days is the $10.00 origination fee plus $3.00 interest, for a total of $13.00. The $30.00 cap on the origination fee effectively reduces the maximum loan to $300.00, where previously, average loans were more than $500.00. Overall, revenue per transaction has declined by more than 75%.

Steve Hanson of Cash Connection, FiSCA Director and a member of the Community Financial Services Association of Oregon, estimates that the total industry PDA-derived revenues have decreased 80% to 85%. Consequently, the number of licensed short-term (payday and title) lenders has fallen in Oregon from 329 in June 2007 to 75 in April 2008. Of these, fewer than a dozen appear to be mono-line payday lenders. "Prior to July 1, 2007, approximately 75% of providers were mono-line," explains Hanson. "Virtually all of the large national and regional companies have left the state. The remaining stores are operating with total revenues (including check-cashing fees) down 35% from previous levels, and are barely profitable."

And what about the impact of these laws on check-cashing stores? According to Hanson, there are presently 254 licensed check cashers in the state. "We can count only about 60-70 traditional storefront check-cashing services; the balance we assume must be grocery stores, convenience stores, and other businesses that don't meet the state's criteria for exemption."

THE IMPACT ON CONSUMERS:

At this point, it is difficult to obtain hard statistics on what all this has meant to the consumer. However, as Hanson says, "The need for the service has not disappeared just because storefront businesses have. From what we can tell, our customers are either falling back on more expensive solutions, or are suffering the consequences that the availability of short-term loans had avoided in the past." However, the anecdotal evidence is accumulating and it is disturbing:

A large portion of customers have gone to the more expensive and unregulated services, such as Internet payday loan providers. State regulators have found it nearly impossible to enforce the new state laws and regulations against out-of-state and offshore providers.

A few consumers have gone to banks that provide "overdraft protection" advances to direct-deposit customers. These banks can charge fees exceeding what payday licensees charge. In fact, it is quite possible that Oregon banks will earn more from overdraft fees than from actual loan fees! Many customers are now incurring large overdraft fees for exceeding their account balances, either from Insufficient Funds (NSF) checks or from ATM transactions.

Customers who needed short-term advances to repair cars, for emergency medical care, to avoid late rent and utility payments, etc., are now simply suffering the consequences previously avoided by the short-term loans.

THE OUTLOOK:

Given that the Oregon legislature meets biannually, with the next session in 2009, there is no immediate prospect of getting the statutes reversed in the near future. Complicating matters further is the fact that the present Democratic governor's term does not end until 2010, and both legislative houses are expected to remain Democratic for the foreseeable future. "Clearly, Oregon is a challenging environment for the financial service center industry," concluded Hanson. "At the same time, the need still exists, and our customers need our services, and so we will continue to explore innovative ways of delivering the financial services they need in this overly restrictive regulatory environment." ■