April 24, 2019
Senate Committee on Judiciary
Oregon State Capitol
900 Court Street
Salem Oregon 97301

Chair Prozanski, Vice Chair Thatcher, and members of the Committee,

Thank you for the opportunity to submit testimony today. My name is Ezekiel Gorrocino, and I am the Government Relations & Policy Associate for the Center for Responsible Lending.

The Center for Responsible Lending (CRL) is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a nonprofit community development financial institution. For thirty years, Self-Help has focused on creating asset-building opportunities for low-income, rural, women-headed, and minority families, primarily through financing safe, affordable home loans and small business loans. In total, Self-Help has provided $6.4 billion in financing to 87,000 homebuyers, small businesses and nonprofit organizations and serves more than 80,000 mostly low-income families through 30 retail credit union branches in North Carolina, California, Florida, and Illinois.

We cannot think of a more important hearing to have in these days, particularly because the Bureau of Consumer Financial Protection—under leadership appointed by the Trump administration— repealed a previously finalized rule to address the payday lending debt trap. That 2017 rule, formed after five years of extensive research and stakeholder input, was meant to protect consumers from falling into the debt trap by requiring payday and car-title lenders to ensure a borrower could repay a loan without having to default on other expenses or repeatedly re-borrow.[1]

A recent report published last month by the Stop the Debt Trap Alliance of Oregon found that, in the previous year, one-third of the low-income survey respondents had a payday loan they could not afford to pay back without having to re-borrow. Even more concerning, the report found, is that one-quarter of those surveyed individuals with a payday loan had more than one payday loan at a time.[2] This finding suggests that payday lenders are ignoring part of a law, passed in 2007 by this legislature, stating that lenders must not make a new loan until seven days after the previous loan expires.

[1] Bureau of Consumer Financial Protection. (2019). Proposed Rule: Payday, Vehicle Title, and Certain High-Cost Installment Loans. Retrieved from https://www.consumerfinance.gov/policy-compliance/rulemaking/rules-under-development/payday-vehicle-title-and-certain-high-cost-installment-loans/.

[2] Gorrocino, E. (2019). In Distress. Low-Income Oregonians Report Heavy Debt Levels with Long-Term Consequences, By the Stop the Debt Trap Alliance of Oregon. Retrieved from https://www.responsiblelending.org/research-publication/low-income-oregonians-report-heavy-debt-levels-long-term-consequences.

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Research shows that even though payday lenders market their product as an occasional fix to a financial emergency, the reality is that payday and car title loans contribute to a long-term cycle of debt. Research by the Center for Responsible Lending shows that only 2% of payday loans go to borrowers who take out one payday loan and do not come back for a year.[3] Nationally, the typical payday loan borrower is stuck in 10 loans a year, generally taken in rapid back-to-back succession.[4] This means that a borrower stuck in 10 loans a year is not really getting new credit each time, but rather they are paying new fees every payday to float the same $300 budget gap, resulting in hundreds of dollars in fees paid in excess of the original amount owed. This debt trap is the core of the payday lenders' business model.

Research also shows that payday lenders concentrate in rural and low-income communities and target communities of color, and are marketed specifically to them as a helpful bridge over a rough patch.[5] However, we hear from people in Oregon all too often that these loans are in fact financial quicksand, leaving people in deeper financial struggles than before. Moreover, payday loans are linked to a cascade of financial consequences for economically distressed Oregonians, including increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts and even bankruptcy.

The bill before you today, HB 2089, clarifies language thought to have existed 10 years ago when advocates worked hard to pass the first payday law to protect low-income Oregonians.
That law was intended to reduce the harms of the payday loan debt trap to Oregon borrowers by both reducing the cost of payday loans, and by instituting other measures aimed at stopping the cycle of debt. One aspect of that law was to ensure that lenders abide by a rule requiring a seven-day "cool-off" period, so that lenders must wait at least seven days after a previous payday loan is paid off before providing another triple-digit interest rate loan. This bill clarifies the commonsense intent of that previous law – to

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[3] Parrish, L. & King, U. (2009). Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume. Retrieved from https://www.responsiblelending.org/research-publication/phantom-demand-short-term-due-date-generates-need-repeat-payday-loans.

[4] Consumer Financial Protection Bureau. (2013). Payday Loans and Deposit Advance Products. A White Paper of Initial Data Findings. Retrieved from https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf

[5] Davis, D. & Stifler, L. (2018). Power Steering. Payday Lenders Target Vulnerable Michigan Communities. Retrieved from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-michigan-paydaylending-aug2018.pdf; Li, W., Parrish, L., Erns, K., & Davis, D. (2009). Predatory Profiling. The Role of Race and Ethnicity in the Location of Payday Lenders in California. Retrieved from https://www.responsiblelending.org/sites/default/files/nodes/files/researchpublication/predatory-profiling.pdf; Davis, D. (2018). Mile High Money: Payday Stores Target Colorado Communities of Color. Retrieved from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-mile-high-money-feb2018.pdf; King, U., Li, W., Davis, D., & Ernst, K. (2005). Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina. Retrieved from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/rr006-Race_Matters_Payday_in_NC-0305.pdf.

ensure payday lenders follow the rule requiring a cool-off period to stop the debt trap for already struggling borrowers.

In Oregon, where payday loans can carry an annual percentage rate (APR) of 154%, payday lenders—mostly headquartered out of state—drain between $9 and $13 million annually from low-income Oregonians.[6] This fee drain hampers asset-building and economic opportunity in communities that are struggling to gain financial stability.

The most effective way to stop the fee drain and harm to Oregonians is to enact a rate cap of 36%, to save billions of dollars annually in predatory fees. These rate caps allow states to prevent unsafe lending practices—either online, or in a store. Currently, 16 states and the District of Columbia have enacted rate caps of about 36%, which is what is in place for active-duty military families under the federal Military Lending Act. Although HB 2089 does not institute a rate cap of 36%, it is important nonetheless, because it closes a loophole that the Oregon Department of Consumer and Business Affairs knows is currently being exploited by payday lenders to trap borrowers in a cycle of debt.

CRL supports HB 2089 as drafted and we urge your support of this bill without any additional amendments.

Thank you for your service.

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[6] Standaert, D., & Davis, D. (2017). Payday and Car Title Lenders Drain $8 Billion in Fees Every Year. Retrieved from https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_statebystate_fee_drain_may2016_0.pdf.