From the Desk of Representative Nathan Sosa
Nathan [signature]

DCBS | Department of Consumer and Business Services

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Vote YES on HB 2561

Problem

Consumer finance lenders in Oregon are generally subject to a 36 percent interest rate cap under ORS 725.340. However, in recent years, fintech companies partnering with out-of-state state-chartered banks in an arrangement known as a "rent-a-bank" scheme have exploited the interaction of federal and state laws to issue small-dollar loans to Oregon borrowers with interest rates far in excess of the cap.

The Division of Financial Regulation's examinations found that in 2022 and 2023, two rent-a-bank arrangements operating in the state made more than **19,000 loans** amounting to more than **$37 million** to Oregonians in excess of 36 percent interest.

When the interest rate cap law originally passed in 2007, **the Legislature clearly intended the 36 percent interest rate cap to apply to all businesses making consumer finance loans**. However, the law did not include a provision exercising the state's right to opt out of a federal law, the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA), that arguably enables out-of-state state-chartered banks to evade these state requirements.

Solution: HB 2561

By exercising Oregon's opt-out rights under DIDMCA, this legislation would ensure that Oregon's 36 percent interest rate cap applies to out-of-state, state-chartered banks partnering with fintech companies that make consumer finance loans. This would help ensure that this important consumer protection is applied uniformly and prevent the consumer harms associated with predatory lending.

This legislation is narrowly tailored to address the small minority of consumer finance loans being made in excess of the cap. The overall volume of loans in the consumer finance lending sector in Oregon was more than $1 billion in 2022 alone. The vast majority of this lending activity is compliant with the cap, and would not be affected by this legislation, so consumer finance loan products would still be widely available to Oregon borrowers.

The bill also makes other technical updates to Oregon's consumer finance laws, including provisions to clarify when loans made via the internet are subject to Oregon law and to require applicants for consumer finance licensure to use the Nationwide Multi-State Licensing System and Registry (NMLS) background check process.

HB 2561 will help protect consumers from predatory lending and strengthen Oregon's consumer finance lending laws. The Department of Consumer and Business Services urges a YES vote.