Restrictive Rate Caps Result in a Ban of Payday Advance Loans

A few states have passed legislation capping the annual interest rates on payday loans so low that lenders are forced to close their stores and consumers are left with fewer credit options. While critics argue that payday loans can be offered under these annual rate caps, they also admit that these low APRs ban the product. In fact, Uriah King, with the Center for Responsible Lending (CRL), has acknowledged lenders often close their doors when a 36% annual rate cap is adopted and admits that, "driving the practice of payday lending out of the state—not simply reigning [sic] in interest rates" is CRL's goal .[1]

The real-world examples are proof of the consequences of overly restrictive annual rate caps. Hundreds of stores have closed, thousands of employees have lost their jobs and hundreds of thousands of consumers are left to choose among less desirable credit options.

Oregon- 36% APR cap plus origination fee[2]

- Law went into effect on July 1, 2007.

- One year later, 75% of payday lending storefronts had closed. Those still operating were providing check cashing and other services to stay in business. Eight-hundred jobs had been lost, an average of three per location. Oregon officials became concerned that residents were beginning to use payday lenders on the Internet[3]. Pawnshops began booming.[4]

- As of August 13, 2008 only 70 stores of the 360 remained open, even though a 154% APR (36% APR plus origination fee) is allowed. Those 70 stores were offering other products to survive. [5]

- In his race for U.S. Senate, Oregon's Jeff Merkley stood in front of an abandoned payday lending storefront and proclaimed, "Everything's gone. They've shut down." [6] Merkely was the sponsor of the original legislation.

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[1] "Borrowed Time", *Business TN*, Sept/Oct 2008
[2] Maximum origination fee in Oregon is the lesser of $10 per $100 loaned or $30
[3] "Oregon's payday lenders all but gone", *The Oregonian*, July 06, 2008
[4] "Middle-class squeeze leads to a rush at local pawnshop", *The Oregonian*, Sept. 27, 2008
[5] Phone conversation with Oregon's Division of Finance and Corporate Securities, Aug. 13, 2008
[6] Democratic Senatorial Campaign Committee Web ad

District of Columbia- 24% APR cap

- Law passed in September 2007.
- By June 6, 2008 all lenders licensed to offer payday lending had ceased activity.[7] Within one year, all 54 payday lending licenses were surrendered. Four of the six companies who had offered payday loans had boarded up their locations. The two remaining exist only by offering check cashing services.[8]
- Officials became concerned that the closing of storefront payday lenders created an opening for others on the Internet. [9] The Department of Banking stated they were having a difficult time controlling Internet lenders and at least 40 websites currently making payday loans to DC residents had been identified.[10]

Ohio- 28% APR cap

- Law passed in June 2008. In the days immediately following the passage of the legislation, payday lenders began announcing employee layoffs and store closures.[11]
- Just prior to the law taking effect, there were about 145 companies operating in Ohio offering payday loans. Approximately 90 of those companies, representing approximately 450 storefront locations, are now out of business. Most remaining companies are now licensed and operating in Ohio either under the Ohio Small Loan Act or the Ohio Mortgage Loan Act.[12] There are no payday advance licensees in the state.

New Hampshire- 36% APR cap

- Law passed in June 2008. By Jan.1, 2009, "when the law banning payday loans went into effect, many of the state's payday loan shops had already closed."[13]
- On Feb. 10, 2009, Advance America announced closure of all 24 of its New Hampshire locations, costing 50 more jobs.[14]

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[7] Press release issued by the Department of Insurance, Securities and Banking, June 6, 2008
[8] Phone conversation with Howard Amer, Department of Banking , Sept. 24, 2008
[9] Press release issued by the Department of Insurance, Securities and Banking, June 6, 2008
[10] Phone conversation with Howard Amer, Department of Banking , Sept. 24, 2008
[11] "Payday lender Cashland announces Ohio closings in response to vote", *Cleveland Plain Dealer*, Nov. 6, 2008
[12] Licensees posted on Ohio Department of Commerce Division of Financial Institutions website, http://www.com.ohio.gov/fiin/, visited September 2008 and January 2009
[13] "Good riddance to pricey short-term loans", *Concord Monitor*, Jan. 8, 2009
[14] "Payday lender closing up shop in NH", *Associated Press*, Feb. 10, 2009