WOMEN'S FUND of Omaha

Payday Lending Reform - LB 194

All families need access to credit. But with annual interest rate of over 450%, payday loans leave families worse off. We need to ensure that payday loans are reasonable and fair for consumers. We advocate for reform that would enhance consumer protections for payday loans to ensure Nebraskans who have nowhere else to turn except payday lenders don't have to take out predatory loans that will trap them in a cycle of debt.

Current Regulation

- **Unaffordable payments**: annual interest rates can be up to 461%, exploitative by any standards;
- **Unreasonable durations**: the maximum duration of the loan is only 34 days;
- **Excessive charges**: the price of the loan is $15 per $100, so borrowers write a postdated check for $500, which includes the $75 fee, and they leave the store with only $425.

In two weeks, when the payday lender takes repayment directly from a borrower's bank account, it leaves the borrower with too few funds to pay their other bills, for groceries, and for other daily living expenses. This starts the cycle of reborrowing, paying $75 up front every time they reborrow.

Proposed Reform

LB 194, introduced by **Senator Tony Vargas and Senator Lou Ann Linehan**, aligns payday loans more closely with a traditional loan structure (i.e., incremental payments over time), while still allowing lenders to charge higher rates and permitting them to forego traditional underwriting functions.

- ***5% maximum monthly payment***: The bill sets a maximum monthly payment at 5 percent of a borrower's gross monthly income, which ensures that payments are an affordable share of a borrower's income and which lessens the risk of a "debt trap."
- ***Charges***: (a) interest of 36 percent per annum and (b) a maintenance fee proportional to the size of the loan, not to exceed $20 per month. This provides streams of incremental income to the lender over the life of the loan, like a traditional loan product.
- ***Maximum allowable charges of 50 percent of principal over the life of the loan***: There are no limits on the duration of a loan, so lenders have some flexibility on loan terms. The bill provides that total loan charges cannot exceed 50 percent of the loan principal to help ensure that lenders do not extend the duration of loans unreasonably.
- ***$500 loan limit***: Increase from $425 under current law.
- ***Spreads costs evenly over time***: All loans are precomputed, which results in monthly payments that include principal, interest, and fees and which helps ensure loans are paid down in affordable monthly payments.

A Record of Success

LB 194 is based on compromise legislation enacted in Colorado in 2010, and data demonstrate that the Colorado law is working. Importantly, Colorado's reform, while leading to industry consolidation, did not put the payday lending industry out of business.

Instead, Colorado has maintained consumer access to credit and ensured that consumer borrowing is repayable over time at lower rates. Data demonstrate that Colorado borrowers save approximately $40 million per year after reform – money back in the hands of the state's consumers. LB194 is designed to do the same.

Public Opinion on Payday Loans

In November, South Dakota residents voted overwhelmingly in favor of capping interests rates on short-term loans at 36 percent. Voters supported the rate cap by a 3-1 margin, a move that will effectively end the payday lending industry in the state.

LB 194 is different. It provides interest at 36 percent, and allows a monthly maintenance fee as described above. LB 194 is middle-of-the-road legislation that enables the industry to continue to operate but provides more consumer protections.

The Nebraska AARP recently conducted a statewide survey that shows ***77% of Nebraskans supporting a 36% interest rate cap***, which mirrors the proposal recently passed in South Dakota.