

HB 656 -- PAYDAY LOANS

SPONSOR: Brandom

COMMITTEE ACTION: Voted "do pass" by the Committee on Financial Institutions by a vote of 13 to 3.

This bill changes the laws regarding unsecured loans of \$500 or less, commonly known as payday loans. In its main provisions, the bill:

- (1) Specifies that any cost associated with a returned check is not considered as a fee or charge under payday lending laws;
- (2) Requires a licensed lender to conspicuously post in the lobby of its office in at least 14-point bold type the fee in terms of dollars charged per \$100 loaned in addition to the currently required maximum annual percentage rate;
- (3) Allows a lender to renew a loan up to three times if a borrower requests in writing and pays at least \$25 of the original principal amount. Currently, a lender is required to renew a loan up to six times if a borrower requests it in writing and pays at least 5% of the original principal amount;
- (4) Allows a borrower to enter into an extended payment plan once in any 12-month period with an individual lender by completing a written agreement to repay the amount owed in four equal installments or less in 60 days or less. Interest cannot accrue and the amount can be paid in full at any time without penalty. If the borrower fails to pay the amount owed when due, the lender can accelerate the unpaid loan balance. No other payday loan can be entered into until the extended payment plan is paid in full;
- (5) Requires the lender to conspicuously post in the lobby of its office in at least 14-point bold type a notice that a borrower can enter into an extended payment plan and that brochures are available at the counter containing the terms and conditions of the plan;
- (6) Limits the total interest and fees on any single loan authorized to 60% of the initial loan amount. Currently, the limit is 75% of the initial loan amount;
- (7) Prohibits a lender from making a loan to a borrower until the next business day after a borrower has paid or otherwise satisfied in full a previous payday loan;
- (8) Prohibits a lender from threatening, or causing to be

instigated, criminal proceedings against a borrower if a check, given as security for a loan, is dishonored. Any lender that knowingly violates this provision must pay the borrower, in addition to any other remedies available by law, three times the amount of the dishonored check unless the borrower's account was closed by the borrower prior to the agreed-upon date of negotiation or the borrower has stopped payment on the check; and

(9) Requires a lender when collecting or attempting to collect a payday loan to comply with the restrictions and prohibitions applicable to debt collectors contained in the federal Fair Debt Collection Practices Act regarding harassment or abuse, false or misleading misrepresentations, and unfair practices in collections.

FISCAL NOTE: No impact on state funds in FY 2012, FY 2013, and FY 2014.

PROPOSERS: Supporters say that the bill will strengthen the laws regarding payday loans to protect Missouri borrowers while simultaneously preserving access to important and useful credit options. A lack of credit has a negative impact on many people; and where banking and other financial services are less likely to be available, the use of payday loans has proven effective in helping many households make ends meet.

Testifying for the bill were Representative Brandon; Carlos Gomez, Hispanic Chamber of Commerce of Greater Kansas City; and St. Louis County Municipal League.

OPPOSERS: Those who oppose the bill say that it will cause an inconvenience for customers by adding a waiting period. Payday loans are a debt trap and have wrecked many peoples' lives.

Testifying against the bill were United Payday Lenders of Missouri; Branson Wood; Molly Fleming, Communities Creating Opportunity; and Jeanie McGowen, Missouri Faith Voices.

OTHERS: Others testifying on the bill say that posting the fees in a dollar amount is a good policy so that the customer knows up front what he or she will be paying. The extended pay option is also a good idea which allows a borrower to pay off a loan over four payments with no additional charges.

Testifying on the bill were Division of Finance, Department of Insurance, Financial Institutions and Professional Registration; and Community Financial Services Association of America.