March 1, 2010

Legislation Strives to Reign in Abuses in Pay-Day Lending in Missouri

Mary Pederson, Policy Intern

The payday lending industry enables all individuals with an income and checking account regardless of credit history to receive short-term loans to pay off unforeseen expenses before payday.[1] The high interest rates from payday loans, however, often leave little money available for other expenses, forcing many individuals to apply for another payday loan to pay the bills. This trend is significant, as the rising unemployment rate in Missouri, currently at 9.6 percent[2], and the dismal economic climate, are forcing many Missourians to take out loans they might not have considered before. Missourians trapped in vulnerable financial situations are at risk of falling into the cycle of debt brought about by unrestricted payday lending.

According to the Missouri Division of Finance, the average interest rate for payday loans is about 430 percent, and can add up quickly if the borrower needs to roll the loan over to the next pay period.[3] Paying this higher price can stretch borrowers in other parts of their budget, and lead to people taking out more loans, or delaying repayment.

By limiting unrestrained debt accumulation and limiting the ability of lenders to manipulate low-income families, regulation of the payday loan industry is a critical step toward leveling the playing field for economic opportunity for Missourians. House Bill 1508 and Senate Bill 811, introduced by Representative Still and Senator Keaveny, take steps towards genuine regulation of Missouri's payday loan industry. Specifically, the bills would:

- Prohibit lenders from renewing existing loans,
- Prohibit lenders from issuing new loans to borrowers with outstanding loans,
- Limit annual interest rates to cap at 36 percent, and
- Increase the time frame for the borrower to repay his or her loan from the current 14-31 days, to a minimum of 90 days, with payments due every two weeks.

Comparing Missouri Regulation of Lenders with Policies in Other States

Several states, including many of Missouri's neighbors, have passed legislation to restrict payday lending in recent years. The Kentucky Legislature passed legislation in its last session to limit the number of loans individuals can take out at one time, and Ohio has capped interest rates on payday loans at 28 percent.[4] In addition, 11 states have outlawed the industry all together and 21 additional states restrict renewal of

---

[1] Parrish, L, King, U. (2009, July 9). Phantom demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume. San Francisco, CA: Center for Responsible Lending. Retrieved from http://www.consumer-action.org

[2] Bureau of Labor Statistics. (2009, December). *Local area unemployment: Missouri.* Retrieved from http://www.data.bls.gov

[3] Henley, D. (2010, February 10). Lawmakers seeking payday loan reforms. *Hannibal Courier-Post*. Retrieved from http://www.hannibal.net

[4] National Conference of State Legislatures. (2009, December). *Payday lending state statutes*. Retrieved from http://www.ncsl.org

loans.[5] According to the Consumer Federation of America, Missouri has some of the most lenient regulations in the country, particularly in allowing renewal of existing loans. Under current Missouri law, payday loans can be transferred to the next pay period six times, each time increasing the interest rate, which can reach up to 75 percent of the loan.[6]

In his State of the State address, Governor Jay Nixon expressed his commitment to reforming payday lending in Missouri,[7] and there seems to be wider interest in enacting change this legislative session. Passing stricter regulations on the payday loan industry is a critical step legislators can take this year. As families around the state face challenges as a result of long-term unemployment and economic hardship, it is imperative that legislators make changes to get Missourians through this difficult time.

---

[5] Parrish, L, King, U. (2009, July 9). Phantom demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume. San Francisco, CA: Center for Responsible Lending. Retrieved from http://www.consumer-action.org

[6] Wire, S. (2009, February 1). Nixon targets payday loan cycle. *Southeast Missourian*. Retrieved from http://www.semissourian.com

[7] Governor Nixon's State of the State Transcript. (2010, January 22). Retrieved from http://governor.mo.gov/newsroom/speeches/2009/2009_Missouri_State_of_the_State_Address.htm