Payday Lending Reform

- Encourages credit unions & banks to participate in the small loan act creating competition for "payday lending"
- Establishes restrictions limiting the number of overdrafts a lender can cause by debiting a borrower's bank account.
- Creates a loan underwriting standard mandating that a lender must make a best effort to determine that the borrower has the ability to repay the loan.
- Stipulates that a lender must coordinate automatic debits of the borrower's bank account with the times that the account has sufficient funds to be withdrawn.
- Mandates that a lender cannot give a borrower a new loan if an active loan is in existence.
- Prohibits the front end loading of fees and interest rates of the loan.
- Requires a disclosure statement to be signed by the borrower indicating fees, interest and other charges.
- Prohibits collection charges.
- Requires a pro-rata refund to borrowers when loans are paid off prior to the loan maturing. If loan is paid off earlier than 14 days from its effective date, the lender can charge at 25 dollar administrative fee.
- Violation of law makes the loan null and void and borrower does not have to repay.
- Violation of law subjects lender to the Consumer Sales Practices Act.
- Eliminates pay check security for a loan, thus eliminating "pay day" loan. However, it still requires security in the form of a check or debit to a bank account.
- Stipulates that all loans must be a minimum of 30 days within a minimum of 2 equal payments with a <u>maximum</u> interest rate of 10% every two weeks.
- Requires that any loan greater than six months must be amortized with substantially equal payments.
- Requires that lender interest can be no more than 25% per annum.
- Provides a mechanism to get out of the debt trap by mandating a four interest free payment option to pay off the loan. This option has no requirements the first time it is used. However, the second time it is

requested, the borrower must pass a financial literacy test. There is a not a third time option.

- Prohibits a prepayment penalty.
- Establishes that a third party not for profit can pay off loan instantly upon payment of check and other third parties can also pay off loan but it will not be credited until check clears the bank.
- Establishes a three day cooling off period after the loan is paid off before another loan can be secured.
- Establishes a three day right to rescind after the loan papers have been signed.
- Establishes a five dollar underwriting fee that can be accessed to each loan to facilitate credit reports and other administrative costs. One dollar of the fee will be deposited with the Treasurer of State to fund a financial literacy program.
- Requires lender to report borrower's loan payment record to a Registered Information Service (RIS).
- Prohibits additional fees other than the underwriting fee.