



SB 284 offers Alabama consumers protections from high-cost loans and moves lending reform forward

Most states have laws against usury, or excessive interest. Alabama's Small Loan Act of 1959 caps the interest rate on traditional small, short-term loans at 3 percent a month, or an annual percentage rate (APR) of 36 percent. But more recent laws covering payday and auto title lenders allow APRs many times higher than that. For payday loans, the interest rates can go as high as 456 percent a year. Today, 20 states either have banned high-cost payday lending or strictly regulated the practice.

Alabama lawmakers have granted exceptions for certain products, including payday and auto title loans, claiming these are emergency loans for those who can't get conventional credit. These high-interest loans take as much as \$100 million annually in fees from vulnerable Alabamians, trapping many borrowers in a debt cycle that exacerbates poverty and hurts the state's economy. More than 54 percent of payday borrowers pay more in fees than the original loan amount, a state database shows.

SB 284, co-sponsored by Sens. Arthur Orr, R-Decatur, and Rodger Smitherman, D-Birmingham, would strengthen consumer protections while preserving the availability of "emergency" payday loans. The bill would:

- Allow 30-day (rather than 14-day) payday loans at the existing fee, reducing the APR to 213 percent while limiting borrowers to four loans in a 12-month period.
- Protect consumers by creating a seven-day "cooling-off" period between payday loans to eliminate rapid re-borrowing at high interest rates.
- Create an "off-ramp" by automatically converting unpaid loans to a three-month installment loan with equal payments at a 3 percent monthly interest rate.
- Allow Small Loan Act lenders to continue charging a 10 percent non-refundable "upfront" fee on small loans, while prohibiting such fees on rollovers.
- Cap interest rates at 60 percent APR for all loans of more than \$2,000 to guard against higher-cost online "payday"-type installment or revolving credit loans.
- Remove auto title loans from the Alabama Pawnshop Act and allow them under other consumer credit laws.

BOTTOM LINE: SB 284 would protect consumers and make loans more affordable while preserving small, short-term credit options for Alabamians.