SB 91: A major step toward payday reform in Alabama

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Payday loans in Alabama carry astonishingly high annual interest rates: up to **456 percent**. These loans pose as a helpful source of credit, but far too often they act as financial quicksand, trapping borrowers in cycles of debt that can be nearly impossible to escape. A "Colorado-style" reform proposal seeks to give Alabama's payday borrowers a less expensive path out of debt.

What is SB 91? This bill, sponsored by Sen. Arthur Orr, R-Decatur, proposes changing Alabama's payday loan law to be more like Colorado's law. Significantly, the bill would allow payday borrowers to pay down the principal in installments instead of the all-or-nothing, lump-sum payment Alabama now requires. The bill also would give payday borrowers at least six months to repay their loans. The interest rate cap on the loans would vary depending on the size of the loan and how quickly it is repaid. The maximum loan size of a payday loan would remain $500.

What about the 36 percent rate cap? Orr's bill is *not* a 36 percent rate cap bill. The text of SB 91 mentions a 45 percent rate cap, but that figure can be misleading because the bill also allows lenders to charge additional fees. The interest rate under SB 91 would vary depending on how much money people borrow and how quickly they repay the loan. The *maximum* rate would be **188 percent** a year, but in Colorado, because people often repay loans early, the average loan is at **115 percent** a year.

Would this bill put Alabama payday lenders out of business? Absolutely not. In Colorado, the payday loan industry remains profitable. But the new law did shrink the industry's size significantly in Colorado. Most people there still live fairly close to a payday lending storefront, but there are fewer stores. Alabama could expect to see a similar consolidation of the industry under SB 91.

Would SB 91 help borrowers? Payday loans would be cheaper, and borrowers would have longer to repay them. They also would be able to pay down the loan in installments. Some borrowers in Colorado are still struggling to repay, but many have avoided the long-term debt trap. If SB 91 passes, advocates will continue to seek ways to ensure borrowers are getting credit they can afford.

What about title loans? SB 91 addresses only payday lending. Auto title lending is authorized under a different Alabama law, and title lending reform would require different legislation.

What's the bottom line? SB 91 strikes a middle ground, compromising between a 36 percent rate cap and a status quo that sinks far too many Alabamians deep in debt. The bill would force the payday loan industry to restructure its products. Borrowers still would face high-cost loans and the resulting risks of default, but SB 91 would provide more consumer protections on short-term, small-dollar loans. If industry-backed efforts to weaken the bill are rejected, SB 91 would result in a significantly improved payday lending landscape for Alabama consumers.