

Tucson Citizen

Guest Opinion: It's high time to shut down predatory lenders

[KELLY GRIFFITH and DON CARSON KELLY GRIFFITH and DIB CARSB](#)

Published: 02.15.2007

Arizona's payday loan industry is under public criticism like never before, and the power of repeal or reform is in the hands of the Legislature.

The question is whether House and Senate leaders will allow key measures to clear committees and receive a vote of the full membership.

A floor vote is the only way to take the issue out of the back rooms and make legislators publicly accountable to their constituents.

In recent years, the subject has been confined primarily to hallway conversations between payday loan lobbyists and legislators.

Lobbyists have controlled any change because they were privy to and essentially part of the daily process.

In the seven years since the industry won exemption from the state's 36 percent usury limit, the number of predatory storefront lenders has skyrocketed to about 775, many within blocks of each other.

The prize is a booming business catering to people desperate for small sums of money. These customers are embarking on a path that often means an annualized interest charge of nearly 400 percent.

It's time to shut down these predatory lenders. It's time for our elected officials to take a stand for economic fairness and justice.

For too long, industry lobbyists have guided backstage tinkering with the law to provide the appearance of reform.

Payday loans are short-term, usually for two or four weeks, and are backed by the borrower's post-dated check.

Because they are sought by people with limited means, they frequently cannot be repaid on time and must be renewed.

If they need the money this week, what is to suggest they can pay it off with their next paycheck?

Studies have shown that 90 percent of the borrowers enter a cycle of repeat borrowing. For some, there is no end.

The New York Times recently told the story of a New Mexico man who pays \$1,500 monthly to cover the interest cost of what he had intended several years ago to be short-term loans.

One study found that borrowers averaged eight payday loans a year from a single lender, paying, on average, \$776 in charges to acquire \$355 in loans.

Clearly the system hurts those who can least afford it.

Congress and President Bush recognized this last fall, and a federal law now prohibits loans costing more than 36 percent APR to members of active military and their dependents.

That law, however, ignores the vast majority of payday loan customers, most of whom receive small paychecks.

While this law is a good first step, it basically amounts to the federal government sanctioning discrimination.

Arizona legislators have introduced a half-dozen bills this year to either eliminate the industry or reinstate the 36 percent usury limit on loan costs. (Note: The industry dislikes the word "interest," preferring the word "fee" and thus confusing the issue.)

Repeal could be accomplished through one simple sentence that repeals the enabling legislation approved in 2000.

The lobbyists' idea of reform is to minimally reduce the annualized percentage rate through a complex system with lots of ifs, ands, buts and maybes.

To do nothing would allow business as usual, which means continued legal abuse and outrageous profits for an industry that nationally processes \$40 billion in loans a year. Legislation authorizing repeal or a resumption of the 36 percent usury limit has significant bipartisan support.

Senate bills have been introduced by Republican Chuck Gray of Mesa and Democrat Jorge Garcia of Tucson.

Primary sponsors of the most far-reaching House bill include Democrat Edward Ableser of Tempe and Republican Pete Hershberger of Tucson.

That bill, which includes a repeal of the 2000 legislation, describes existing payday storefronts as "public nuisances."

Two paid lobbyists - former legislator Stan Barnes and Phoenix attorney Lee Miller - counseled legislators last year.

They have been joined this year by Mario E. Diaz, a onetime aide to Gov. Janet Napolitano. Naturally, they want neither repeal nor a 36 percent usury limit.

Occasionally, they have brought in out-of-state backup.

Industry members also have hired the MWW Group of East Rutherford, N.J., to work its case on a national basis.

One of the company's first acts was to create the "Coalition for Financial Choice," a rather euphemistic name for a front organization formed to protect its clients, the payday lenders.

Eleven states already have recognized the inequities of payday lending and have effectively banned the practice.

The Arizona Legislature has the power to do the same, but only if the appropriate bills clear their committees and are submitted for a vote of the membership as a whole.

About the authors

Kelly Griffith is deputy director of the Southwest Center for Economic Integrity; Don Carson is vice president of the nondenominational Little Chapel of All Nations.