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Trouble for service members - The perils of payday loans

Offices thick around military bases

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The salary of Airman 1st Class Noelle Buessing barely covered credit card, insurance and car payments. But like many young recruits enjoying freedom away from the parents, Buessing wanted to party.

She turned to the growing number of payday loan shops around Davis-Monthan Air Force Base. Regular payday loans of up to \$300 - at 15 percent interest every two weeks - plunged Buessing into unmanageable debt.

"They raped me financially," said Buessing, 21.

Forty-six payday loan and other "deferred-presentment companies" are within three miles of D-M, licensing records from the Arizona Department of Banking show. Following a national trend, Tucson legislators and consumer advocates are calling for more restrictions on payday lenders, saying they're a threat to the financial health of the 6,500 military personnel at D-M.

A recent report by professors at the University of Florida and California State University found "irrefutable geographic evidence demonstrating payday lenders are actively and aggressively targeting U.S. military personnel," including those at D-M.

In nearly all of the 20 states studied by Christopher Peterson, a law professor at the University of Florida, and his colleague, payday lenders were found in higher concentrations in areas with military bases than areas without bases. In Arizona, five of the 10 ZIP codes with the most payday lenders cover D-M and Luke Air Force Base in Maricopa County.

A lobbyist for the industry said payday lenders aren't targeting military personnel any more than the convenience stores and fast-food restaurants near the gates of military bases.

"Whether you're Circle K or McDonald's or a payday lender, you want to be close to that gate," said Lee Miller, lobbyist for the Arizona Community of Financial Services Association. "You have thousands of people going in and out of there. If they were my customers, I'd want to be there."

Debt can lead to stress

Peterson said military personnel are more likely than most people to obtain payday loans because they're young and have low incomes. The debt, he said, can lead to stress and other

problems that can undermine the performance of the military.

A staff sergeant, the most common rank at D-M, receives a starting salary of \$21,114. D-M employees also receive free housing and food on base, or an allowance for such expenses if they live off the base.

Under Arizona law, payday lenders can charge up to 17.5 percent interest every two weeks, or 460 percent a year.

"Mafia loan sharks charged an average of 250 percent" a year, Peterson said. "The reason payday loans are so dangerous is that they're so difficult to pay. They're loan shark loans at loan shark rates."

About 30 D-M employees in the past two years have received credit counseling because of payday loan debt, said Clinton Moore, a work life consultant at the base. Others likely fell into similar debt, but the pride often held by military personnel kept them from getting help, he said.

Miller disputed the claim that payday loans are "predatory." Unlike credit card companies and other lenders, payday lenders can't hit customers with hidden costs because they're required to post signs showing the full cost of a loan, he said.

High default rate on loans

Payday loan rates are reasonable, considering the costs of business, including a high default rate, he said.

Payday loans are often the only option for people facing a financial emergency, but they can be risky for people who aren't careful, said Maggie Shaffer, an assistant manager at a Quik Cash near the base.

"Payday loans can help people, but they can also be their biggest enemy," she said.

Buessing learned about the cost of payday loans two years ago during a mandatory two-week orientation for new D-M recruits.

She started taking out the loans last year, when she was making less than \$18,000 but received free base housing and food. She wrote a postdated check for the loan amount plus a fee.

She rolled over loans for another two-week period - and the same fee -when she didn't have enough money in her bank account to cover the check. Sometimes she couldn't stay on top of her multiple loans, and the checks bounced.

Getting around a law

Buessing said she took out payday loans from more than one store to avoid the state law that limits consumers to one payday loan at a time.

"It's so easy, it becomes a habit," Buessing said. "There's one on every corner."

Payday loan stores line East 22nd Street near D-M.

In between The Candy Store, a strip club, and Checkmate, a payday lender, Payday Loans

advertises "1/2 Off, First Time Customers." Down the street, in a mall with a billboard thanking D-M employees for their service, a banner for a payday lender urges people to "Enter for a Chance to Win \$25,000!"

Buessing's debt eventually became too much for her to handle by juggling loans. She turned to D-M's credit counselor and has lowered her debt to about \$300.

"It was stressful. I couldn't do anything," said Buessing, who's responsible for buying medical supplies at the base. "I wasn't getting a lot of work done. Papers were stacking up."

Debt can also create security problems for the military, the University of Florida's Peterson said. Military personnel with debt can lose security clearances because of the potential for bribery, he said.

Arizona, like most states, allowed payday lending to flourish by abandoning a traditional cap on interest rates, Peterson said.

During the recent legislative session, state Rep. Marian McClure, a Tucson Republican, sought to reduce interest rates for payday loans to 15 percent every two weeks for military customers. The bill, which passed the House but failed to receive a vote in the Senate, would have further prohibited payday lenders from garnisheeing the wages of military personnel.

Bill will seek lower rate

McClure, a former "military wife" who worked in the credit industry, promises to come back next year with a bill calling for a lower rate. With the legislation granting payday lenders the authority to operate in Arizona set to expire in 2010, the industry had better be prepared to make concessions, she said.

The Southwest Center for Economic Integrity will ask Pima County and Tucson officials to consider zoning restrictions for payday lenders, said administrator Kelly Griffith. Other cities have used such ordinances to limit the number of payday lenders and enforce compliance with other laws, she said.

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