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My opinion Jim Kiser: Lawmakers can protect poor from lenders

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The past two Wednesdays I've written about payday lenders, who prey on the poor and members of the armed forces.

Stopping these predators from charging their rates of 390 percent per year or more is not easy, but it can be done. A few other states have succeeded, and Arizona can, too, if it only will.

The battle needs to be fought in the Legislature, in the marketplace and in the minds of the borrowers, many of whom lack financial savvy and are unaware of alternatives.

Payday lenders claim to be helping people through financial emergencies by giving them small cash advances, which are secured by a personal check post-dated for two weeks.

The reality, however, is that the companies make their money by trapping their customers in a cycle of repeat borrowing.

Only 1 percent of payday borrowers pay off their loan within two weeks and then stay debt-free for a year, reports the Center for Responsible Lending. Ninety-one percent of all payday lender revenue comes from borrowers who take out five or more loans per year, says the center, a nonprofit that fights abusive loan practices.

Moreover, research shows people are using these loans not just for emergencies. Sixty-seven percent of borrowers surveyed by the Tucson-based Southwest Center for Economic Integrity used the loans for rent or home payments, car loan or car insurance payments, groceries, credit-card payments, nonemergency car repairs or other debt payments.

These facts suggest some approaches lawmakers could use to prohibit these financial traps, even as they dispel the lie that these are short-term emergency loans.

The best legislation would ban payday lenders outright, as Georgia has done. Georgia's law, which was upheld by the federal Court of Appeals in June, makes payday lending a felony.

Significantly, Georgia's law bans a common loophole, in which payday lenders partner with out-of-state banks to avoid a state's usury limit.

Short of an outright ban, new laws can help borrowers by dramatically scaling back the fees these companies are allowed to charge.

A second strategy that sounds promising is to set the loan length at two or three months, rather than two weeks. That would give borrowers a better chance to get out of their financial difficulties.

And a third strategy should require payday lenders to accept partial repayments, which they generally refuse to do.

Rep. Marian McClure, a Tucson Republican, is one of the few Arizona legislators who is committed to limiting these predators.

A bill she introduced last year died in the Senate. On Monday, however, she told me she plans to return with another bill next session that would restrict the firms' fees and operations and provide protections for the military.

Even so, legislation is not sufficient. Market solutions are necessary, too. Here, credit unions have led the way in trying to offer competing loans.

ASI Federal Credit Union in New Orleans, for instance, has been extremely successful (and profitable) by offering a line of credit up to \$1,000 at effective interest rates of 34 percent to 122 percent.

Those rates seem outrageous, but they are much better than 390 percent.

In Tucson, Hughes Federal Credit Union has created a number of products and services to compete against payday lenders, including a variety of low-cost loans.

Finally, payday borrowers need better financial education. Research has shown borrowers generally know the amount of fees they are paying, but frequently think their annual percentage rate is less than a tenth of what it actually is.

Consumers need to know a payday loan is not a reasonable option, McClure told the Arizona Capitol Times recently.

"Jumping in a pool of barracudas is an option," she told the paper, "but it's not one I recommend people take."

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