



Akron Beacon Journal Editorial

Plug those loopholes

Payday lenders have thumbed their noses at Ohio voters. State lawmakers must end the exploitation of borrowers

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Payday lenders lost a big battle in 2008 when Ohioans agreed with the Statehouse on legislation that capped outlandish interest rates, but they didn't give up the war to fleece borrowers. State lawmakers should be equally tenacious in protecting consumers from being exploited.

Payday lenders have taken advantage of existing laws (such as those designed for installment payments), which enable them to skirt the limits on payday loans imposed by House Bill 545. A key element in that legislation was the limit of a 28 percent annual interest rate on short-term loans taken out for at least 30 days. The goal was to prohibit lenders from charging interest and fees that amounted to 391 percent on a two-week loan. For consumers, who typically take out 10 to 12 of these quick loans a year, the convenience came at a huge cost: constant debt.

Unfortunately, that goal has been subverted. Within months of approval of the new law, payday lenders began exploiting loopholes in laws for mortgage and small loans and tacking on additional fees and charges. As a result, borrowers are paying rates that far exceed what they were paying before the interest rate was capped.

The lenders effectively have nullified H.B. 545. It is an embarrassment to Ohio lawmakers to have been thus outmaneuvered. Dismaying, too, is that a bill introduced last year by state Rep. Matt Lundy, an Elyria Democrat, to close the loopholes has been stuck in a House committee for months without action.

Ohioans voted overwhelmingly in November 2008 to curb excessive charges in payday lending. Legislators have another opportunity to rein in the exploitative practices. Lundy and a co-sponsor, Gerald Stebelton, a Republican from

Lancaster, introduced a new bill last week, House Bill 486, that promises to stop lenders from abusing laws that were not designed for payday loans. Most encouraging, the bill has won bipartisan support, including William Batchelder, a Medina Republican and the House minority leader, whose leadership was crucial two years ago in limiting payday interest rates.

The bill would bar lenders from issuing loans by check and then charging a fee to cash the checks. Lenders would no longer be able to charge origination, credit-check and other fees more than once during a 90-day period for loans under \$1,000. It would bar broker fees that some lenders charge, supposedly for offering credit-repair counseling.

There's no question there is a market for small, quick loans. The new bill does not aim to shut down access to such services. The goal is to close off the avenues lenders have pursued to continue fleecing consumers. The window is open now to protect consumers — not to mention the spirit of the payday law — before legislators recess for the summer.