

Toledo Blade Editorial

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End loan abuses

TWO years ago, Ohioans voted emphatically to limit to 28 percent the interest rate that so-called payday lenders could charge for relatively small, short-term consumer loans. Previously, such lenders could impose interest and other charges amounting to the equivalent of a 391-percent annual rate.

And that seemed that - until storefront lenders found ways within the new law to escape the cap and charge the equivalent of a 670-percent annual rate. Such practices can condemn some borrowers to a downward spiral of debt they cannot escape.

A bill before the Ohio House would close the loopholes and crack down on lending abuses. Lawmakers should resist the payday industry's lobbying against the measure, just as voters rejected its \$20 million campaign to influence the original ballot issue. They should promptly reaffirm the clearly expressed intent of their constituents.

The bipartisan bill, which Gov. Ted Strickland supports, would help small-loan customers in three ways:

- It would prohibit lenders licensed under the state's small-loan and mortgage-lending laws from imposing fees to cash their own checks. Before the voter-approved interest rate ceiling took effect, lenders generally made payday loans in cash. Now they write checks - and then charge borrowers who want to cash those checks with them.
- It would prohibit payday lenders from charging a borrower for origination and credit-check fees more than once every 90 days for loans of \$1,000 or less. Lenders now can impose such fees every week, on top of interest and other charges.
- It would prohibit payday lenders from charging fees to broker loans from third parties or to act as "credit service organizations" that ostensibly help borrowers fix their credit. These bogus fees, too, can push overall loan rates into the stratosphere.

Payday lenders insist, with merit, that they provide essential emergency credit to working-class consumers who need help before the next paycheck comes in a week or two, but can't get loans from banks. They argue that the proposed legislation would effectively shut them down in Ohio.

Such concerns are questionable, as is the payday industry's assertion that the 28-percent limit is too tight. The intent of the new legislation is not to hamper legitimate short-term lending. Rather, it is to shield borrowers who live from paycheck to paycheck from the prospect of incurring ruinous long-term debt arising from supposedly short-term loans.

The industry portrays the proposed legislation as interference with the free market and consumer choice. But the huge fees that payday lenders tack onto loans can have their own detrimental effects on the market and warrant reasonable regulation.

Several states, including New York and Pennsylvania, ban payday lending altogether. That's going too far. Working to eliminate abusive lending practices isn't.

Payday lenders have circumvented the will of Ohioans long enough. Especially in an election year, lawmakers would find it to their benefit, as well as in the interest of the people they represent, to enact this measure of consumer protection.