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# Ohio weighs the payday on loans

## Short-term, affordable loans are not available

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COLUMBUS: Despite the seeming complexity of problems in addressing the payday lending crisis in this state, there are really only three thorny issues that need to be resolved.

This was made abundantly clear last week as the legislature began hearings on three distinct proposals.

Before you applaud lawmakers for their proactive instincts, understand that they have been sitting on this issue through most of 2007.

Ohio Attorney General Marc Dann has launched a different assault on payday lenders. He is holding public hearings around the state and placing witnesses under oath.

Under oath means you can't lie, cheat, fudge — although Oliver North taught us you can forget.

So now lawmakers are banging the gavel and asking the questions in comfortable committee rooms where the minutes are scant and no one is asked to raise their right hand.

Lawmakers, with three distinct bills before them, must agree to an interest rate that a payday lender may legally charge and they must find common ideological ground on the role of the state in overseeing these storefronts.

The most difficult task they have is addressing the demand with a legitimate and fair supplier of short-term affordable loans.

Ohio once again has the dubious honor of being one of those states where a predatory industry has gone wild.

Payday lenders are a relatively new phenomenon, but there are more stores in Ohio right now than Wendy's, Burger King and McDonald's restaurants combined.

They are allowed to charge up to 391 percent in an APR by assessing $15 on every $100 they lend over a two-week period.

The industry maintains the 391 percent is misleading because it's an annual rate and these are short-term loans.

But if you borrow again and again, every two weeks, a cycle that is far too common among their customers, then do the math and you will see the interest rate begins to trend toward 391 percent.

It's usury at that point.

The industry-backed bill, sponsored by state Reps. Ross McGregor, R-Springfield, and Matt Lundy, D-Elyria, will not change this. Instead, they are concentrating on educating the masses and giving customers a one-time break to extend their repayment period.

State Rep. Tyrone Yates, D-Cincinnati, has a bill designed to scare the industry right out of the state.

He would cap the interest rate at 25 percent or $1.40 for every $100 borrowed over a two-week period.

Yates knows this would shut down the industry.

The District of Columbia recently enacted a 25 percent cap, so it is not a far-fetched concept. And there are 13 states where

payday, predatory lending is illegal.

State Reps. William Batchelder, R-Medina, and Bob Hagan, D-Youngstown, are pushing for a 36 percent cap, modeled after a federal bill designed to protect military members from predatory lenders.

Any interest rate that is agreed upon will face another challenge.

Ours is a Republican-controlled legislature that believes in the free market.

So it is not difficult to find lawmakers who think government works best when it stays out of the marketplace, as opposed to a tradition of progressive thinking that insists government should work as a referee in the game of society.

But payday lending is considered usury in the biblical sense and this forces many conservative, Christian Republicans to choose between their laissez-faire ideals and
religious beliefs.

In this case, the Bible is winning.

The third issue at play gives the industry its greatest strength in the debate and poses the biggest problem to reform-minded lawmakers.

State Rep. Tom Patton, R-Strongsville, a member of the committee holding hearings on the bill, talked about the Ohioan — he called him Johnnie Jones — who had no family to turn to for a loan and is suddenly financially vulnerable because of an unexpected expense like a car repair.

Patton asked the reformers to explain where Johnnie Jones should go for a short-term loan since banks won't touch him and he doesn't belong to a credit union.

The response from the reformers is not really worth repeating, because truth be told, they don't know.

Yates, whose 25 percent cap would dry up the payday industry in Ohio, acknowledged there would be some "pain," as he dismissively called it.

The reformers need to come up with better answers.

Here's the reality:

Payday lenders exist because the same legislature that is now trying to control them allowed them to open up shop in the first place.

They are popping up because there is a demand.

Part of that demand is tied to rampant consumerism, in which people purchase now and try to pay it off later.

There's obviously a percentage of borrowers who use short-term loans for quick cash to pay off a short-term debt and don't get caught in the cycle.

But there are people who really need help and have no one.

Using them to front the debate gives the industry a poster child and bolsters its argument to be allowed to operate at an interest rate that ensures profitability.

So the challenge for reform-minded legislators is to find a way for Johnnie Jones to get a short-term, affordable loan.

Solve that mystery and the payday lending stores will dry up even without legislation.

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