Editorial: A wise state law would be the best curb on Ohio's payday lenders

Thursday, January 03, 2008

Cuyahoga Falls wants to curb payday lenders. Those are the money stores that offer relatively small, short-term loans against a borrower's next paycheck but charge a high interest rate for the service.

The average customer gets about 10 loans a year at an annualized interest rate of close to 400 percent. And rather than getting them out of financial trouble, the loans get many of them in even deeper.

Once the Ohio General Assembly exempted payday lenders from usury laws in 1995, these lenders sprouted all over the state, increasing 14-fold from 1996 to 2006.

And Cuyahoga Falls, per person, has more payday lenders than in Summit County or Cuyahoga County does. Late last year, that town adopted a law that restricts cash-advance stores to one for every 10,000 people and requires them to be at least 1,000 feet apart. The town is the first in Ohio to limit the businesses based on population.

A town should get some say over which businesses set up shop within in its borders. But patchwork zoning laws won't effectively rein in payday lenders.

Statewide legislation would be a better way, and that's in the works.

Lobbyists for payday lenders call interest-rate caps an assault on the free market. Yet reasonable limits - just like the ones on other kinds of loans - are in order.

And short-term loan alternatives exist. About 40 Ohio credit unions allow customers to pay a nominal fee and take two-week loans at a rate of 18 percent. It's a cunning marketing strategy. They build a client base that grows more solvent and which then seeks more lucrative home and car loans.

State legislators plan to hold hearings this month on proposals that would curb predatory lending. The best of three bills is the brainchild of Rep. William G. Batchelder, a Medina Republican. It would cap payday-loan interest rates at a 36 percent annual rate and includes other sound features.

If the General Assembly makes reasonable rules for how payday lenders operate - and that must include a ceiling on interest rates - chances are they'll stop popping up like dandelions in the spring, without towns having to resort to zoning changes.