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More Competition Will Help Consumers Needing Quick Cash

BY KERRY JACKSON

California lawmakers have had several chances to handcuff payday lenders, and in each instance, they were either unable to, or chose not to. Naturally, some see this as a series of missed opportunities. We understand the reaction. But this is an industry that should be liberated so that it can expand, not targeted for elimination, as it has been in at least a dozen states.

Payday lenders, which sell short-term, high-interest loans, usually about $350 each, have been thoroughly vilified. Critics say they are predators who dupe borrowers into a "debt trap," that the industry mercilessly exploits the most vulnerable (especially minorities), targets consumers experiencing financial crises, and fleeces the gullible.

Vox calls payday loans "one of the sketchiest financial products available to consumers," and one Ohio journalist claims the lenders are "sort of" like mobbed-up "loan sharks." While president, Barack Obama told the industry it had "to find a new business model" because it was making profits "by trapping hard-working Americans into a vicious cycle of debt." A Federal Reserve Bank article published in Liberty Street Economics has said that except for "who use them every year, just about everybody hates payday loans."

Forget the overheated rhetoric. University of Kansas finance professor and former bank regulator Bob DeYoung says payday lending is simply "a natural extension of consumer credit provided by financial institutions." Sebastian McKamey, a

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Chicago grocery store worker who used a payday loan to take care of a ticket for smoking outside a transit station, tells us that everybody he's seen do business with a payday lender "always comes out with a smile on their face. I don't never see nobody come out hollering." The California Black Chamber of Commerce is also a supporter of payday lending and an opponent of further regulation because it "hurts our community's ability to access responsible, regulated credit options."

As for the accusations that these businesses grow obscenely rich off the poor, Tim Worstall of the Adam Smith Institute in London clears that up. He wrote in Forbes that "if the customers are being ripped off then the profits should be higher than other financial industry companies." But as it turns out, "they're not."

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It's quite clear that there is a need for payday lenders. A 2015 report from the Federal Reserve Bank governors found that 47 percent of Americans said it would be "challenging" for them if they were confronted with a $400 emergency expense. Only 39 percent of the respondents to the Fed's survey said they had enough cash to handle an emergency if it was less than $100.

The 47 percent who said an $400 emergency would be "challenging" said the only way they could cover the bill would be either to sell some belongings, pay part of it with a credit card, borrow from friends or family, or use a payday loan. Fourteen percent said they had no means at all to meet such an expense. Bankrate's Financial Security Index shows that more than one-fourth of adult Americans don't even have emergency savings.

According to the Consumer Financial Services Association, roughly 20 million Americans borrow from a payday lender each year. Pew Charitable Trusts says the most common customers are white women between 25 and 44. Nearly 30 percent of young adults who are college educated have used payday loans in the last five years.

Not every customer has a great experience with payday lenders. Some have bitter stories to tell. (But then not every customer has a great experience with their bank.) Still, those who borrow from payday lenders largely give them positive reviews. And few end up stuck in the "debt trap." The industry says only about 15 percent of borrowers keep taking out new loans to pay off previous loans and have great difficulty breaking the cycle.

A salient fact always left out by the critics is that borrowers are never forced to take out payday loans -- it's a choice they make on their own. Why do government officials and the pressure groups who lobby them think they have to stop Americans from making their own decisions?

There have been at least five bills in Sacramento over the years that would have restricted payday lenders' freedom to do business in California. According to CalMatters, the legislation included:

- Assembly Bill 3010 (2018), "which sought to restrict people from taking out more than one payday loan at a time and proposed creating a database requiring licensed lenders to record their loan transactions," was pulled by its author.

- AB 2953 (2018) "aimed to stop lenders from charging more than 36 percent on auto-title loans, also known as pink-slip loans," but it "failed to secure enough votes to advance in the Senate."

- AB 2500 (2018), which would have capped "interest rates at 36 percent for installment loans between $2,500 and $5,000," "died on the Assembly floor."

- SB 365 (2011) proposed payday loan database, but it "languished" in the Legislature and never made it to the floor.

- SB 515 (2014), written "to extend the minimum length of a payday loan and require lenders to offer installment plans, as well as develop a database and cap loans at four per year per borrower," never emerged from the committee.

Had these bills become law, not only would potential borrowers have narrowed options, the industry would have had little choice but to scale back on business and lay off workers. Thanks to the Obama administration's regulatory assault on commerce, payday lenders have lost ground in recent years. For instance, Check Into Cash, a shrinking chain based in Tennessee, let go of 300 workers last year and has plans to close 100 stores, according to a New York Times report from earlier this year.

What California -- and the rest of the country -- need are more short-term lenders, not restrictions that would drive out the industry. Rather than rushing additional consumers into "debt traps," the increased competition from an expanded number of players would force down interest rates. And this is more than an assumption on our part. It's also the finding of the New York Federal Reserve Bank, which issued a study of payday lenders in 2007.

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