Forum
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A call for fair finances for all families

CLOUT leads the challenge to serve the 'un-banked'

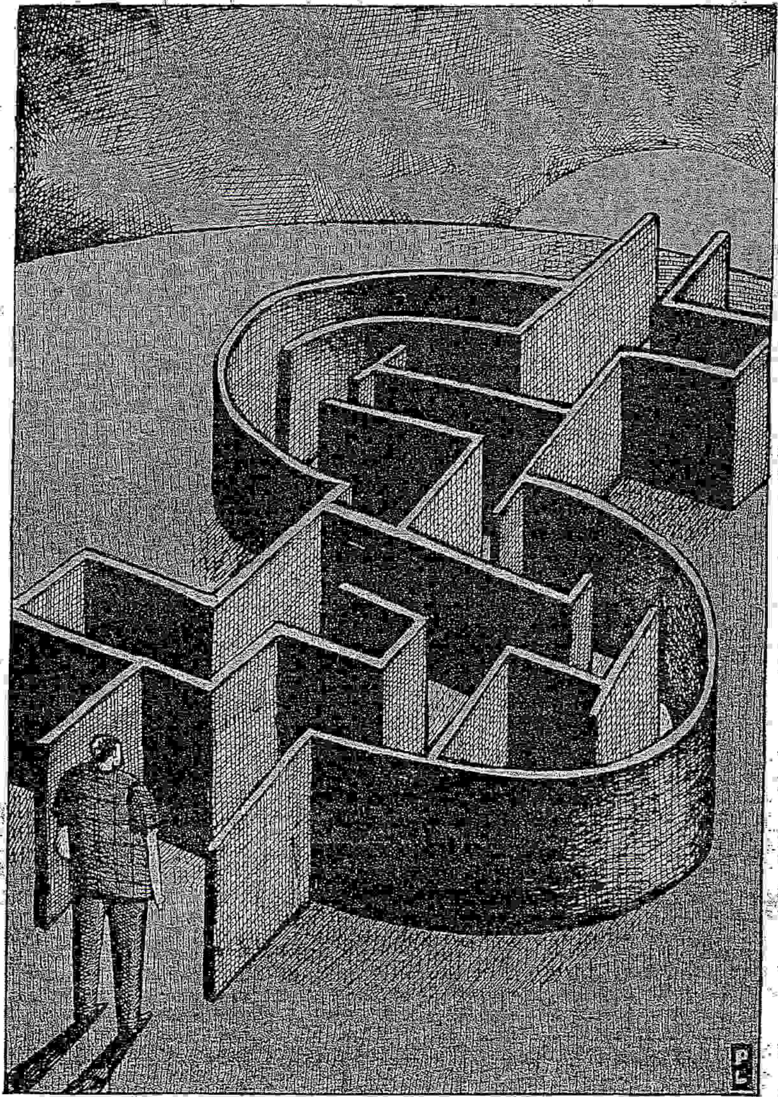
Illustration by Paul Lachine

Over 30 organizations statewide, including CLOUT, have come together to form the Kentucky Coalition for Responsible Lending, which is supporting legislation to pass an interest rate cap of 36 percent on payday lenders.

By Keith Switzer
and Walter Jones
Special to The Courier-Journal

There has been a fair amount of good-humored comment in recent weeks about our city's experience with various plagues over the past year — a hurricane, an earthquake, an ice storm, a spate of destructive winds — even "locusts" (aka, cicadas). But there's one other scourge that has afflicted our city for many more years, and is nearly out of control — sharks. You read that right — in this fresh-water river town we are becoming infested with sharks. This particular species is the loan-shark variety, and it comes in the form of what is called "payday lenders."

Payday lenders didn't even exist in our community 20 or so years ago, but have you noticed that they seem to be springing up on every other corner? You will probably be shocked to know that the number of payday loan/check cashing stores in Louisville has nearly doubled from 69 to 132 in just the past eight years. As pointed out in a recent Brookings Institution study, a new payday loan store opens up every four days in Kentucky. Furthermore, the business has grown to the point that Kentuckians are currently forking over $131 million annually in fees.

Payday lenders charge up to, and sometimes even beyond, 400 percent interest APR (annual percentage rate) for their small (so-called "short-term") loans of $300-$500. But don't be fooled by the name "short-term." While they are intended to be paid off in two weeks or so, thousands of people are trapped each year in an ongoing cycle of debt. We estimate the number to be around 33,000 households each year, in the Louisville area.

This disturbs us as people of faith. The Bible is full of verses that prohibit taking advantage of the poor, and it specifically forbids usury against the poor (Exodus 22:25). With interest rates of 400 percent, payday lending has become the clearest and worst form of usury against the disadvantaged that exists in our community. It is nothing less than legal loan sharking, and worst of all, it specifically preys on poor and minority communities that can least afford it.

Don't be fooled when the payday loan sharks say, "But about 90 percent of people pay off their loan within the two-week period, so all they're paying

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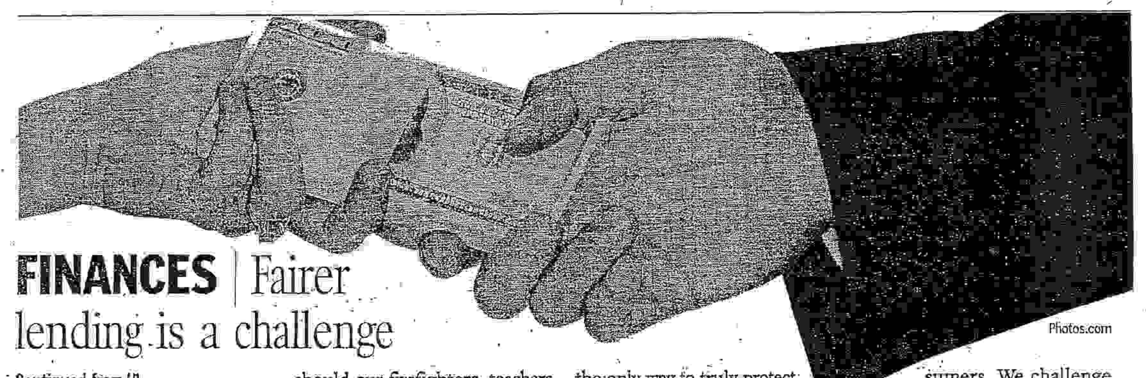

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FINANCES | Fairer lending is a challenge

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is about 15 percent interest." While that may be true on the surface, what they don't tell you is that the majority of people turn right around and take out another loan in order to be able to cover their regular monthly expenses.

The important thing to realize here is that while many people may be able to pay off the loan in two weeks (because they have just received their next paycheck), most really can't afford to pay it off. Once they use most or all of their paycheck to satisfy the loan (plus interest), they have nothing left for their regular expenses, like rent, utilities, food, medicine, etc. — so they are forced to turn right around and take out another loan, and pay another finance charge, and this begins an ongoing cycle, payday after payday.

Some people end up paying finance charges totaling hundreds, or even thousands, of dollars over a period of months or years, still never paying off the principal. In fact, the average borrower takes out nine loans per year. Behind their own closed doors, industry leaders speak very openly that that their business model is based on the frequent repeat customer.

And don't be fooled when they say, "But this is a necessary service — people need it." At least one-third of the U.S. does not allow payday lending, and those areas seem to get along without it, just as we in Louisville got along without it 20 or so years ago. Also, much of the perceived "demand" for the product, in terms of the number of loans that are made, is actually created by the industry itself by its very practice of maneuvering people to take out multiple loans in a year.

Numerous states have outlawed or greatly restricted payday lenders. Fifteen states (including our border states Ohio and West Virginia) have laws capping rates or do not allow payday lending at all. Arizona voters chose to allow their law that authorized payday lending to sunset, as did the state of North Carolina.

A study done last year by the University of North Carolina showed that consumers in that state have been better off without it. In 2007, the District of Columbia capped interest rates at 24 percent. Last year in Ohio a bill was passed that capped interest rates at 28 percent. The industry proceeded to spend upwards of $20 million to overturn that statute with a ballot referendum, but Ohio voters wisely defeated that effort by a large margin. Also last year, the Supreme Court of Arkansas declared payday lending unconstitutional, because it violates the state's 17 percent usury limit.

On the national level, in 2006 Congress passed a federal law prohibiting payday lenders from charging members of the military more than 36 percent APR. Why should our firefighters, teachers, service workers and others in our economy deserve less protection than our military?

So we come today with a two-part challenge. In today's spiraling economy, the citizens of our city and our commonwealth deserve real leadership and real assistance from those in government and in the financial community.

First, we challenge the Louisville community, indeed our whole state, to take a strong stand against this plague in our communities. In particular, we challenge our state legislators to pass a bill establishing a 36 percent interest rate cap on payday lenders, and we call upon Gov. Steve Beshear to support it. We are aware that the Governor has ties to the industry — having been a lobbyist for it 10 years ago — and that his pick for Commissioner of the Revenue Department, Tom Miller, was supportive of the payday loan industry during his time in the Fletcher administration. All the more reason for the Governor to now stand up to the industry and bring some relief to our citizens. It should also be noted that this regulation will not cost the state any additional budget expenditures, so the current financial situation of the state should not be a factor in his support.

Citizens of Louisville Organized and United Together

CLOUT

We also challenge Attorney General Jack Conway to do his part to protect our citizens from what amounts to nothing less than a hazardous product. Is there any other product that we would allow such a product, when one of every two blows up in the consumer's face? That's what happens with payday loans.

Finally, we challenge Commissioner Charles Vice, of the Department of Financial Institutions (the state regulatory body over such businesses) — who states that the primary mission of his department is "to protect the citizens" — to do his part to support legislation that will truly protect the citizens of Kentucky, who have everything to lose, rather than legislation that has been approved by the payday loan industry, which has everything to gain.

In its 2007 study "Springing the Debt Trap," the Center for Responsible Lending concluded that the only way to truly protect consumers is to limit the amount of interest payday lenders can charge to a level at or around 36 percent. It goes on to point out that, even in states that have attempted other reforms, 90 percent of payday lending business is still generated by trapped borrowers with five or more loans.

The industry will say, "If you cap our interest rates at 36 percent then many of our stores will have to close and our state will lose thousands of jobs." It's true that some may choose to close if they can't make the kinds of profits that they are making presently, but are these really the kinds of jobs that advance our state's economy — jobs that prey on our citizens and suck millions of dollars out of our economy each year? Besides, such rate caps have been implemented in other states, and plenty of payday lenders have been able to stay in business and still offer their product.

They will also say, "If your regulations do make a lot of us have to close up shop, people will just go and get their payday loans online anyway." Well, online payday loans are already illegal in Kentucky, so this is an enforcement matter, not a policy matter. If people are getting loans online it is the state's responsibility to enforce that law, not to use this as an excuse not to protect the citizenry.

Experience in other states shows that when the heat of proposed reform is on, the payday loan industry will trot out a whole list of supposed reforms that it will support, but the experience of these states is that these are merely smoke and mirrors and do nothing to truly protect the consumer.

Just this past week, a bill that contains several such "reforms" (HB 444) was railroaded through the House Banking & Insurance Committee. Unfortunately, the public was muzzled by the committee chair not allowing the public to express concerns about the bill, even though there were several people from different parts of the state prepared to do so. This is troubling. It was also troubling to note that the payday industry representatives who were present seemed quite satisfied with the bill, which only reinforces the above point that these are not true reforms. And perhaps most troubling, CLOUT has learned that several members of the committee, including its chair, have received campaign contributions from the payday loan industry within just the past few months — a matter which raises serious questions about the process.

Over 30 organizations statewide, including CLOUT, have come together to form the Kentucky Coalition for Responsible Lending, which is supporting legislation to pass an interest rate cap of 36 percent. HB 516 is a bill that will truly protect Kentucky consumers. We challenge our state leadership to support it.

The second part of our challenge deals with the other side of this issue, and it goes out to the traditional financial institutions in our community — our banks and credit unions. There are a lot of models of affordable, accessible, non-predatory credit and banking services that our local financial institutions could implement that would provide alternatives to the payday lenders, check cashers, etc. Many local banks and credit unions offer such products already, but few people know about them, and few people have developed enough trust in regular banks to even think of looking there, and so many of them resort to the payday lenders, check cashers, money order sellers, and other more expensive services and products.

One of the more promising models is called "Bank On." It began with Bank On San Francisco three years ago, and has now spread to over 15 other cities across the country. Just a couple of weeks ago Bank On Evansville was launched right down the river from us, and Cincinnati is also working toward such a program. The model basically brings together banks and credit unions into a cooperative effort to offer and promote a bundle of services and products that make traditional banking more feasible for the thousands of unbanked persons in the community. In San Francisco, the initial goal was to bring 10,000 of the estimated 50,000 unbanked persons in the city into traditional banking, but they exceeded their expectations and have already brought in 22,000.

A conservative estimate of the number of unbanked households in Louisville Metro is 29,000, based on analysis done for CLOUT by the Pew Charitable Trusts' Safe Banking Opportunities Project, which has produced the benchmarks for all of the Bank On initiatives in other cities. We challenge our local banks and credit unions, and our city leaders, to step up and work together to provide alternatives to those persons in our community who are otherwise prey to the sharks.

On March 23, over 1,500 local citizens will be coming together with state and local leaders in our financial community and government to launch an effort called "Fair Finances for All Families." If your congregation or organization would like to play a role in this effort, contact CLOUT at (502) 583-1267 or *clout@bellsouth.net*. You can also learn more about the Kentucky Coalition for Responsible Lending at *kyresponsiblelending.wordpress.com*.

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