(Florence) Times-Daily

No caps on payday loans

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Published: Sunday, July 25, 2010 at 3:30 a.m.

The sweeping oversight reform of the country's financial industry is missing a key component that could protect low-income consumers, said a policy analyst for Alabama Arise, an advocacy organization for the poor.

President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection law Wednesday. Supporters hailed it as the biggest overhaul of the financial industry since the Great Depression.

Stephen Stetson, of Alabama Arise, said missing from the law are stricter interest rate limits and caps on the number of payday loans consumers are allowed each year.

"As the economy limps along, people resort to payday loans to pay their bills when they run short of money and don't think about the interest they pay over the long term," Stetson said. "We see the loans as threats to family stability that are enriching big businesses.

"These are big contributors but they present themselves as small mom and pop operations that loan money to a single mother who needs to fix her car to get to work," Stetson said.

Consumer protection advocates point to negotiations in the Senate Banking Committee where the law originated and the role that Alabama Sen. Richard Shelby, R-Tuscaloosa, the committee's ranking Republican, played in crafting the bill.

As the ranking minority member on the Senate Banking Committee, Shelby received wide national attention as the Republican point man in negotiations on the law.

He also received more in campaign contributions from payday lenders than any other Republican in Congress, a fact repeated in many news reports.

Stetson said people who want payday loan reform need to make a stronger case with lawmakers and do a better job of educating consumers.

While there may be a place for quick loans to bail consumers out of a tight spot for a short time, Stetson said problems come when consumers cannot pay back the loans when due and roll them over. A new borrowing cycle with more interest added on the previous one can result in interest rates as high as 400 percent, he said.

The resulting vicious cycle is why reform advocates push for more regulation. The industry, however, has done a better job of making its case with lawmakers, Stetson said.

A breakdown of Shelby's specific contributions from the payday loan industry for 2009-10 is not yet available from the Federal Election Commission. But OpenSecrets.org does tally the senator's contributions from finance and credit companies for the period at $207,800. Sen. Tim Johnson, D-South Dakota, was the only Senate Banking Committee member who received more in contributions from the industry at $250,350 for the same period, according to OpenSecrets.org.

For the entire 2005-10 FEC election cycle, Shelby got $307,900 from finance and credit companies.

Shelby received more in campaign contributions from the payday loan industry than any other Republican in Congress for the 2008 election cycle, taking in $25,560.

Shelby ranked fourth among the top 10 members of Congress in payday loan contributions for the period, according to Citizens for Ethics and Responsibility and Ethics in Washington. Two other Alabamians also made the top 10 list: Sen. Jeff Sessions, R-Mobile, with $25,150 and Rep. Spencer Bachus, R-Birmingham, with $22,500.

Shelby's office did not respond to requests for comments about the contributions or his reason for blocking an amendment to cap the number of payday loans allowed per year.

But the senator's written statements on reasons he did not support the measures stressed his preference for a Republican financial regulation bill with less government interference in private industry.

Payday loan industry supporters argue that for people living paycheck to paycheck, payday loans help desperate consumers pay for emergency car repairs or doctor bills. Payday advance agreements usually call for repayment within two weeks at a fee averaging $15 per $100 loaned.

But consumer advocate Jean Ann Fox, testifying in hearings before Congress on the issue for the Consumer Federation of America, said the average payday loan rolls over eight to 12 times. Averaged annually, the interest rate is close to 400 percent, she said.

Stetson said the effectiveness of the payday loan industry lobby means there is more work to do not only in Washington but also in Montgomery, where bills to tighten payday lending also run into roadblocks.

"Don't look to the federal government to come in and set up these regulations," Stetson said in a speech to the Alabama Bar Association last week.

Instead of looking to Washington, Alabama should study reforms made in some nearby states, including Arkansas, Georgia and North Carolina, Stetson said.

"But we have to be in this for the long haul to get something that works here," he said.

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