The Decatur Daily

Editorial

Ending predatory lending

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Referring to the plethora of predatory lenders that line Sixth Avenue in Decatur, City Council President Gary Hammon gave a blunt assessment:

“It’s hurting low-income residents and irritating the rest of us.”

The problem is not unique to Decatur. The best solutions require action by the state Legislature.

The prevalence of predatory lenders in Decatur seems puzzling. With so much competition, why have the interest rates not come down? More pertinent to Sixth Avenue, why has there been no consolidation?

The expectation in a normal market would be that some lenders would charge lower interest and drive others out of business. The result would benefit low-income borrowers and reduce the number of payday lenders lining the city’s main corridor.

Speaking to the Decatur City Council on Monday, Stephen Stetson, a policy analyst for Arise Citizens’ Policy Project, solved the puzzle.

A state law passed in 2003 purported to prevent payday lenders from lending to a borrower who already has outstanding payday loans, which are limited to $500. A last-minute amendment to the law eliminated a central database. Lenders must “use a database” to confirm the borrower does not have an outstanding payday loan, according to the law, but there are many private databases.

The result is that both borrowers and lenders understand they have to spread loans across multiple private databases. A person who needs to borrow more — often to repay a previous loan that is accruing interest at more than 400 percent annually — simply stops by a different payday lender that uses a different database.

The payday lenders, it turns out, are not competing with each other but complementing each other. A virtual strip mall of predatory lenders is the result. By using different databases, each lender can make exorbitant profits while benefiting the lender next door.

Bankruptcy records suggest the typical borrower does not have one payday loan — as contemplated by state law — but up to a dozen.

What may have started as a single loan to borrow enough to pay for a visit to the dentist quickly becomes unmanageable. Saddled by interest rates more than 10 times those the state imposes on conventional small loans, the borrower goes deeper in debt.

The end result for many is bankruptcy, but not before multiple lenders have extracted a terrible financial price. The roots of the problem are in the state law passed by a Legislature that was, in 2003, controlled by Senate President Pro Tem Lowell Barron. The Democrat from Fyffe owned many payday loan operations.

Decatur has 20 licensed payday lenders and 27 pawn shops, many of which serve a similar lending function. Most line Sixth Avenue. The clustering of predatory lenders is not unique to Decatur. It is the natural result of a bad law.

The Decatur City Council has a few options, but the solution should come from the Legislature. Fixing the 2003 law to create a central database would help.

Better yet would be a solution that also capped interest rates at a morally defensible level.

A Democratic legislature caused this problem. By solving it, a Republican legislature could — to paraphrase Hammon — help low-income Alabamians and end an irritation for many cities in the state.