

Act now to support state limits on 'payday lending'

Each day it seems another “payday lending” outlet opens for business on a busy street corner or in a strip mall, inviting people in financial difficulty to come in for an easy cash advance. If you suspect these businesses often trap people in impossible cycles of debt, your suspicion is correct. Deacon Richard Sage, executive director of Catholic Charities of the Diocese of La Crosse, recently testified to this tragic reality at a hearing at the State Capitol.

Sage quoted a mother who had to take several days off work to care for a sick child. Since the leave was unpaid, “in a very short time I started to get behind on bills and so I took out a \$400 payday loan,” the mother explained. “I’ve not been able to pay the loan off but have been paying them \$88 every two weeks. I’ve paid them five or six times and I still owe them \$400. Can you help me?”

Sage told the story of another borrower who had 14 payday loans along with six credit card bills. Her debt was split: about \$6,000 on the payday loans and \$6,000 on the credit cards.

“Their household income runs \$650 short of making even the basic payments. She’s afraid of losing their home,” Sage added.

Deacon Sage was one of several people speaking in support of Wisconsin

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Christopher Ruff

Assembly Bill 392, which would prohibit payday lenders from assessing finance charges in excess of 36 percent per year. That may still sound like a lot, but it is a far cry from the through-the-roof interest rates charged by payday lenders.

Jennifer Johnson, Senior Legislative Council for the North Carolina-based Center for Responsible Lending (CRL) described the predatory characteristics of payday loans: 1) borrowers pay triple digit interest rates (usually 391 percent APR or more) and high fees; 2) lenders can either hold a borrower’s check, or they have access to the borrower’s checking account and can withdraw the interest automatically; and 3) borrowers must either repay the loan in full (in a single balloon payment) within a short period, or else renew the loan by paying an additional fee or by taking out a new loan.

In essence, these so called “short-

term loans” in reality lead to long-term, high-cost debt.

This explains why the payday loan industry does not require any underwriting for the loans: the industry profits more if the loan is not repaid on schedule. Indeed, Johnson added, the CRL has found that 90 percent of payday loans go to borrowers with five or more loans and 62 percent of loans go to borrowers with 12 or more loans.

Sage noted that payday loans are particularly crushing for people on a fixed income, such as Social Security or disability payments.

Under current law, while the Department of Financial Institutions (DFI) must license all payday lenders operating in the state, it currently does not have the authority to regulate the amount of a loan, the interest charged, or the number of times a loan can be “rolled over.” Under this limited regulation, payday lending in Wisconsin has flourished in the past 15 years. In 1995, the state licensed fewer than 10 payday lenders. Last year, it licensed 530.

Please show your support for Assembly Bill 392. Go to www.wisconsin-catholic.org, click on “Advocacy,” and then “My Elected Officials,” following the directions to contact your state senator and representative.

*Article reprinted from
the issue of October 1, 2009*

The Catholic
TIMES
of the Diocese of La Crosse