

Payday Lending and Public Policy: What Elected Officials Should Know

“Payday Lending and Public Policy: What Elected Officials Should Know,” a white paper by Tom Lehman, Ph.D., adjunct scholar of the Indiana Policy Review Foundation and professor of economics at Indiana Wesleyan University, takes a comprehensive look at the payday lending industry - one of the “fastest growing segments in the broader consumer financial services market.” Dr. Lehman provides a broad overview of payday loans including: what are payday loans?; who would use payday loans and why?; and objections to payday lending.

Dr. Lehman concludes that “policymakers and critics of the payday loan industry must become more informed about these [small loan] markets, and must be much more cautious in their advocacy for further regulating or banning the practice lest they do harm to the consumers they ostensibly seek to protect.”

The full report is available at:

http://www.inpolicy.org/index.php?option=com_content&task=view&id=211&Itemid=26

Noted in the report:

Banning or limiting payday lending harms consumers

“Preventing or limiting the use of payday loan services only encourages borrowers to seek out and utilize less attractive alternatives (such as informal or “black” markets) that put the borrower in an even weaker financial position.”

“Further regulation or outright banning of payday lending has the adverse and unintended consequence of reducing credit options for those who may have few alternatives to begin with.”

“In an age where the “democratization of credit” has been widely celebrated due to new technology, it is unwise to single out and restrict relatively new forms of credit. You do not help marginal borrowers by looking at their list of available options and then eliminating the one they actually choose.”

Policymakers should encourage competition in the small loan market

“If there is true concern about the high finance charges on payday loans, the best method of bringing them down is to repeal the regulations on payday lending that restrict competition and market entry.”

“Rather than preventing or discouraging the proliferation of payday loan outlets, policymakers should instead make law that encourages an open and level playing field in the small loan market, permitting competition to put downward pressure on rates and fees.”

“The recent success of the payday loan industry is a testament to the ability of markets to adapt to rising demand for new and untried methods of consumer finance provided government regulations do not corrupt the process.”

Arguments of payday loan critics are largely unfounded

“As the evidence indicates, the arguments by payday loan critics are largely unfounded and their policy proposals misguided.”

Payday lending customers are representative of average Americans

“The “typical” payday loan customer does not differ greatly from the average American consumer, and almost always has a legitimate reason for using payday loans to cover an emergency cash shortfall.”