



Payday Mayday: The law should treat adults as adults



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Beginning Oct. 1, 2007, no U.S. lender may charge more than 36-percent interest to a military person on active duty, or his family — a measure Congress aimed principally at protecting soldiers from payday loans.

Several states have effectively banned such loans; in Oregon, a 36-percent cap goes into effect July 1. A group led by the Service Employees International Union is pushing for a similar cap in this state. Rep. Sherry Appleton, D-Poulsbo, has introduced such a bill.

"We're not asking for a ban," Appleton told a Senate hearing in Olympia Dec. 1, but a ban is what it amounts to. Current Washington law sets a ceiling of \$15 in interest and fees per \$100 loan amount, up to a loan of \$500. If you want \$100 for two weeks, you write a check for \$115 and postdate it. For your C-note, you are paying \$1.07 per day, which sounds reasonable enough. It is, however, an annual rate of 391 percent.

The new usury cap would impose a 91-percent price cut on a \$100 payday loan, reducing the fee from \$1.07 a day to 10 cents. Says Dennis Bassford, CEO of Moneytree Inc., Tukwila, "We cannot lend \$100 on 10 cents a day."

Banks and credit unions can grow fat on lending rates less than that. But Washington law forbids payday lenders from making a loan of more than \$700, or for more than 45 days. The average loan is \$385 for 18 days.

Payday lending is a Starbucks business, selling succor a cup at a time. When you buy a latte at Starbucks, the amount you're paying per pound of coffee beans is like that 391-percent interest. It is a number you don't want to know. But really, you are paying for more than beans. You are paying rent on the storefront, wages and benefits for the barista, and for the corporate network.

It is the same with payday loans.

There is a demand for these loans. A lot of people live on the edge, either of necessity or lifestyle choice. When you're on the edge, stuff happens. Maybe the car breaks down, and you need it to get to work. Or you need it to do your work. A payday loan may be your best option.

The problem comes when people use it for long-term credit. When the old loan ends, they take out a new one. At the hearing Dec. 1, a woman described a horror story that began with a \$500 payday loan.

"I would rush in every two weeks with cash, pay off that loan and get another loan." She said she did this for two years and paid \$3,600 in fees.

That's nuts. Under Washington law, after the fourth loan from the same lender, a borrower can enter a payment plan, and repay over 120 days with no more than a \$25 penalty. Why didn't this borrower do that? Five percent of Moneytree's customers do. Others don't.

There are mandatory disclosures, but "people don't read those," says Tony Lee of the Fremont Public Association. People get on a treadmill. "We see these people all the time," he says.

At the hearing Dec. 1, the language of the two sides reflected a difference. Supporters of the ban spoke of people forced to borrow, and how payday lenders put borrowers into a spiral. That the average customer takes out several loans a year is evidence, to critics, that borrowers are trapped.

The lenders took umbrage at this. They described their customers as adults who know what they are doing. That they take out several loans a year shows that they know the rules and accept them.

The young Moneytree employees wore little badges that said, "Your credit. Your choice."

I'm pro-choice. The law, in my view, should treat adults as adults, and leave social agencies to deal with the folks who think like kids.

Lots of products, from the bank card to beer, come with hazards, but we tolerate them because we want the benefits. So with the payday loan. It has its place, but that 391-percent clock is not one you want to keep ticking.

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