Payday lending measures are weaklings
By Loren Steffy

In the classic cartoon Popeye, the voracious Wimpy incessantly searched for a payday lender, someone he would gladly pay Tuesday for a hamburger today.

Unfortunately, there’s nothing wimpy about the way the payday lending industry has fought Texas lawmakers’ efforts to bring reasonable oversight to one of the seamiest areas of finance. Texas is the only state that has no rules for payday lending.

The good news is that lawmakers approved two bills that now await the governor’s signature. The new laws would require state licensing for payday lenders and auto-title lenders – who make short-term loans against the value of an automobile. They also require more thorough disclosures of the true – and exorbitant – cost of payday loans.

The bad news: The bills do nothing to address bigger concerns with payday lending, such as collection practices and repeated extensions that generate big fees for the lenders while driving borrowers further into debt.

In fact, the bills don’t even bring Texas regulations up to the standards of the Community Financial Services Association of America, the industry’s trade group.

“Those are the payday lenders we need to be most afraid of – those who won’t even conform with best practices,” said Jim Hawkins, a University of Houston law professor who’s researched payday lending for five years.

The CFSA, for example, calls for limiting “rollovers.” Many payday lenders require loans be repaid in one lump sum. If the borrower can’t do that, the lender allows them to extend the loan for a big fee. The end result can be borrowers who owe many times the principal amount and have little hope of ever paying off the loan in a single payment.

CFSA rules say members should limit the number of rollovers to no more than four. It also encourages members to offer extended payment plans and encourage consumer responsibility to limit the chances of borrowers getting caught in a debt trap.

Beyond the collateral

Payday and auto-title loans ought to be self-liquidating. That is, the collateral – the paycheck or the auto title – ought to resolve the debt in the event of default. The Texas measures offer no such provisions. Lenders can take a borrower’s car and still sue them for the remainder of the loan.

“It just seems to add insult to injury,” Hawkins said. “It baffles me that Texas lawmakers couldn’t get that in the bill.”

Payday loans are inherently predatory. The interest rates charged ridiculously high – 900 percent for a one-week loan, for example. Payday lenders argue that while interest rates are astronomical, the principal amounts are relatively small, so a borrower may pay $17.50 to borrow $300 for a week.

But payday loans do serve a need, providing short-term cash to people with few other options. They can serve as a bridge to help a borrower meet medical expenses or other emergencies until the next paycheck, for example.

“There can be a useful function,” Hawkins said.
The interest rates are extreme because the lenders are taking a big risk, offering money to people who aren't creditworthy. That's precisely why we need rules to make sure unsophisticated borrowers understand the consequences.

“Since it is so costly, there has to be protections,” Hawkins said.

**Watered down**

While the bills proposed earlier in the legislative session were designed to comply with CFSA guidelines, they were watered down under intense lobbying and staunch opposition from one lawmaker in particular – Rep. Gary Elkins, R-Houston. It just so happens Elkins owns a payday lending business.

No wonder some of the bills’ own backers have expressed disappointment in what they were able to pass.

While Texas has finally regulated this underbelly of finance, the results are pretty wimpy.