



## Legal Aid In The News . . .

SATURDAY, MARCH 8, 2008 **7B**

### Midlands Voices

## Cash-advance firms should be reined in

## Public Response . . .

### Be wary of loans

Douglas K. German's March 8 Midlands Voices essay, regarding the operations of the cash advance lending business, was educational and a pleasure to read.

Looking at TV advertisements, one might think these businesses offer a legitimate service. This industry, as Mr. German wrote, seems to approach a modernized version of loan sharking.

In his discussion of fees, Mr. German exposed some other grievous abuses that the Nebraska Legislature needs to address. Predatory practices are being used by banks, credit card companies and even those semimonopolies that provide utility-type services.

Our Legislature owes us a good look at the gamut of usury laws, bank fees, collection fees, late fees, credit card interest and practices.

My guess is that Mr. German and his agency have seen it all in this area and should be heavily consulted by our Legislature.

*John W. Fisher, Omaha*

### To: Public Pulse

I was amused by Mr. German's diatribe against cash-advance firms (March 8 Midlands Voices). Did I detect a hidden agenda in his writing?

I challenge Mr. German to name one bank in Nebraska that (sic) "proves intimidating or does not offer simple services."

These firms are not "abusive." They are licensed, legitimate businesses that provide a useful service to those who choose to use their service. Would Mr. German rather turn back the clock to the days of loan-sharking?

**Jim Sanford, Blair, Neb.**

BY DOUGLAS K. GERMAN

The writer is executive director of Legal Aid of Nebraska.

Can you imagine paying \$30 to \$60 to borrow \$170 for two weeks?

It happens thousands of times a day across Nebraska to people who have no choice but to seek the "help" of payday loan firms.

Our low-income neighbors constitute one-sixth of the state's population. Because of their past bad credit or banks that prove too intimidating and do not offer simple services, these Nebraskans have become "unbanked."

A cottage industry of payday lenders has grown up to "serve" them. These lenders make fortunes trading on the desperation, vulnerability and lack of alternatives for people whose bills come due before the next paycheck.

A payday loan, whether it's called a personal, online or advance loan or a cash advance, supplies people with quick cash to pay bills between paydays. Their need makes them easy and lucrative targets.

Typically, the National Consumer Law Center explains, the consumer gives the lender a postdated check and receives less cash than the face amount of the loan. The check is held until payday, when the customer either redeems the check by paying the face amount, allows the check to be cashed or writes another postdated check and pays a new fee.

If a consumer is charged 15 percent on a \$200 check, he receives only \$170 cash and the lender pockets a \$30 "fee." The effective annual interest rate is 458 percent if this loan is repaid in two weeks.

If, instead, it is rolled over into a new payday loan, which these firms enthusiastically encourage, an additional \$30 fee is tacked on, which raises the loan amount to \$230. The effective annual rate jumps to 917 percent.

If a borrower's check bounces, he pays as much as \$100 in fees to a bank. To add insult to injury, our tax-supported county attorneys then are sometimes called on by the payday profiteers to criminally prosecute borrowers for the bounced check.

What happened to usury laws? Well, payday lenders don't fall under such banking regulations and are free to profiteer at will.

The lenders "justify" payday loans as better than even worse arrangements. One agency's Web site touts the following effective annual interest rates:

■ 391 percent on a \$100 payday advance with a \$15 fee.

■ 1,409 percent on a \$100 bounced check with \$54 in fees.

■ 965 percent on a \$100 cred-

it-card balance with a \$37 late fee.

■ 1,203 percent on a \$100 utility bill with a \$46 late/reconnect fee.

Just curbing the local payday lenders' abuses won't solve the problem, because offshore sources and many Web sites offer similar unreasonable terms. Credit-card offers show-er down on every household. Desperate people will find their way to abusive sources.

A comprehensive approach involving mainstream financial institutions is essential. Bankers need to meet the market demand for a responsible product that meets the banking needs of low-income people. The business model that extends credit that vulnerable people can't repay, then charges exorbitant fees to cover defaults, needs to go.

In some cities, employers are issuing "payroll cards" in place of paychecks. They're similar to debit cards but don't require the holder to have a bank account. This removes the middleman, namely the payday profiteer.

Nebraskans like limited government, but when an industry refuses to act responsibly, we have no choice but to hold it accountable. State Sen. Amanda McGill's pending Legislative Bill 1144 would restrict borrowers to only one transaction at a time among all payday lenders and would create a database to monitor transactions.

With that good start, mainstream financial institutions could then step in and begin providing banking services with reasonable fees to the unbanked.

If financial institutions, government and taxpayers don't act, we'll all pay dearly for ignoring the stunning growth of this underground economy. In recent years, it has fallen to nonprofit groups such as ours to pick up the pieces of shattered lives. Now we need help — well-connected, established heavyweight help.

Don't look to payday lenders for a cure. Their job is to provide a financial return to their owners. And soon you will hear the howls of those payday profiteers as changes are offered.

Don't buy any of their claims, fuzzy math or hollow justifications. Payday lending is a crisis for each of us, just as surely as are the housing collapse and the threat of recession.

This is an industry that operates within the current law but not too far away from what we once recognized as loan-sharking. They're not helping low-income people. They're enticing and victimizing them — and making a fortune doing so.