

**Proposed Opinion Column**  
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**778 Words**

## **‘Payday’ Profiteering Must Go**

Can you imagine paying an extra \$30 to \$60 to borrow \$200 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 comprise one-sixth of this state’s population. And because of their past bad credit or banks that they find too intimidating and which do not offer simple services, these Nebraskans have become “un-banked.”

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 of people whose bills come due before the next paycheck arrives.

Here’s how it works:

A payday loan, be it called a personal, online or advance loan or a cash advance, supplies people with quick cash to pay bills between paydays. The need for emergency cash makes them easy and lucrative targets.

The National Consumer Law Center explains that the consumer provides the lender a post-dated check and receives less cash than the face amount of the loan. The check is held until the customer’s payday when the customer either redeems the check by paying the face amount, allows the check to be cashed, or writes another post-dated check and pays another fee.

Example: If a consumer is charged 15 percent on a \$200 check, he receives only \$170 cash and the lender pockets a \$30 “fee.” The APR 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 APR 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? It turns out that 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 website purports to show the following “advantages” over other loans: A \$100 payday advance with a \$15 fee equals 391 percent APR. But a \$100 bounced check with \$54 NSF/merchant fees equals a 1,409 percent APR. They also point out that a \$100 credit card balance with a \$37 late fee equals a 965 percent APR or a \$100 utility bill with \$46 late/reconnect fee yields a 1,203 percent APR.

Just curbing the local payday lenders’ abuses won’t solve the problem because off-shore sources and many websites offer similar unreasonable terms. Credit card offers shower down on every household. Desperate people will find their way to abusive sources.

A comprehensive approach involving main-stream 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.

Solutions? In some cities, employers are starting to issue “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 middle-man, namely the payday profiteer.

Nebraskans like less government, but when an industry refuses to act responsibly, we have no choice but to hold it accountable. State Sen. Amanda McGill’s pending LB 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, main-stream financial institutions could then step in and begin providing banking services with reasonable fees to the currently un-banked.

If financial institutions, government and we the 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 non-profit groups such as ours to pick up the pieces of shattered lives and try to put Humpty Dumpty together again. Now we need help – well connected, established heavy-weight 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 introduced. Don’t buy in to any of their claims, fuzzy math or hollow justifications. Payday lending in its present form is a crisis for each of us, just as surely as is 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.

**END**

