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UPO editorial on Payday Loan Issue in the District of Columbia

For Better Alternatives to Arise, Abusive Payday Lending Practices Must Go

As a community-based organization providing social services to the District's neediest, we observe first-hand the financial devastation payday loans cause our low-income residents. The D.C. Council will soon vote on a bill designed to reign in some of the abusive practices of payday lenders – passing the measure is a critical first step in cleaning up an industry that profits from the unfortunate circumstances of our most vulnerable citizens.

A vast majority of the 91,000 residents we serve have annual incomes of less than $20,000. An unexpected car repair or medical bill can wreak havoc on their fragile financial situations. Yet when faced with a financial need, many have nowhere to turn but to payday lenders, as their low incomes and limited or blemished credit histories prevent them from qualifying for more reasonable loan terms of credit card companies.

The trouble with payday loans is their outsize interest rates of several-hundred percent and rollover options that allow a modest loan to balloon into a seemingly insurmountable debt. Purportedly intended to help people out of a financial squeeze, they ultimately only add to a borrower's financial woes.

The payday lending industry says they are providing a much needed service to low-income residents. They claim the D.C. Council's proposal to cap payday loan interest rates at 24 percent will drive them out of business, leaving our neediest residents with no short-term loan options (however unappealing the existing ones may be) when faced with a financial emergency.

But that's just not true. In areas where abusive lending practices have been banned, better alternatives have emerged, including short-term low-interest loans that result in positive outcomes for both lenders and borrowers.

In North Carolina, for instance, the State Employees' Credit Union provides Salary Advance Loans that provide up to $500 at 12 percent interest. These loans are repaid when the borrower receives their next paycheck - the loans do not allow rollovers, one of the more harmful aspects of payday loans. And in an effort to eliminate members' dependency on short-term loans, 5 percent of each salary advance loan is deposited into a special personal savings account that encourages borrowers to grow their own rainy day fund.

The North Carolina SECU has also implemented an automated system that processes a high volume of short-term loans. (Payday lenders have a less efficient business model, based on low volume and high administrative costs, which are passed on to consumers.) And the mandatory savings accounts required by the SECU plan also reduces the bank's level of risk.

It's clear that good solutions exist, but we need payday lending reform to achieve them. As a city battling some of the highest poverty rates in the country, it's critical that we take action.

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