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Payday loans dragging down Ohioans

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In the Jan. 5 letter "Payday loans beat many alternatives," key industry terms and measures were used incorrectly, resulting in flawed and misleading information. To claim that payday's interest rate is "5 percent per month" ignores the legal standard that has always been used to measure the cost of money: annual interest.

Imagine if Hummer dealers were allowed to restate the mileage of their vehicles with the poster-sized numbers of 20 LPQ City and 30 LPQ Highway. LPQ? Oh, leagues per quart!

Interest is not measured by month, but by year. The measure for the cost of money that is required by the Truth in Lending Act for all credit products is APR, annual percentage rate, and that number for payday lenders is 391 percent. To suggest that a payday loan is the best short-term credit alternative to bounced checks, credit-card late fees and reconnect fees for utilities is irresponsible.

These are not credit alternatives; they are penalties imposed for spending more money than you have. They are not loans. Additionally, bounced-check fees are charged only once, whereas payday-loan penalties are charged in the form of high interest rates, which are usually paid over and over again in a cycle of repeat borrowing that the industry depends upon to stay in business.

Finally, the letter highlights a study from two Federal Reserve Bank of New York researchers who claim, incredibly, that payday lending somehow staves off personal bankruptcy. If payday loans stave off bankruptcy, then why did the U.S. Department of Defense bar payday lenders from making loans to armed-services personnel? But do we really need a "study" to figure out that carrying more high-interest debt will cause more money to go toward interest payments and less money toward food, clothing and shelter?

How does increasing usurious debt loads help prevent bankruptcy? It's a fundamentally absurd proposition.

We now know Ohio could not afford subprime mortgage lending. We are awash in foreclosures, and it is costing everyone in Ohio dearly, not just subprime borrowers. It's the same with payday lending. Ohio can't afford it.

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