

Predatory lending makes bad economy worse (690 words)

By Stephen Stetson

It's report card time again, and a nationwide coalition of consumer groups recently handed out its grades: We're failing.

Alabama recently received three Fs on the Small Dollar Loan Products Scorecard issued by the Consumers Union, National Consumer Law Center and the Consumer Federation of America. The report card places Alabama near the bottom of all states in protecting citizens from predatory lending practices.

Alabama's low marks reflect our extreme interest rates on a variety of loan products. A 2003 law allows fees on payday lending that can reach an annualized percentage rate (APR) of 455 percent. Under the Alabama Pawnshop Act, lenders can charge an APR of 300 percent on a short-term auto title loan.

The state comparisons in the report card are eye-opening. While Alabama lets fringe lending proliferate, Arkansas is boldly curtailing such financial exploitation. Neighboring Georgia has also been praised for 2003 action by its legislature to crack down on payday lenders. Instead of sinking to the bottom of consumer protection report cards, Alabama should be proudly outpacing other states in running off these shady operations.

Why has our long-running statewide conversation about economic growth not led to substantial curbs on shady loan practices? Amid all the strategic talk about helping the economy, too few of Alabama's leaders have been willing to acknowledge that abusive lending and excessive loan fees cause consumers to be trapped in debt cycles, reducing resources that could be spent on real goods, saved or invested. Ambitious proposals for boosting Alabama's economy are being undermined by the crushing impact of debt on thousands of consumers with high-interest loans.

It is also perplexing that many of the Alabamians who use the Bible to guide their views of public policy haven't raised moral objections to the usury of predatory lending. A person need not be labeled "anti-business" for supporting reasonable ground rules and restrictions on lending practices that exploit low-income workers.

Alabamians are also strong backers of the military. Yet, why did Congress have to step in to protect service members in our state from the payday loan industry? Surely most Alabamians would agree that enacting this policy was a good step, needed to protect members of our military from financial exploitation. Don't civilians deserve the same protection? If an interest rate cap is good for active-duty service members, it ought to be good for everyone else as well.

It's time to aim higher. Merely being surprised about the current state of affairs isn't enough. The Legislature should pursue the base-line reforms being passed in other states: a ban on renewals, caps on the number of loans that can be outstanding at any one time, mandatory and controlled payment plans, and interoperable databases to make sure that consumers aren't simultaneously taking on excessive

debt from multiple loan providers. Although evidence shows that these reforms may be limited in effectiveness, they are certainly better than our current no-holds-barred policy.

The most important reform of all would be to cap the maximum possible interest rate on these loans. Unlike other reforms, it is difficult to “game the system” and circumvent a rate cap. In its *Springing the Debt Trap* report, the Center for Responsible Lending estimates that residents of the 12 states (plus D.C.) that have outlawed triple-digit interest save nearly \$1.5 billion each year in predatory fees. That figure represents serious money that could stimulate our economy in more useful ways.

As the economy continues to slide, now is the perfect time for Alabamians to take a stand against triple-digit interest rates, colossal fees and other industry practices, but not simply because it will help raise our scores on the next report card issued by consumer groups. Alabama should confront the powerful predatory loan industry because it’s the right thing to do and because it will result in a more prosperous population – a development that would greatly benefit us all.

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