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CON: Action needed to restrictinterest that amounts to usury

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The old saying "buyer beware" was never more appropriate than in dealing with so-called payday loan establishments. Sure, the thought of getting up to $500 for up to two weeks to tide you over seems like a life-saver.

In reality though, the loan can become a weight - a revolving and growing bill that threatens to submerge a borrower with debt that can't be repaid.

Even worse, payday loan businesses appear to be concentrating around our military bases, preying on servicemen and women who serve this country.

According to a Department of Defense study, 9 percent of all enlisted service members and 12 percent of all mid-level non-commissioned officers use payday loans. A General Accounting Office study from April 2005 shows 37 payday loan establishments around Davis-Monthan Air Force Base and 49 such businesses around Luke Air Force Base.

The most significant problem with payday loans is the high interest rates charged. State law caps the fee at 15 percent for two weeks. That amounts to a 400 percent annual percentage rate, a rate that would clearly be termed usury if assessed by a credit card company.

According to one study, most borrowers do not pay off their debt after the initial two-week period. In fact, 20 percent of people who use payday loan centers pay off their debt within two weeks. State law allows a loan to be rolled over three times. Repaying an initial $500 loan could end up costing $875.

People using these payday loan services generally lack the financial education to understand the exorbitant cost this short-term debt presents.

So next year, I plan to offer several solutions to bring down the cost of borrowing and protect consumers from outrageous charges.

To cover up-front costs and continue to allow payday loan companies to earn a sizable profit, I propose to keep the original 15 percent cap for the first two weeks. However, for any rollover, an 8 percent cap would still provide a substantial windfall for businesses but cut the cost to consumers. In case there is any sympathy for these companies, it still amounts to a 200 percent annual interest rate.

In addition, currently payday loans do not allow partial repayment, forcing a rollover of the entire borrowed amount even if a person can afford to repay some of the debt. I will propose allowing a borrower to repay one-third of the debt and roll over the rest. This both saves the borrower money and encourages financial responsibility.

These businesses also have found loopholes that dramatically raise the cost of borrowing money. A check returned for non-sufficient funds costs between $25 and $50. And sometimes the payday loan businesses submit the checks multiple times, incurring multiple charges for the borrower.

I have long sought to combat the scourge of payday loan establishments. Just last year, a bill I introduced would have instituted some limits, such as banning these businesses from garnishing the earnings of a member of the military and prohibited collection action against a service member or spouse during a deployment to a combat zone. The bill did not pass but with the recent studies showing a propensity to target members of our armed services, I will continue to press the Legislature to protect our protectors.

During the next several months, I will be undertaking an effort to educate my fellow legislators to the perils of payday loan businesses. A concerted effort by the polished purveyors of high-cost loans will mount a monumental effort to protect their gold mine.

While an uphill battle for them, Southern Arizonans must also get involved to convince legislators of both parties to clamp down on these businesses.

These businesses do take a risk when lending money. However, consumers should not be pummeled into debt and forced to pay shameful rates.

Payday loan businesses seem to offer a sense of security but in reality threaten to send a borrower into debt. The Legislature must act next year to help the people at the mercy of these businesses.

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