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PRO: Payday Loans, public service or profiteering?

Industry's growth shows it fills a need; fees already capped

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Over the past five years the Tucson area has seen lots of payday loan stores join the community. Payday loans are another example of the vibrancy of the American economy - that entrepreneurs can identify an opportunity in the marketplace and bring consumers a product to fill a missing need. While thousands of Tucsonans take advantage of the services area payday loan stores provide every day, some politicians and community activists think payday loans ought to go away. Once again the well-to-do among us think they know better how people should spend and manage their money. After we lay out a few facts I'm sure you'll agree with me that taking out a payday loan is a reasonable solution to a difficult problem.

The difficult problem is that most people just hope that unexpected emergencies will happen to someone else. They hope they can get through the week without having to repair the car or without having to ever worry about covering the deductible on their health insurance. But eventually that someone else is me, or you, and we have to come up with a couple of hundred dollars in a hurry. A payday loan provides a simple way for people to solve a pressing financial challenge.

Some may complain that payday loans are too expensive. State law sets a maximum fee. Arizona's maximum fee is in the middle of the range of various state maximums. The average payday loan amount is \$300 and the typical charge for the loan is \$45. Out of that \$45 the company has to pay its employees and provide them with benefits. Just about every company I know of provides its employees with health insurance among other benefits. The company has to pay its rent, pay its marketing costs, pay its collection costs and make a profit. All those charges come out of the \$45.

Certainly some people abuse the product. They either take out a loan they have absolutely no idea how they are going to pay back or they take out many loans at once. State law prohibits more than one loan at a time. But understand that the fee for a payday loan is fixed, whether it takes two weeks or 22 weeks for the customer to pay it off. This is quite different from a credit card where every day the money isn't paid the lender earns more interest. A payday loan is a fixed-fee deal.

There is no collateral for a payday loan. So, when someone can't pay an advance back, the lender has no choice but to work out a payment plan with the customer. The only alternative is to lose the cash that has already gone out the door. When lenders make a \$345 loan that doesn't get paid back, they need to make more than seven new loans just to recover from their loss. And that doesn't take into account the costs associated with making seven new loans.

Payday loans exist because more-traditional lenders don't want our customers as their customers. It costs a lot to build and staff a store. In comparison, it doesn't cost a lot to send millions of credit card offers in the mail. From the lenders' point of view a credit card loan is a much more profitable product. The lender gets interest every day, plus the enormously profitable late fees, overdraft fees, etc.

The number one reason people take out a payday loan is to avoid fees at their bank. When someone bounces a check the bank is going to charge \$25 and the merchant who accepted the bad check is going to charge \$25. It doesn't matter if you bounce a \$35 check or a \$350 check; the fees are at least \$50. Even if you cover the check the next day, you're still paying bounced check charges. And if you bounce a check to a utility you stand to get hit

with reconnection charges, in addition to bad-check charges.

A payday loan is not a cheap way to deal with a pressing financial need. But when that need arises, payday loans provide a simple way to solve an immediate problem. Compared to the alternatives, a payday loan looks like a pretty good deal.

There is nothing better for the consumer than choice. We welcome and encourage traditional lenders to develop products to meet the very real needs of our customers. And, we welcome and encourage our civic leaders to develop more and better community resources to assist our friends and neighbors in managing their money and bettering their work opportunities. We're all better off if we work together on solutions rather than gabbing about problems.

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