Arizona Daily Star
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Published: 02.04.2007

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Be careful if borrowing from a payday lender — it can be hazardous to your financial health

Opinion by Martin Rosales

ARIZONA DAILY STAR

Diane Robles is a confident, professional single mother. She has bachelor's and master's degrees and holds a good job as a facilities director with Child & Family Resources Inc., a local nonprofit agency that assists families in need.

Looking at Robles these days, it's hard to imagine that she was once in such financial distress that she considered ending her life. She said those problems were mostly her own doing, but were exacerbated by her dealings with payday lenders.

In 2001 and 2002, Robles was having trouble paying bills following a layoff and a new job that didn't pay nearly as well as the old one.

Robles made a decision that she would come to regret — she went to a payday lender.

Then she went to another and another and another.

Eventually, she was juggling as many as five payday loans, struggling to pay each of them off and digging herself a deeper financial hole by taking out new loans to pay off old ones.

"I learned how to play the payday-loan roulette wheel," Robles said. "Every payday, I'd go around to the different stores all over town to pay off the loans or take out new ones."

Eventually, the payday lenders' high fees — which can be equal to a 400 percent annual interest rate or higher — caught up with her. Robles simply couldn't pay them off.

"I was spending $600 a month renewing loans and paying them off just to keep my head above water," she said. "I lost a car, and I almost lost a house."

After two years of revolving loans, Robles said, she owed more than $10,000, and she estimated that she paid about $5,000 in fees. Her house was being foreclosed and there appeared to be no solution.

When she stopped making payments or renewing loans, payday lenders left threatening messages on her answering machine — 20 or 30 a day. Other lenders put threatening notes on her door. One store

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possible legislative remedies

These are some of the bills that have been introduced in the Legislature regarding payday lending:

• **SB1051** and **SB1101** would cap the annual interest rate on payday loans at 36 percent.

• **SB1052** would move up the termination date of the law that allows payday lending to Jan. 1, 2008. The law is set to expire July 1, 2010.

• **SB1473** would offer protections to payday borrowers whose families are members of the military.

• **HB2539** is a comprehensive bill that would repeal the statute that permits payday lending and would add extra penalties for companies that continue to operate such a business.

• **HB2643** would reduce interest rates, reduce the fee that a manager showed up at her house demanding payment; another went to her workplace. One company sued her.

The financial stress became too much.

"I remember one day I just came home and broke down. I fell to the floor, curled up into a little ball, sobbing my head off," she said. "I sent my kids to a friend's house down the street.

"That night I called all my family members who I hadn't talked to in a long time and told them, 'If you don't hear from me again, just remember that I love you.' It was just too much pressure to bear."

She didn't attempt to take her life. "I don't think I would have done it because I wouldn't ever want to leave my kids without a mother," she said.

Once Robles hit bottom, she made the decision to file for bankruptcy. That got the payday lenders off her back but ruined her credit rating, which affects her to this day in the form of higher interest rates for traditional loans she is able to get.

Cashed 401(k) account

To save her home, she cashed out a 401(k) retirement account from a previous job and got a small loan from a friend to get her mortgage payments current. Later, she managed to put herself through school and earned two degrees while raising two kids on her own.

Today, she'll tell anyone who will listen about her experience with payday lenders. Her advice: "Just don't do it."

"It's a little bit embarrassing and humiliating to tell people my story," Robles said, "but if it saves just one person from going to a payday lender, it's worth it to me."

Experience not unique

Robles' experience is not unique. The Star and other new outlets have reported how a small loan from a payday lender can turn into an economic albatross for someone who is financially inexperienced or doesn't have access to traditional forms of credit.

Payday lending is a thriving business in Arizona that promises fast and easy cash and often causes financial ruin to the borrower.

A new challenge for lawmakers around the country is the fact that payday lenders are also doing business through the Internet, which makes it easier for them to skirt state laws.

A study released in November by the Center for Responsible Lending, a Washington, D.C.,-based organization that campaigns against predatory lending practices, found that Arizona had about 740 payday loan stores in 2005. Those lenders charge Arizona consumers $139 million a year in fees.

Arizona doesn't have to be a haven for predatory lenders. The Legislature, which enabled payday lenders to do business in the state in 2000, can easily run them out if it passes laws that set reasonable interest rates on consumer loans.

Two states — Georgia and North Carolina — have effectively put payday lenders out of business.

licensee can charge and decrease the consecutive number of times an agreement can be extended.

• **HB2224** would prohibit extending, or rolling over, a payday loan.

Rep. Marian McClure, R-Tucson, who sponsored several of these bills regulating payday lending, told us Thursday that the availability of payday loans on the Internet would render eliminating them in Arizona useless.

She plans to strike all the language in HB2224 and offer new language that she called "more realistic" and which would revamp the industry.

Her new bill would make payday loans be a "true, one-time, 30-day loan." If the borrower can't pay off the loan in 30 days, the lender would be required to work out a 90-day payment plan of equal payments.

In addition, the new language would require a registry to ensure borrowers had only one payday loan at any time. The registry would be licensed by the state Banking Department, which would be able to monitor the lenders and the registry.

Lastly, it would stop the practice of doubling the face value of a postdated check if it bounces.

Track these bills and tell your legislators that you want to restrict payday lending in Arizona at **www.azhouse.gov/** and **www.azsenate.gov/**

The real cost of a payday loan

Payday loans are typically $50 to $500.

A borrower who needs $250, for example, would give the lender a postdated check for $250 plus the lender's fee, which, by law, is supposed to be no more than 15 percent of the loan. In this case, the fee would be $37.50, so the borrower would write a check for

Momentum to get rid of payday lenders has been building, but Arizona lawmakers still face obstacles in trying to pass reforms.

While rank-and-file lawmakers from both parties seem to agree on reining in payday lenders, the Republican leadership has not been eager to tackle the issue. Payday lenders are actively lobbying to stay in business beyond 2010, when the law that allows them to operate expires.

On this issue, however, lawmakers shouldn't compromise. Only clear and strong reforms will guarantee that more consumers don't fall victim to payday lenders' false promises.

"I think the time is right to make changes, but we have to stand firm in order to do it," said Penelope Jacks, an activist on the issue and director of the Children's Action Alliance Southern Arizona. "The industry is lobbying very hard to make changes that aren't really reforms. Our message is that we want things to go back to the way they were before 2000."

That was the year the industry persuaded the Legislature to carve out an exception to the state's usury law — which caps the interest rate on consumer loans at 36 percent annually.

Democrats and Republicans alike voted for the bill that allowed payday lenders to operate in Arizona, said Kelly Griffith, deputy director of the Southwest Center for Economic Integrity, a Tucson advocacy group.

"Lawmakers were told that this was a way for the poor to get short-term cash and that it would be helpful," Griffith said. "I think lawmakers wanted to do the right thing and they thought they were doing the right thing. They were told that a payday loan is cheaper than a bounced check.

"As more research and more data has come out, we've come to see how detrimental payday loans are."

Legislators have gotten the message and have introduced a handful of bills in the current session to address payday lending. The strongest of these bills would cap the interest rate on payday loans at 36 percent annually. One measure would move up the termination date for the industry. Either one would protect consumers.

The bills calling for a 36 percent interest-rate cap are similar to a law passed by Congress last year that limits the amount payday lenders can charge members of the military. While that law is helping to protect servicemen and women from predatory lenders, it does nothing to safeguard the rest of society.

$287.50. There are no credit checks involved, and the borrower would have $250 deposited into his checking account within a day.

When the borrower's payday arrives, he has three options:

• Go to the lender and pay $287.50 to get back the original check.

• Have the lender deposit the $287.50 check.

• Extend, or roll over, the loan. This means paying another $37.50 fee in exchange for two more weeks to pay back the loan. The borrower gets no new money.

In our example, the $37.50 fee on $250 loan is equal to paying 15 percent interest over two weeks. However, when the interest rate is calculated for an entire year (15 percent x 26 weeks), the annualized interest rate is 390 percent.

The Washington, D.C.-based Center for Responsible Lending reported in November that payday lenders make most of their revenues through the fees charged to borrowers caught on this "payday treadmill" — extending loans by paying more fees. The center said a typical payday borrower pays back $793 for a $325 loan.

Since the term of such loans is so short, the real interest rate that borrowers pay can range from 400 percent annually and higher.

"Working mothers and the working poor are still vulnerable to payday lenders," Jacks said. "What's good for the military should be good for the rest of us."

The Legislature must approve a strong bill because some payday lenders aren't following state laws already in place, such as those limiting the number of times a loan can be extended and restricting individuals to one payday loan at a time.

Robles, like other payday borrowers, simply denied she had another loan out with another company when she applied for new loans.

"In one case, a payday lender knew I already had a loan somewhere else," Robles said. "But he said, 'I'm going to give you this loan anyway.' "

Robles added that she was often able to renew her loans more than the three times allowed by law.

Such disregard for the rules shows that payday lenders are more concerned about bringing in new fees than protecting consumers.

Griffith, of the Southwest Center for Economic Integrity, said the group conducted a study in 2003 that found residents of greater Tucson were paying $20 million in fees annually to payday lenders.

Though the group has not updated its figures, she said that number is now likely closer to $40 million, given the growth of the payday industry in the Tucson area.

That money goes straight into the pockets of payday lenders. It's money that could otherwise help families in Southern Arizona put food on their tables or help them pay utility bills.

A savior for the poor?

The payday-loan industry portrays itself as a savior for the poor. It says it offers credit to people who would otherwise have none. It says no one else is willing to offer small loans to individuals with spotty credit records.

However, as the saying goes, with friends like these, you don't need enemies.

By charging high fees, payday lenders often trap their clients in a cycle of debt. Most times, the borrowers are able to dig themselves out of the financial hole, but often, as in Robles' case, they cannot.

Sometimes the debt load become too much, and only a bailout from a relative or protection through bankruptcy can rescue borrowers

"Payday loans are not access to credit, they are access to debt," Griffith said. "When you give someone a payday loan, you're not throwing them a life vest, you're throwing them an anchor, and they're going to go down faster."

After seven years, payday lenders have worn out their welcome in Arizona. It's time for the Legislature to show them out.

Lawmakers should resist the urge to compromise with a payday-loan industry that only siphons money from needy Arizona families. The Legislature should enact tough laws that place a reasonable interest-rate cap of 36 percent annually on payday loans.

Other states have shown a willingness to protect consumers by getting rid of payday lenders. Arizona can — and should — do the same.

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