

Ban payday loans? Big mistake.

By Tim Miller

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Fed up with politicians incapable of balancing budgets? Well, now state legislatures across the country want to take a crack at balancing your checkbook – whether you like it or not.

Paternalism – the idea that government must take care of adults because they aren't able to do so themselves – is the ideology behind the wave of politicians determined to limit how much and how often Americans can borrow money. By putting stringent restrictions on borrowing, these politicians would effectively ban the practice of short-term "payday" lending, no matter how many people use it responsibly in times of crisis.

For those who enjoy access to high lines of credit, these short-term loans – which essentially let customers borrow cash from their next paycheck – may be a bad deal. But many of the less prosperous don't have such attractive alternatives to the kind of loans that politicians like to demonize.

So when Democratic presidential candidates Barack Obama and Hillary Rodham Clinton prey on people's emotions by calling short-term lending "abusive" and "predatory," the result of their actions will be leaving low-income borrowers stranded in debt.

Most financial institutions aren't willing to cover the risk that these loans incur, so real alternatives don't exist. Why is that the case? Consider this scenario.

In some states, lawmakers have tried to pretend that they're not banning the service, only capping its price at a "reasonable level." If a complete stranger walked up to you on the street and asked you for a \$100 loan and promised to pay it back in two weeks, but only give you \$1.38 for your troubles – would that be a "reasonable" deal? Of course not. And no business could survive making these kinds of loans.

In fact, after Washington set a 24 percent cap on interest rates last fall, payday lenders left the city in droves, leaving consumers hard-pressed to get cash in a pinch.

So once the paternalistic rhetoric is switched off, payday lending's usefulness to borrowers in tight spots is fairly easy to understand. The quick cash means that the car gets an urgent repair, a critical check doesn't bounce, or the heating bill gets paid. Used responsibly, payday lending can help a borrower stave off financial calamity.

And it's that idea of responsibility that the activists and lawmakers trying to kill payday lending can't get their heads around. Personal responsibility is what makes adult life possible. Take something away because a small minority of adults can't use it responsibly and you treat everyone like children.

The injury on top of the insult is that laws against payday lending do serious economic harm to the people likeliest to use such a service, as confirmed by multiple teams of researchers.

One consequence of payday lending restrictions is that they force would-be borrowers into alternatives that are far more costly. Georgia, for example, has outlawed the practice – mistakenly, as a Federal Reserve Bank of New York study indicates.

The study found that bounced-check fees grew by \$36 million and Chapter 7 bankruptcy filings rose by almost 9 percent in Georgia after payday lending was banned. What's worse: Bouncing checks and wrecking your credit rating, or paying a lender \$15 for a \$100 advance on your paycheck?

Given these facts, it's clear that those guilty of exploitation are not the short-term lenders, but politicians who are trotting out the poor to score a political victory.

The message sent by lawmakers who want to ban payday lending is to declare that consumers capable of opening a checking account and earning a paycheck can't act like adults when it comes to managing a three-figure loan. This lesson from government will only erode personal responsibility, to the detriment of a healthy society.

Americans don't need their money managed by paternalist politicians. Government should instead trust that, when given personal freedom and the maximum amount of options, consumers can decide how to responsibly use their money themselves.

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