

P R E S S R E L E A S E

Date: June 2, 2008

From: Coalition for Financial Choice

MWW Group

Stephen Altobelli (201.964.2369, (saltobelli@mww.com))

FOR IMMEDIATE RELEASE

CONSUMERS IN OHIO WILL BE HARMED BY RECENT LEGISLATION EFFECTIVELY BANNING PAYDAY LOANS

Low- to Moderate-Income Consumers Need As Many Choices As Possible To Help Them Meet Their Financial Needs

(Washington, D.C., June 2, 2008) – The Coalition for Financial Choice (CFC) today criticized the well intentioned though ultimately misguided actions by the Ohio Legislature to place a 28% APR cap on payday advances. The legislation creating this cap was signed today into law by Governor Ted Strickland and will take effect in 90 days. Simply stated, the new law will have the practical effect of eliminating payday advance as a credit option in Ohio because lenders will be unable to operate profitably under the new restrictions. As a result, low- to moderate-income consumers will have one less credit option available to them in the already limited area of small dollar lending.

What does this mean to consumers? One thing is certain, eliminating this supply of small dollar, short-term credit will in no way impact demand. As a practical matter, consumers will be forced to spend more, not less, to meet their financial obligations. For example, while it typically costs \$15 to take out a \$100 payday advance, a bounced check for the same amount can cost \$54 (including both bank and merchant charges). In addition, while Internet-based payday advance lenders also will be required to abide by the 28% cap, enforcement will be difficult, if not impossible. Therefore, given the lack of brick and mortar stores offering payday advances, many Ohioans will be forced to turn to unlicensed and unregulated Internet companies offering few, if any, consumer protections.

“The fact that the Ohio Legislature and Governor are concerned about the financial welfare of their constituents is commendable, of course, but the reality is that they have set the stage for people to spend more money, not less, addressing their small dollar, short-term financial needs,” said William Murray, Spokesman, Coalition for Financial Choice. “The cap in Ohio is arbitrary and is in no way based on economic reality. As a matter of practical reality, all companies will be forced to cease making payday loans in Ohio, thus giving low- to moderate-income consumers one less option to address their unexpected, short-term financial obligations. Despite the position of consumer activists, it is an open question how consumers are better off today without this product than they were with it. The options now available to them, such as overdraft protection, are more

costly than the payday advance alternative. Who really benefits from this cap on payday advances? Not consumers who had limited options to begin with.”

The adverse impact to consumers who have had access to payday advances and then have that access removed is clear. A recent Federal Reserve Bank of New York staff report studied the after-effects of banning payday loans in Georgia and North Carolina (“Payday Holiday: How Households Fare After Payday Credit Bans”). That study confirms that consumers suffer when their access to credit is restricted or denied. In fact, the study notes that consumers in Georgia bounced 1.2 million more checks following the ban on payday loans than previously. At \$30 per check, that’s an extra \$36 million per year in bounced check fees paid after the ban on payday lending. In addition, the study found that once payday advance loans were banned, the number of individuals who filed for Chapter 7 bankruptcy increased.¹

“Those who criticize the cost of the payday advance product fail to accurately compare it to alternatives, such as overdraft protection and bounced checks,” continued Murray. “Is it essential that adequate consumer protections be in place with this and every credit product? Absolutely. But simply eliminating one class of product and forcing consumers to use higher-cost alternatives is not the answer. All consumers, not just middle and upper class ones, need access to credit from time to time, and payday loans are a viable option for many. When considering whether or not to restrict payday loans, states need to carefully consider all the implications of such actions, as they may be doing more harm than good.”

About the Coalition for Financial Choice

The Coalition for Financial Choice was formed in response to an increasingly inequitable business environment that seeks to limit access to non-traditional financial services. Its mission is to *educate* key stakeholders – lawmakers and regulators, the media, the business community, and the general public – about the importance of maintaining access to basic financial services for all. It also *advocates* for responsible government policies that will ensure that all Americans, not just the wealthy, have the opportunity to fully participate in our economy and society. For additional information about the Coalition, please visit www.coalitionforfinancialchoice.org.

###

ⁱ “Payday Holiday: How Households Fare After Payday Credit Bans,” Federal Reserve Bank of New York Staff Reports, Donald P. Morgan and Michael R. Strain. Staff report #309, November 2007, page 2.