Set limits to 36% for payday loans

By NANCY COTTERILL
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In the last five years payday loan companies have drained $322 million out of the Indiana economy in fees and high interest rates, making huge profits off the backs of the poor, mostly affecting those in our urban areas and predominantly people of color, thanks to the Indiana legislature, which in 2002 carved a special deal for payday lenders out of our criminal loansharking laws.

These loans are sold as “a solution to a short-term financial need.” In truth they are a trap that captures the average borrower in a round of eight to 10 loans, borrowing and re-borrowing to escape the ever-growing debt due to astronomical interest rates and fees—now capped at 391%. This is not a “free-market” issue. This is usury of our most vulnerable citizens.

To protect the projected $60 million in profits made here, these companies send in high-powered lobbyists whenever their business practices are challenged. This year, again, Indiana Republican Sen. Greg Walker has introduced a bill (Indiana Senate, SB 26) which will cap interest rates and fees to a total of 36%, matching the federal caps for loans to military personnel. At our current 391% rate, it is clear our legislature has legalized theft from those who can least afford it.

Across Indiana there are 262 payday loan storefronts. Part of the loan process is for the company to be given access to the borrower’s bank account. The money is swept out and into the payday coffers if the borrower doesn’t physically come in and pay the loan off before the deadline.

Payday stores operate where many live on government assistance or low-paying jobs. The average income of payday borrowers is around $19,000. Once the borrower takes out one short-term loan, 60% will take out a new loan to pay off the old one on the day it is due. Eighty-two percent take out another loan within 30 days, hounded through texts and phone calls and reminded that the entire balance must be paid on the due date. There are no installment payments. Besieged borrowers who take out new loans pay additional fees and interest — and the debt continues to grow. Bankruptcy rates soar among payday loan borrowers, because bankruptcy is often the only way to stop the merry-go-round of loans and fees.

But bankruptcy is not the only side effect of the high annual percentage rate charged by payday loan companies. Studies show a cascade of negative consequences includes overdrafts, defaults on other payments, involuntary bank account closure, depression and health consequences due to stress.

Last year the effort to cap payday loans was defeated 22-27 in the Indiana Senate. We need only convince four Indiana senators to change their positions and vote to cap all lending in Indiana at 36% annual percentage rate, including fees and costs. A study by Bellwether Research found that 88% of Indiana voters surveyed support this change. Do not just read this. Call the Senate today at the numbers below and voice your opinion.

Citizens of Indiana cannot allow our laws to sanction lending that preys on the poor and most vulnerable among us. Call Committee Chair Sen. Eric Bassler and ask him to schedule a hearing on this important bill and then call your state senator and ask them to co-sponsor the bill and to vote YES on SB 26. Here are the phone numbers. Do it today! Call 317-232-9400 or 800-382-9467. Find your senator at iga.in.gov.

Nancy Cotterill is co-founder of Unite Indy, which connects volunteers and experts to assist urban churches, ministries and other charities.