New law attracts payday loan businesses

By GINNIE GRAHAM World Staff Writer
8/24/2003
View in Print (PDF) Format

The legislation regulating the small-loan industry offers little protection for consumers, opponents say.

More than 130 new offices offering payday loans will be opening in Oklahoma starting Sept. 1 -- bad news for poor Oklahomans, a longtime opponent of the industry says.

A new bill regulating the small-loan industry has attracted nine new vendors to open multiple businesses, according to Don Hardin, administrator for the Oklahoma Department of Consumer Credit.

Hardin said most of the offices are being located in strip malls in metropolitan cities.

"We expected this based on past experience and what has happened in other states," Hardin said. "We simply want to implement the laws as written. We don't have any other agenda."

Hardin said the department is waiting for the governor's approval of emergency rules to clarify sections in the law.

The governor's staff rejected two rules written by the consumer credit department. Hardin said he is hoping to have the problems worked out by Sept. 1.

One rule in question deals with how to regulate existing businesses that open a new office.

The other rule has to do with how businesses post terms and rates.

A part of the law said the information must be "conspicuously" posted, and the rule will define what that will involve.

Before the bill's approval, Hardin had testified about potential problems in the law for consumers.

"As administrator, I felt I had a responsibility to point certain things out," Hardin said. "But our job is to write the rules, interpret the laws and carry out the laws. We are also responsible for issuing a pamphlet for consumers written in neutral terms."

The bill, called the Deferred Deposit Lending Act, eliminated reforms put into place in 1997, which set stricter limits on the industry.

Those opposing the new law say it offers no protection to consumers to borrow within their means, allows pawnbrokers to make loans without a separate license and only allows for penalties to be imposed for violations.

Loans may also carry high annual percentage rates running in excess of 400 percent.

"The only jobs coming into Oklahoma are in the industry of loan sharking," said Steven Dow, executive director of the Community Action Project of Tulsa County.

"This undercuts everything that had been done and is a major step backward in Oklahoma. This opens the door to an industry we deliberately kept out in 1997. And ever since, they have been knocking at the door to be let in."

Payday loans are small, unsecured consumer loans requiring repayment within a short time.

The consumer provides the lender a post-dated personal check and receives the cash, minus the interest and fees charged by the lender.

The lender holds the check for an established amount of time, usually until the consumer's next payday.

When repayment is due, the consumer may redeem the check by paying the face value or allowing the check to be cashed.

If a consumer has insufficient funds, the person will owe the bank plus overdraft fees and the lender. Or the consumer will seek another loan through a different vendor.

"Consumers will be hurt," Dow said. "In looking at the history of this kind of industry, it is like quicksand. People do not know what is happening to them until they are already in it, and they very quickly become in debt."

The new law allows a lender to charge $15 for every $100 borrowed, up to $300. Then, a $10 fee may be added for amounts between $300 and $500, which is the maximum loan allowed.

The result is that an annual percentage rate for a $300 loan financed for 13 days may be up to 421 percent.

The same loan financed for 45 days may carry an annual rate of 122 percent.

A $500 loan for 17 days may run a consumer 279 annual percentage rate.

"Our fear is once this industry is established here, it is extremely difficult to undo the damage that is done," Dow said.

Hardin said there is a question of whether lenders may issue loans between the $100 increments.

The law outlines terms for each $100 borrowed. But lenders are pushing to grant loans between those increments, such as $150 or $475.

State Sen. Angela Monson, D-Oklahoma City, sponsored and wrote the bill. She pointed to several elements within the law to protect consumers.

The law places limits on loans to one client and prohibits taking out loans to pay off prior loans.

A consumer may only take out two loans at a time and cannot renew those loans. Credit counseling is required for people taking out at least six loans in 90 days.

"This product is not for everyone, and it is not designed to be," Monson said. "But there will be a certain market to get all individuals access to capital. It is a product some individuals with no option can use. It does protect people when they need to use this product."

A tracking system will be put into place by the consumer credit department to gather more information on the types of loans being granted, Monson said.

"I believe, like all things in life, anything can get better and improved upon," Monson said. "Once the system is up and running and we can review and analyze the data, and if we show problems, we will work to improve them whether that is administrative or statutory."

Monson said payday lending was occurring in Oklahoma prior to the law but was unregulated.

"I think we are doing well for what we are attempting to do in making a product available," Monson said.

Ginnie Graham 581-8376
ginnie.graham@tulsaworld.com

View in Print (PDF) Format

Printer-friendly version   e-mail this story to a friend

Write Us

Name:

Email:

Phone:

Letter:

Respond to this story here

* Letters intended for publication must include a day-time telephone number.

Submit

| Back | Return to Current Story Search |