Payday Groans

By Reg P. Wydeven
May 1, 2010

My senior year of college, a bunch of my buddies decided to go to Panama City, Florida, for Spring Break. When I found out my future wife and her friends were planning on going, I quickly signed up. We didn't start dating until I was in law school, and since I had a huge crush on her, I was hoping we could spend some quality time together. Especially if she was going to be in a bikini.

We all started saving money for the trip and began buying more ramen noodles at the grocery store instead of Orv's pizzas. My good friend, Ryun, went one step further and routinely sold his plasma. After one of his sessions, we all skipped lunch and went to play hoops. After about a half-hour, Ryun almost passed out. From then on he no longer played basketball after donating.

For Ryun, it literally took blood for him to save up for Spring Break. For borrowers who take advantage of payday loans, it only feels like they're taking blood, as many short-term loans often cost borrowers 500% or more a year in interest.

Until recently, Wisconsin was the only state in the U.S. that did not regulate payday loans. Last week, state lawmakers passed a measure on a 72-25 vote that is now headed to Governor Jim Doyle for approval. Doyle promised to sign any measure, claiming some regulation is better than none. The new rules that regulate stores offering payday and auto title loans came after years of debate and intense lobbying by the industry. Last year payday lenders spent $669,000 on lobbying efforts and donated $75,000 to state lawmakers' campaign committees.

According to the new rules, payday loans will be limited to $1,500 or 35 percent of the applicant's monthly income, whichever is less. Borrowers can only roll outstanding loans over once, and they can cancel loans within 24 hours.

Auto title loans will be limited to one per customer, and the loan cannot exceed 50 percent of the car's value, not counting fees. Additionally, title lenders would be required to notify borrowers before seizing their vehicles. They can only charge borrowers "reasonable" storage fees if the lenders repossess their vehicles. Finally, lenders are required to give borrowers any surplus cash if repossessed vehicles are sold for more than the amount of the outstanding loan.

There are currently more payday loan stores in the U.S. than McDonald's and Starbucks locations combined. Accordingly, Wisconsin's new rules prohibit payday loan stores from being located within 1,500 feet of one another or within 150 feet of residential areas.

Consumer advocates assert that because Wisconsin took so long to finally address the issue, the new measures are too little, too late. While our lawmakers debated the issue, they claim the payday lending industry mushroomed and caused countless borrowers to wallow in an endless cycle of debt. These advocates further allege that the new bill does not go far enough, because lawmakers declined to impose a cap on the interest rates that lenders can charge.

The terms of payday loans were getting so onerous that people began borrowing money from the mob because they were getting better deals. And I think it's poetic justice that Ryun, who once had to sell plasma to help with bills, is now an extremely successful banker.