

Toledo Blade Editorial

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Close loan loopholes

THE Ohio Senate has an immediate opportunity to protect consumers from getting trapped in spiraling long-term debt by enacting legislation that would curtail abuses in short-term lending. If serving their constituents is the senators' primary concern, they have no excuse for not acting promptly.

The state House passed a bill this week that would prevent so-called payday lenders from evading the legal ceiling of 28 percent on the interest rate they charge their Ohio customers. Lawmakers approved, and voters emphatically affirmed, that rate limit two years ago.

But lenders then discovered they could get around the cap by tacking on exorbitant fees to originate loans, to cash the loan checks they write, to perform unnecessarily frequent credit checks of borrowers, to broker loans from third parties, and to help customers "fix" their credit.

These add-ons can inflate the cost of relatively small loans to the equivalent of a 670 percent annual interest rate. The House-passed bill, which Gov. Ted Strickland says he would sign, would prohibit lenders from charging such usurious fees. That would help prevent the prospect of borrowers having to take out new high-interest loans to repay previous, supposedly short-term, loans.

Because senators so recently approved the initial restrictions on payday lending excesses, there is no reason for them to refuse now to close the loopholes lenders are exploiting in the original law. Senate President Bill Harris (R., Ashland) has acknowledged that too many lenders are acting in a manner contrary "to the intent of the law that we passed."

Threats by storefront lenders to flee Ohio if the current bill becomes law seem overblown. The bipartisan legislation would not obstruct

legitimate short-term lending or prevent lenders from making a reasonable profit from their operations. It would simply fulfill the will of voters by affirming that the original law that imposed the 28-percent rate cap means what it says.

Payday lenders perform a useful service by making emergency credit available to consumers who must live from paycheck to paycheck and can't get, or wait for, a bank loan. The legislation before the Senate would preserve that service while cracking down on the potentially ruinous abuses that attend it.

The payday loan measure merits senators' approval before they go home for the summer.