News Tribune

Don't be fooled by 'Payday Loan Initiative'

By Rep. Don Wells

For many individuals and small businesses across Missouri, traditional installment loans have long been a vital source of credit. Our neighbors, friends, and community members often rely on this safe and affordable form of credit as an important financial tool in an increasingly strained economy.

Yet if the ballot proposal deceptively called the "Payday Loan Initiative" is passed, all small-dollar loans, including traditional installment loans, will be subject to severe restrictions. Many Missourians will be denied important sources of credit when they need them the most, putting not only individuals but entire communities in financial distress.

The so-called called "Payday Loan Initiative" purposely blurs the lines between payday loans and traditional installment loans, while in fact the two are radically different.

Traditional installment loans are high quality, affordable loans that allow consumers to manage household expenses without having to wipe out their savings. These loans provide consumers with a responsible and disciplined way to build credit history and increase financial security. In fact, the availability of small-dollar installment loans actually improves household savings efforts.

While the typical installment loan ranges between $500 and $3,000, some can be as high as $10,000 when the loan is used for larger purchases, such as major household repairs.

Traditional installment loans adhere to responsible lending practices — and for good reason: installment lenders have no incentive to give a loan that cannot be paid back. Applicants must undergo a rigorous review that includes verification of employment and income and an underwriting process to determine their ability to repay.

This helps ensure that consumers who want the credit can afford the monthly payments without disrupting their household budgets. This means, for example, that if a family needs a new furnace in the dead of winter, they will be able to manage the loan repayment with other normal household expenses. Unlike other loan products, installment lenders offer repayment terms of at least 90 days and often 12 months or more, with no balloon payment, which can put a tremendous strain on a borrower's ability to repay the loan.

Installment loans are also a viable and effective alternative to standard credit cards, even those with lower interest rates, which over time can cost consumers far more when they make only minimum payments.

According to Federal Reserve research, when compared with other traditional lending products, such as those offered by banks and other financial institutions, consumer installment loans can better serve consumers. Banks and other institutions provide limited access to consumer credit and tend to charge high add-on fees.

The "Payday Loan Initiative" places Missourians in financial jeopardy by restricting credit options for main-street borrowers and making installment lending unsustainable for legal lenders.

Eliminating traditional installment loans will cripple small businesses by drying up consumer credit options. And millions of dollars in lost revenue and lost jobs will have a devastating impact on Missouri's already weakened economy and high unemployment rate. Taxpayers would face an additional burden as they are forced to pick up the tab for subsidized lending in new entitlement programs.

In these times of great economic uncertainty, it doesn't make sense to eliminate or reduce access to the credit provided by traditional installment loans.

These loans have been a viable and responsible source of credit for Missouri consumers for a long time. So when you are asked to sign a petition for this deceptive ballot measure on Missouri's lending rates, don't be fooled. Simply say, "No, thank you."

For more information, visit www.standupmissouri.org

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