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- X Close
- » Local News
- » Sports
- » Weather
- » Business
- » Obituaries
- » Blogs
- » Events
- » Entertainment
- » Features
- » Jobs
- » Cars
- » Homes
- » Marketplace
- X Close

- X Close
- Facebook
- Twitter

Con: Regulations limit business, penalize lenders

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Victoria officials have not taken action to regulate payday and auto title lenders, and some say that's how it should stay.

Mayor Paul Polasek said there is no need for government - state, county or city - to intrude.

"I don't think government should try to protect people from themselves," Polasek said. "It leads to too much government control. Sometimes, people need the freedom to succeed and the freedom to make mistakes."

If there's a market for it and a business that feels it could succeed, Polasek said he wants it to set up shop, including these lenders.

Victoria has 22 businesses that deal in payday or auto title loans, according to

FAST FACTS

• 12 million American adults use payday loans annually. On average, a borrower takes out eight loans of $375 each per year and spends $520 on interest.

• Most borrowers use payday loans to cover ordinary living expenses over records from the Texas Office of Consumer Credit Commissioner.

The crux of the debate hinges on whether regulations protect consumers from themselves or from predatory lenders.

Polasek said he would not support any regulations without "real evidence of abuse by the business."

"I think consumers clearly understand what they're doing when they get the loan," he said.

Bill Peacock, vice president of research at the conservative think tank Texas Public Policy Foundation, opposes municipal ordinances and state legislation to increase regulation on the industry.

"One of the problems with regulations in this market and in many others is that folks want to regulate away the bad behavior of consumers," Peacock said. "You just can't do that. Consumers are going to make mistakes just like anybody else."

The decision to regulate this industry should fall on state legislators, not city councils, he said.

"We think the regulations should be uniform and across the board," he said.

Payday loan officials in Victoria declined to comment on this story.

In 2011, state lawmakers passed House Bill 2594, requiring credit service organizations to be licensed and to file quarterly reports with the Finance Commission on loan volumes, amounts, fees, refinances, auto repossessions and any related information a finance commissioner would determine necessary.

the course of months, not unexpected emergencies over the course of weeks. The average borrower is indebted about five months of the year.

• If faced with a cash shortfall and payday loans were unavailable, 81 percent of borrowers say they would cut back on expenses. Many also would delay paying some bills, rely on friends and family or sell personal possessions.

• In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.

Source: Pew Charitable States

Federal regulations have made operating banks more expensive, which in turn, "has made it almost impossible" for average consumers to get bank loans, Peacock said.

With no other option, Peacock said those people are "forced to go to these higher interest places," to finance their short-term needs.

So long as the loan is paid off on time, the annual percentage rate, a calculation of interest which can exceed 800 percent for some short-term loans, does not apply, he said.

The main thing is that consumers still have the power to negotiate the terms of the loan, the fees, interest rates and charges with the lender, Peacock said.

"The goal here is to give consumers the best access to the products they need in this case, it's capital and loans," Peacock said. "Excessive regulations don't help consumers; it keeps them from being able to borrow money when they need it."

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