



FINANCIAL SERVICE CENTERS OF NEW YORK, INC.

A Trade Association

New Yorkers Deserve Access to Safe, Affordable Small Dollar Loans

By
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Much is being made of legislation now pending in Albany that would allow the state's licensed check cashing stores to offer small dollar, short-term loans. Interestingly, critics of the bill, such as city Consumer Affairs Commissioner Jonathan Mintz, have outrageously attacked the integrity of the small business owners who run tightly regulated check cashing outlets and have failed to offer any meaningful alternative.

There are a variety of positions one can take with regard to small dollar loans, ranging from letting the free market rule with little or no government oversight to imposing outright bans. Then there is Commissioner Mintz who offers no alternatives to predatory internet payday loans. What is indisputable is that there is a need for credit. Nationally, the Pew Charitable Trust estimates that approximately 12 million Americans take out more than \$7.4 billion in small dollar loans every year

There also exists a significant need in New York State. In a Neighborhood Financial Services Study conducted in 2008, the New York City Department of Consumer Affairs found that a "notable" number, 9%, of survey respondents in Jamaica, Queens, and Melrose, Bronx, had accessed a short-term loan over the Internet, phone or from another unregulated short-term lender, i.e., a payday loan. Even without resort to the Internet, millions of people are forced to utilize high-cost, credit damaging measures which are not traditionally considered to be credit, e.g., bank overdraft products, and late fees incurred for bills not paid on time, in order to make ends meet.

The reality is that people need reasonable and responsible forms of credit and will find ways to access it, regardless of the associated costs and the risks. The question then becomes how best to make credit options available that satisfy consumer need while also providing regulatory oversight to avoid abuses. Contrary to how it is being portrayed by critics and the media, the legislation now being considered in Albany (A.1113-A; S.3999-A) would provide significant advantages versus unregulated Internet payday loans, and even other forms of short-term credit, including:

- **Regulatory oversight.** As licensed check cashers, the providers of short-term financial services loans would be regulated by the New York State Department of Financial Services.
- **Transparency.** Customers will know all the costs associated with the loan before they consummate the transaction.
- **Accessibility at established locations.** The bill only allows loans to be made in check cashing locations, allowing borrowers to deal face to face with their financial service provider, and allowing regulators the ability to oversee transactions at any time.
- **Installment repayments.** Unlike payday loans that typically require repayment of all principal and interest in two weeks, borrowers of short-term financial services loans have 3-6 months to repay the loan in equal periodic installments.

- Consumer protections. The legislation creating this new loan product includes a number of progressive consumer protections, e.g. limits on borrowing and repayment terms, prohibition on rollovers, state-run database to ensure compliance, right of rescission.
- Lower cost. While Internet payday lenders can charge interest rates of 800% or more for their products, **the legislation now pending in Albany would create an unsecured, installment loan which will not exceed the statutory usury limit of 25% APR.** And even if fees commonly associated with similar loan products are included, the total cost to the consumer is significantly below those of Internet payday loans. This would represent a significant cost savings for the 1.5 million New Yorkers who currently resort to Internet payday loans to meet their short-term credit needs.

The need for credit in New York State is indisputable. The Short-Term Financial Services Loan would meet that consumer demand in a regulated, transparent, affordable manner. Those opposed to the legislation should create meaningful alternative proposals. Simply saying “no” is no way to demonstrate leadership in public policy.

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