Payday lenders win again in the state Legislature -- no new industry curbs on horizon

By Karen de Sá kdesa@mercurynews.com San Jose Mercury News
Posted:

MercuryNews.com

Consumer rights advocates lost a crucial vote in the state Legislature on Wednesday after a bevy of lobbyists for the payday lending industry persuaded senators to reject new curbs on the storefront operations.

Although short-term loans with triple-digit annual interest rates have been deemed predatory and barred in 17 other states, legislative attempts to regulate payday lending in California have not made it very far. And this time was no different.

Senate Bill 515, carried by Sen. Hannah-Beth Jackson, D-Santa Barbara, and co-authored by Sen. Jim Beall, D-San Jose, challenged lawmakers to protect low-income Californians by capping the number of payday loans to six per customer each year. It also sought more time to repay the loans, typically due on payday after two weeks.

But the Banking and Financial Institutions Committee -- among them top recipients of campaign contributions from payday lenders -- voted 5-3 not to forward the bill to the full Senate. The vote followed a testy, two-hour hearing with testimony in opposition from some of the most powerful lobbying firms in Sacramento -- and pleas to pass the bill from a single mom, a state employee and a college student.

Paul Gladfelty, a lobbyist for two prominent California payday lenders, objected at Wednesday's hearing to the term "debt trap." He and other payday lending interests described the term "safety net" as a more apt description for the cash provided to those who don't qualify for bank loans or credit cards.

"I do feel bad that people have to go to the payday lending industry," Gladfelty said. "But the fact of the matter is, they help a lot of people in the state of California" -- roughly 1.6 million borrowers taking out more than 12 million loans at last count.

Responding to those who say the storefronts are disproportionately located in impoverished communities of color, Gladfelty said, "If they are, it's coincidental, and it's not part of a coordinated strategy."

Jackson's bill did not technically die after its first hearing in a two-year legislative session. It will remain "under consideration" in the banking committee.

But that body, dominated by payday lending industry supporters, is not expected to look favorably at the reforms currently championed by consumer advocates, civil rights groups and religious leaders.

Some signs are new, however. Senate banking committee members said they would not rule out considering reforms of the payday lending industry if Jackson went back and rethought her bill.

Meanwhile, another bill, authored by Sen. Jerry Hill, D-San Mateo, did make it through the banking committee Wednesday. SB 318 seeks to create a pilot lending program to promote alternatives to payday loans -- something senators insisted was needed before they would consider further restrictions of payday loans.

By capping the annual number of loans, Jackson's bill could have significantly scaled back the storefront industry, based on data from other states that enacted lending caps. And although they offered no evidence, bill opponents said limiting access to payday lending would drive more customers to unregulated, online lenders based as far away as Belize and Malta.

"There's a lack of credit out there. People are hurting; there are no viable options," said committee chairman Lou Correa, D-Santa Ana. "The only option is the Internet."

Proponents of SB 515 argued that they are not seeking to kill the industry, simply to hold it to its advertised mission of offering emergency, occasional loans. Three Bay Area Democrats on the banking committee agreed and voted in favor of the bill -- Beall, Hill and Sen. Ellen Corbett, D-San Leandro.

Payday lenders charge a $45 fee in exchange for $255 in cash. But one loan typically leads to another. And at annualized interest rates of up to 460 percent, that burden compounds, falling heavily on the working poor and even those relying on public benefits.

Krissie DeLeon of Hollister testified that she got caught up in payday loan debt trying to feed her small son and keep gas in her car to get to work. SB 515, she said, would "help us as consumers get out of the hole we're in." The current loan structure, she added, "basically helps us dig the hole deeper."

Beall said payday lending contributes to poverty in California by taking money that could be used for basic living expenses and wasting it on loan fees instead. He urged his colleagues to keep the bill alive.

"It's harmed people," said Beall, who first learned of payday lending from former foster youth who asked his office for help. "It's time we stand up and say we're going to continue to work on this -- we're not going to close the blinds and go along with the people in Sacramento who tell us what to do."

Jackson said after the hearing that she is "very disappointed" in her colleagues' votes, adding, "I'd hoped that more committee members would have been willing to stand up to the industry."

Contact Karen de Sá at 408-920-5781.