Two Sides of the Same Coin

HOW COME WHAT'S GOOD FOR THE GOOSE ISN'T GOOD FOR THE GANDER? | BY ABBY HANS

In March 2008, the federal government started giving out "payday loans" to private investment and commercial banks. If I remember correctly, didn't the OCC, Treasury, the FDIC and the Federal Reserve advise banks to cease funding payday lenders because of a fear for the safety and soundness of those banks?

To paraphrase, the stated purpose of all four of the above-mentioned regulatory agencies is to "supervise banks and maintain the stability and public confidence in the nation's financial systems."

Well, it looks like some of our federal hotshots fell asleep at the wheel. So, in order for John, Henry, Sheila and Ben to properly execute these short-term loans, I suggest they immediately contact any of the leading payday advance companies to see how the product is supposed to work, and remember the following:

- 14- or 28-day payback.
- No rollovers.
- Show the APR (which the taxpayer is paying) in prominent shadowed letters.
- Have the banks bring in their miserable bank statements showing how carelessly they gave away their depositors' money.
- Accept a postdated check (in this case, a worthless piece of collateral such as sub-prime mortgage portfolios will suffice).

But wait. Rather than get a payday loan, couldn't these short-on-cash banks do what the consumer advocates suggest: borrow money from a rich uncle…oh, they've already done that – Uncle Sam, i.e., you and me, dear reader.

Q. Well, why don't they simply go to other healthy banks for a short-term loan?

A. Because the Big Four agencies listed above have informed banks that payday loans are BAD!!! Stay away from them. They'll bring you down.

In all fairness, let's look at the ability of these borrowers to repay their loans. That's what any smart payday lender does. So, exactly how are the borrowing banks going to be able to repay the short-term loans? They're going to need capital! But if they fail to attract this capital, then what happens when the loans come due? Be careful, Mr. Banker, don't caught up in the cycle of debt by asking for a rollover. Rollovers are dangerous. They trap you.

RESPONSIBILITY LIVES ON BOTH SIDES OF THE TRANSACTION.

You say you can't pay back the loan in 28 days? You should have thought of that when you ran out of cash. You didn't put money away for the proverbial rainy day, did you? But you need this cash because of an emergency. Tsk, tsk, what's a multi–billion dollar bank to do?

The sad part of this commentary is that the Big Four won't see the clear comparison between the U.S. banking system's need for emergency cash and the average American's need for the same. Washington will declare that the "too big to fail" doctrine is for the benefit of all Americans. But failure is not an option either for individuals who apply for a payday loan.

Access to credit isn't a rich man's domain. It is the domain of every responsible individual in this country. Responsibility lives on both sides of the transaction. The lender tries to make credit available to the creditworthy. The borrower tries to make every attempt to pay back the loan on the agreed-to terms.

The mess that the banking system is in has many guilty parties – mortgage brokers, builders, bankers, shareholders, investors and the regulators. They all fell asleep at the wheel while the profit motive remained all-important. Some may say that one or more of the groups is to blame for the credit crisis. I say, since there's plenty of guilt to go around, let's use this regrettable credit crisis to remind the powers that be of the need to allow the average American to get credit where it makes the most sense for him or her.

Bear Stearns had JP Morgan Chase to save them from financial ruin. Shearson and commercial banks have the Fed's "new credit facility" to give them the liquidity they need to stave off financial ruin. So where does the average citizen in the states where they outlawed payday lending go to save their financial lives? I'm not sure, but the research shows that those individuals racked up record NSF and overdraft fees once payday lending was no longer permitted (and added to bank profits by doing so). That's the criminal part of over-regulation. Throw the baby out with the bath water.

It appears that the Big Four have cooked their own goose this time around. ■

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