



Intellectually Dishonest Group Misleads Arizonans on Payday Measure

Self-Helping “Center for Responsible Lending” Lobbying To Reduce Consumer Choice

On September 16, 2008, the Center for Responsible Lending published supporting its opposition to an Arizona ballot measure aimed at reforming the state’s payday loan system. Unfortunately, the self-interested group’s research amounted to nothing more than a series of self-published assumptions and intellectually dishonest calculations.

Arizona’s reporters, elected leaders, and citizens deserve better than to be force-fed propaganda from the Center for Responsible Lending.

The Intellectually Dishonest Attack Against Consumer Options

The Center for Responsible Lending’s “High-Cost Payday Lending Traps Arizona Borrowers,” report is chock full of misleading statements.

- The group’s report estimating “costs” to Arizona customers is a crude update of estimates it has made in the past. For instance, to arrive at its guesstimate for loan volume, the group relies on its own previous report – which itself relied on 20 assumptions and more than 50 estimates.
- While the organization recognizes that payday loans are generally small-dollar loans made for two weeks, the group constantly uses “annual” percentage rates to calculate the interest paid by consumers, vastly inflating the total. In Arizona, the group claims, “borrowers can be charged up to \$17.65 per \$100 borrowed, which equates to a cost of 459% APR.” By using an inappropriate annual measure for a two week loan the group is able to shock unwary readers into ignoring the real interest rate paid by consumers is just 17.65 percent of the \$100 principal (less than many other lending options).
- A favorite tactic of the Center for Responsible Lending is a sleight-of-hand calculation involving the number of times a consumer “rolls over” a loan, which the group estimates at eight times. It then calculates total fees paid of \$516 for the average loan size of \$325, saying they pay back fees and principal totaling \$841 to borrow \$325. It would be far more intellectually honest to acknowledge that the consumer used in the group’s own scenario has actually borrowed \$3,285 in principal (9 x \$325). Thus, dividing the fees of \$516 by the total principal borrowed of \$3,285, one arrives at an interest rate of 15.7%.

Even if one were inclined to inappropriately calculate an Annual Percentage Rate, the figure would be $(52/18 * .0157 =)$ 45.4% — less than a tenth of the shock figure used by the Center for Responsible Lending.

- As is the group’s standard practice, it relies on an inappropriate use of the economic term “costs,” which provides a highly misleading background for discussion of financial products. By failing to account for the benefits provided by payday loans, which include easy access to inexpensive capital with few hassles for the consumer, the Center for Responsible Lending irresponsible casts all revenue as a “cost” to Arizonans. The group further fails to account for the cost of alternatives, including costly bank overdraft fees, which can make payday loans a net *benefit* – rather than cost – for consumers.
- Finally, the use of the location of a company’s headquarters to estimate the amount of money that is “taken out” of Arizona is not only intellectually dishonest, it is downright silly. By this standard, much of the money spent at major chain grocery stores, hardware stores, and almost any major bank, “leaves” the state as few are headquartered in Arizona. If this standard were applied to determine which businesses were allowed to operate in state, Arizonans would be left as an economic island with severely limited shopping choices.

The Financial Conflicts of an Out-of-State Lobbying Group

It is ironic that the Center for Responsible Lending makes a point to claim, “the vast bulk of revenues generated by payday lenders” go to entities based outside Arizona, since the Center for Responsible Lending is a high-powered Washington, D.C. lobbying front for a major financial network based in North Carolina.

The Center for Responsible Lending is the most visible face of the half-billion dollar team of “Self-Help” organizations, including two that make loans to low-income consumers. While the Center for Responsible Lending spends hundreds of thousands of dollar each year to lobby for more restrictive lending laws and attacks other lenders for allegedly using harsh lending practices, it charges its customers uncharitably high rates and has prosecuted its own low-income customers for amounts as low as \$96.

And while the Center attacks payday lenders for making high-risk loans to low-income consumers, the Self-Help network seems to encourage its customers to assume high amounts of debt. According to recent records, its delinquency loan rate is almost 7 times the rate at comparable credit unions and its customers carry loan balances over 3 times the rate of those institutions.

Arizonans should beware of the Center’s existing record on decreasing consumer choice by banning or severely limiting payday lending options. Though it promised that banning payday loans would save consumers money, a Federal Reserve researcher found in 2007 that “banning payday loans did not save Georgian households \$154 million per year, as the CRL projected, it cost them millions per year” in costs from competing institutions. The Institute for Liberty found that under CRL-influenced lending laws, North Carolina “leads the U.S. in foreclosures” with a rate that “outpaced the nation with a whopping 146% increase vs. 94% nationwide.”

Let Consumers Decide

It is unfortunate that the Center for Responsible Lending has injected misinformation into the public debate over consumer lending options. Payday loans can provide cost-effective access to capital for many Arizonans. Consumers are smart and can decide for themselves which financial instruments best meet their needs. They do not need financially conflicted, self-interested groups like the Center for Responsible Lending to make choices for them.

Conclusion

The Center for Responsible Lending and its subsidiary, Arizonan's for Responsible Lending are self interested predatory charities who stand to benefit financially from suppressing competition. As such, any information produced by these organizations should be viewed with great skepticism.

The family organizations led by executives at the for-profit Self Help Credit union have a practice of utilizing the non-profit arm to suppress competition. This model has grown their highly profitable "non-profit" organization so much that they now control assets worth approximately a half-*billion* dollars. Most recently the Center for Responsible Lending relentlessly attacked IndyMac—a direct competitor of the Center's affiliate Self Help Credit Union—until it finally folded. And on September 3, Self Help Credit Union announced that they are expanding their operation to begin lending in California. Mission accomplished.

Their "report" is chocked full of assumptions and false, misleading or erroneous statements. This report should be viewed for what it is—an attempt to suppress competition and expand their for-profit lending operation.

To learn more about the Center for Responsible Lending's conflicts of interest and self dealing activities, please read our "Predatory Charity" report. The full text of the report can be found at www.consumersrightsleague.org

About the Consumers Rights League

The Consumers Rights League is a non-profit, non-partisan educational organization dedicated to protecting consumer choice and access to the marketplace. Through investigative analysis, CRL produces quality research that thoroughly documents the real-world choices and challenges consumers face and reports on the benefits enjoyed by an overwhelming majority of consumers. Learn more about CRL's mission at www.consumersrightsleague.org.