THE ORANGE COUNTY
REGISTER

Santa, Ana • June 17, 2016

Payday Regulations Latest Example Of Bureaucratic Swarm

By Alfredo Ortiz

Thomas Jefferson complained in the Declaration of Independence that King George III "has erected a multitude of New Offices, and sent hither swarms of Officers to harass our people, and eat out their substance."

Americans today can empathize. An unending string of new regulations from a multitude of offices like the Department of Labor, the Environmental Protection Agency and the National Labor Relations Board have left people with less dynamic economy and fewer job opportunities.

And the swarm is only increasing. This month, the recently created Consumer Financial Protection Bureau proposed 1,300 pages of new regulations on businesses providing payday loans. By the CFPB's own estimates, the rule is likely to cut 80 percent of payday loan volume, putting thousands of companies out of business.

Why the disdain for this industry? Payday lending has always been a target of regulators, who see it as a predatory industry preying on low-income earners. "One could readily conclude that the business model of the payday industry depends on people becoming stuck in these loans for the long term," claims the CFPB.

Of course, it's highly unlikely that federal bureaucrats living in leafy Washington, D.C., suburbs have ever needed a quick $100 to pay for daycare, fix their car or keep their utilities running. Just because they don't know anyone without a bank account doesn't change the fact that one in nine American households doesn't have a checking account, and three-quarters live paycheck-to-paycheck (i.e., those who may need a payday loan on occasion).

No question payday loans, which cost about $15 per $100 borrowed, are dangerous and should only be used in moderation. But so is alcohol. So are countless other products and services Americans use on a day-to-day basis. But regulators' claims that payday loans are little more than debt traps are unfounded. More than 90 percent of borrowers report that their knowledge of their loan's terms and cost was as expected.

In fact, these regulations that require full credit and income checks will hurt the customers who use payday loans most responsibly: those who need cash quickly but promptly repay when they get paid. Like most regulations, these will consolidate the power of the big players, who have the margins to cover the regulatory costs, at the expense of small, independent businesses.

And what about the consequences to the borrower, whose need for quick, unconventional credit won't disappear with their payday options? Competing methods – credit card interest, a bounced check or a private loan shark – are far more expensive and dangerous than payday loans. A Federal Reserve study finds that bankruptcy and returned checks increase in states with the severest payday restrictions.

But worse alternatives and unintended consequences don't register with unaccountable bureaucrats and social justice warriors who believe that they can design a better world by regulating politically unpopular industries out of existence.

American Founders recognized the threat such actors posed and therefore limited lawmaking to the legislative branch, not unaccountable bureaucrats, who – as Jefferson warned – continue to grow and swarm the country looking for their next victim.

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