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Check-Cashing Stores: Will They Soon Make Loans?

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Many Feel Bill Will Open Door to Abuse

By Patrick Egan
Brooklyn Daily Eagle

DOWNTOWN BROOKLYN — Roseann Gibson came to ABRS Check Cashing in Downtown Brooklyn to pay her bills. She was asked: If she got into a pinch, would she consider going to a check-cashing store for a loan? Gibson shook her head, saying she'd go to family first, then a bank. It's attitudes like hers that the check-cashing industry will have to change if a piece of pending legislation becomes law.

State legislators in Albany are considering a bill that will allow check-cashing stores to make small loans, providing a new route to quick, short-term credit for hundreds of thousands of New Yorkers. Opponents of the measure fear that low- and middle-income earners will be trading temporary relief for longer lasting financial hardship.

The bill, known as the Short-Term Financial Services Loan Act, would authorize registered check-cashing stores to make loans between \$300 and \$2,000 for 90 to 180 days. Loans can't be more than 25 percent of a borrower's gross monthly income; installment repayments must be 10 percent or less.

"I don't know whether the banks were at all interested in getting at these small amounts," said Assemblywoman Joan Millman (D-Brownstone Brooklyn). She indicated that the bill could come up for a vote when the legislature reconvenes shortly after Labor Day. Millman became a co-sponsor because there are many "people who could benefit, people living from paycheck to paycheck."

Some organizations object to the legislation because of its great unknown: the interest rate. "This bill explicitly exempts small-dollar loans from the usury cap," said Josh Zinner, co-director of the Neighborhood Economic Development Advocacy Project. That cap — the maximum interest rate licensed lenders can charge — is 25 percent in New York. Zinner said that the payday lending industry "has been trying to kick open the door" to the New York market for years. The state's strong laws have long protected consumers from predatory lending.

"This bill creates a landscape where abuses could flourish," said Zinner. "Make no mistake, this is absolutely an industry bill. Just because people are in dire straits doesn't mean loan sharks

should come out.”

The check-cashing industry said that the last thing they want to do is saddle their customers with unbearable debt. “We rely so much on our repeat business and our relationships that it would be suicidal to make bad loans,” said Ed D’Alessio, deputy general counsel for Financial Service Centers of New York, a group representing check cashers.

The repeat business, which D’Alessio calls the industry’s “bread and butter,” adds up. There are about 825,000 un-banked adults in New York City, according to the Department of Consumer Affairs. A person earning \$10 an hour, 40 hours a week, will pay about \$285 to cash a year’s paychecks. Millions of New Yorkers avoid those fees through free checking accounts by keeping a minimum balance or using direct deposit.

Competing With the Internet

Language in the pending bill indicates that one million New Yorkers take out high-interest payday loans through the Internet. D’Alessio repeatedly emphasized that this new loan product is not a payday loan, which requires a balloon payment that is often beyond a borrower’s means. The proposed loans, however, do call for installment payments within two days of a borrower’s payday.

The market for these small-dollar, short-term loans could be enormous. The proposed bill estimates that Internet payday loans originating in New York total between \$4 and \$5 billion. “You can let this need go unmet, or you can get out front and meet it in a reasonable way,” said D’Alessio.

The legislation might help meet other needs, too, such as the gaping state budget shortfall. If the bill’s figures are correct, hundreds of millions in interest income escapes state taxation annually. Capturing that lost tax revenue could be a strong motivation to make these loans legal.

The state Banking Department, which would oversee these loans, is less concerned with budget problems than it is consumer welfare. “The Banking Department has serious concerns that lifting the restrictions imposed on check cashers, and allowing such loans would lead to the same consumer protection issues that we have seen with payday lending,” wrote Glorimar Perez-Gonzalez, a spokesperson for the department, in an e-mail.

In Downtown Brooklyn, other customers of ABRS Check Cashing expressed little interest in taking out a loan from the store. “We’re already in this crisis,” said Tiffany Overstreet, a college student and grocery store cashier. “I don’t think we need to be lending people more money.”

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