Editorial: Payday loans need oversight

Posted: February 8, 2011 - 1:00am

Texas legislators are considering a common-sense approach to closing a loophole that can victimize low-income Texans.

It comes in the form of twin pieces of legislation - one from a House Republican and the other from a Senate Democrat - that seeks to put payday lenders under the same rules as finance companies.

The regulation would give the state more authority to enforce a 10 percent cap on loans and prevent borrowers from suffering undue pain trying to repay high-interest loans.

State Rep. Tom Craddick, R-Midland, has introduced House Bill 410 and state Sen. Wendy Davis, D-Fort Worth, has introduced Senate Bill 253. The bills would return payday lenders to state oversight.

About a decade ago, Texas decided to regulate the lenders, but allowed them to retain a loophole that creates something called "credit service organizations." Such a designation allows lenders to circumvent the 10-percent rate cap. They slap fees and charges on top of the loans, creating huge burdens for borrowers to overcome while trying to repay them.

It's good that Craddick and Davis have taken this bipartisan approach to tightening these regulations. Given the partisan divide that splits state legislators all too often, the idea of lawmakers from opposing parties locking arms in this fashion is quite refreshing.

The Texas Legislature surely has much to ponder this session, what with a monstrous budget deficit to erase (as required by the Texas Constitution) and some critical immigration issues to settle.

Closing a loophole in the state's payday lending regulations is one task that needs the Legislature's attention.