THE SANTA FE NEW MEXICAN
www.santafenewmexican.com
RINGSIDE SEAT

Big banks step up to silence storefront lending fearmongers

By Milan Simonich

Feb 21, 2023 Updated Feb 22, 2023

My job is to look out for the underdog. It's also to praise heavyweights when they deserve it.

Today's tip of the hat goes to three financial giants: Wells Fargo, Bank of America and U.S. Bank.

They are doing what ruthless storefront lending companies claimed was impossible. The banks are providing small loans to New Mexico customers at reasonable rates, all at a rapid clip.

Only a year ago, an army of lobbyists for storefront lenders told New Mexicans the sky was falling. The lobbyists claimed desperate, low-income residents would never qualify for a loan if the state Legislature slashed the 175% annual interest rate storefront lenders were permitted to charge.

Credit would dry up. Poor people would suffer like never before. Someone who needed $300 or $400 for car repairs would be immobilized, then fired for missing work.

The scare tactics used by storefront lenders were false and self-serving.

“Banks are filling the void in a way they never have before. They’re offering customers small loans with time to repay them. And the price is low in dollar terms,” said Alex Horowitz, a senior officer of the Pew Charitable Trusts.

Horowitz specializes in consumer finance. He says online banking with phones made it possible for big banks to provide small loans.

“They’re instant. They’re faster than any payday lender, and the cost is hundreds or thousands of dollars less,” Horowitz said. “Borrowing $400 for three months costs $24 or less.”

For many years, storefront lenders and their glib lobbyists exerted influence over members of the state House of Representatives through spin, campaign contributions or both.

For instance, Rep. Patty Lundstrom, D-Gallup, received $6,000 in donations from storefront lenders in the 2020 election cycle. Lundstrom in 2021 opposed a bill to reduce storefront interest rates to a maximum of 36%. She supported an onerous 99% rate for most installment loans.

Then-House Speaker Brian Egolf, D-Santa Fe, received $3,650 from storefront lenders in the same period. And the Brian Egolf Speaker Fund, a campaign committee, collected more than $20,000 from storefront lenders.

Egolf in 2021 told me he was not active in the effort to cut the interest rate, as his attention was on other legislation. He also said Democrats, supposedly the party of ordinary people, lacked the votes needed to cut interest rates. Democrats at the time dominated the House of Representatives, 45-24-1.

The Senate already had voted to eliminate the 175% interest rate. But with high-profile House members resisting or disinterested, the two chambers were at a stalemate.

The 175% interest rate remained on the books, exactly what storefront lenders wanted.

Last year was different. The House of Representatives finally took a stand, voting 51-18 to cap the interest rate at 36%. Egolf, Lundstrom and eight Republicans joined the reform movement.

Interest rates were cut over the objections of a vocal bloc of legislators led by Rep. Rod Montoya, R-Farmington. Montoya claimed credit unions would charge 55% annual interest rates while storefront companies would be stuck at 36%.

His allegation was hooey, horse-pucky or something more foul. Credit union interest rates topped out at 28%. Those institutions were instrumental in eliminating New Mexico's 175% interest rate.

Bank of America, Wells Fargo and U.S. Bank are helping the cause this year.

For example, Wells Fargo customers with checking accounts can apply online for the bank's Flex Loan. It will be available nationwide this year in amounts of $250 or $500 for a flat fee of $12 or $20, respectively.

People who live far from a branch bank can still qualify for a loan. Horowitz said the banks consider factors such as whether a customer pays bills through his or her online checking account and makes deposits, such as paychecks, on a regular basis.

Fred Nathan, executive director of the policy organization Think New Mexico, spent years opposing storefront lenders.

"We had reverse economic development when low-income residents were paying high interest rates to companies that took the money out of state," Nathan said. "Now New Mexico residents can keep more money and spend it locally."

Pew's researchers found new bank-issued loans are priced at least 15 times lower than storefront offerings.

“The savings could be even larger for those who use other alternative financial services, such as auto title loans or rent-to-own agreements,” a Pew report stated.

Buying and financing a computer, appliance or other item from rent-to-own stores tends to cost three or four times as much as buying it from a conventional retailer, Pew found. Small-dollar bank loans will give many consumers the opportunity to buy these products at a lower cost.

For the most part, New Mexico legislators are the villains in this story. They stalled for almost three decades, allowing storefront lenders to enslave low-income people in debt.

The lobbyists knew just how to control lawmakers, handing out campaign cash and spinning stories about thousands losing access to credit.

It turned out to be a fairy tale, one as wicked as they come.

Ringside Seat is an opinion column about people, politics and news. Contact Milan Simonich at msimonich@sfnewmexican.com or 505-986-3080.