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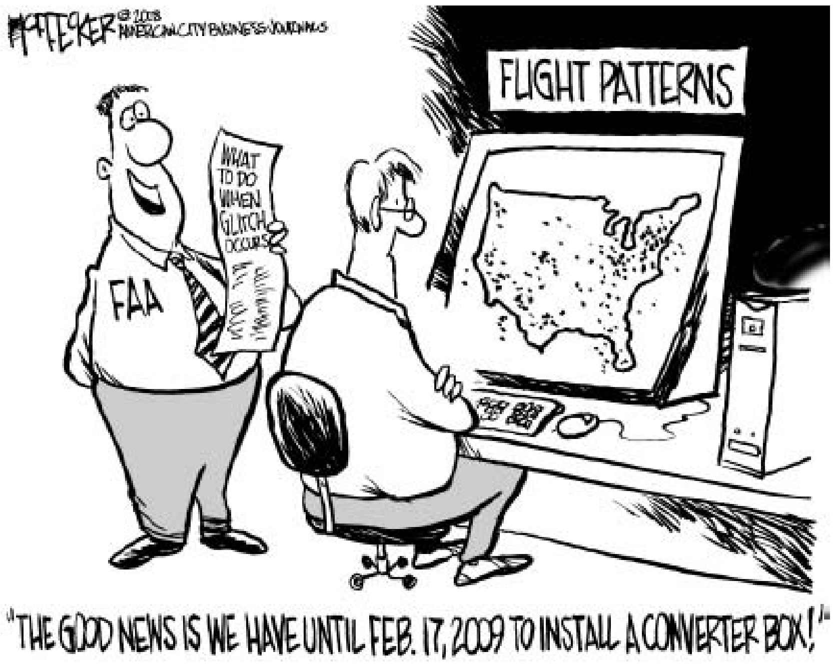
COMMENTARY



Even simple policies can be screwed up

VIEWPOINT
ANDREW BROD

The subprime lending crisis that is still roiling financial markets was caused in part by excessive complexity. The securitization of mortgage loans was so complicated that it flummoxed regulators and rating agencies. But bad policy can happen even when things are simple. Payday lending is a perfect example.

In payday lending, a borrower writes a check that the lender cashes on the borrower's next pay day. In return, the borrower receives an immediate loan of less than the value of the check, with the difference serving as the interest rate. A 2005 study by the Federal Deposit Insurance Corp. found that the average loan and fee at established payday-loan stores were $240 and $43, respectively.

The $43 fee translates to an interest rate of about 18 percent, and for a two-week loan that implies an annual percentage rate (APR) of nearly 470 percent. That huge APR angers consumer advocates and it's essentially what ended payday lending in North Carolina in early 2006. But the high interest rates are a function of the high cost of issuing small short-term loans. The FDIC study found that the average cost per payday loan was $28. Even if payday lenders earned no profit and merely covered their costs, the implied APR would be more than 300 percent.

There are many misconceptions involving payday lending. For example, it's not true that borrowers come from the poorest segment of society, because of course one has to have a checking account in order to get a payday loan. It's not true that payday lenders profit from bad loans that get rolled over again and again, because that increases the risk of default.

It's also not true that the typical payday borrower is caught in a "debt trap" of rolled-over loans. While most borrowers take out a number of payday loans per year, the vast majority take out fewer than one per month. Their loans are sporadic rather than continuous.

Finally, it's not reasonable to compare the APR on a short-term payday loan with longer-term debt. And even if it were, the fees and penalties for bouncing a check amount to an even higher effective APR.

But the biggest misconception is that banning payday lending is good for lower-income people. A recent study by the Federal Reserve Bank of New York tested this by examining the effect of the end of payday lending in North Carolina and Georgia. The study found that the payday-loan bans in those states have led to higher and/or faster increases in the rates of bounced checks, complaints about lenders and debt collectors, and Chapter 7 bankruptcy filings. It would appear that far from preying on lower-income people, payday lenders provide them an important credit option.

Some advocates of poor and working-class families are beginning to understand this. A position paper released this summer by the Urban Institute acknowledges the special credit needs of asset-poor families, and it treats payday loans as one of a number of viable options. Instead of greater restrictions, the Urban Institute report calls for increased competition among payday lenders, along with improved regulation, including better disclosure of loan terms.

This is a reasonable message, but it's tough to get it out. A study this year by George Mason University notes that media coverage tends to echo the views of opponents of payday lending, focusing on victims and villains rather than the realities of household debt among the poor.

It's frustrating enough that the media cannot seem to understand this simple issue. What's much more distressing is the inability of regulators, including right here in North Carolina, to get it right.

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Collaboration, not competition wins female sale

The topic that is on everyone's lips at the moment is the economic downturn. Obviously, marketers are no different.

Everyone in business is counting every penny they spend, and demanding that those pennies work harder to promote their brands. Marketers clearly feel that the way to make their advertising dollars work harder is to adopt a coldblooded-sell approach.

When ad dollars are precious, why waste time explaining features when we can run a comparison spot that will cut the competition off at the knees?

However, when it comes to marketing to women, I would say that this is a misguided tactic. Women are genetically programmed to dislike overt displays of: "I'm better than you are." Or as we say in the marketing to women realm — "Men compete, women collaborate."

GUEST COLUMN
JANE CURTIS

A few nights ago, I saw a commercial for Onstar from GM that ended by saying words to the affect of 'Accord, Camry — do you have this?' Until that, I was quite intrigued. I do think that Onstar is cool technology. And although the popularity of GPS systems in cars has somewhat reduced its uniqueness, Onstar is still a feature that has appeal. This is especially true for women who spend a great deal of time driving alone.

However, the instant GM got petty and basically stated that neither Accord nor Camry have this I was turned off. Women are oriented toward collaboration rather than competition, and consequently advertising messages that are oriented toward making their brand look good at the expense of competitors, just don't work with us. We don't like people who try to push themselves ahead, while trampling on their colleagues, and we don't like brands that do it either.

A simple message from GM about Onstar that showed us the product's features would be so much more effective. Demonstrating that we never needed to be nervous again about being lost in unknown territory or late to a business meeting — because Onstar would bail us out — would be a far more powerful message.

This dynamic also exists in advertising that can't resist shouting about its superiority. Saying this car, detergent, financial institution was voted No.1 by such-and-such organization again misses the mark with women.

This tactic, dearly loved by packaged-goods companies, shows how their product does a perfect job of cleaning/whitening, etc., while the competition does a half-assed job.

The economic downturn has spurred a resurgence of this hard-hitting genre of advertising. When times are tough, the takeaway from client-agency meetings is often get rid of the fluff and focus on the hard-hitting benefits and attributes of the product. Ergo, lifestyle advertising has been largely set aside for more of the talking-head variety of messaging, in which the spokesman tells you in five different ways why the brand or product is so great.

Advertisers need to get back in touch with their feminine side and realize how important female consumers are to them, no matter what category their brands live within. In an economic downturn, advertisers have an opportunity to reassure their female consumers with messages of understanding and trust and thereby win their loyalty, rather than beating them over the head with the adult equivalent of "nanny, nanny, boo-boo."

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