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 payday. 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 rate of at least 400 percent. That high APR angers consumer advocates and it’s essentially what ended 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 lending and debt collection, 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 frustrating is the inability of regulators, including right here in North Carolina, to get it right.

Andrew Brod is the director of UNCG’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 334-4867 or Andrew-Brod@uncg.edu. His columns are available at http://cbewuncg.edu.