# Are Too Many Banking Regulations Forcing Consumers to Turn to Payday Lenders?

February 22, 2012 - In an interview today with CNBC, financial analyst Meredith Whitney said that "Excessive regulation of financial institutions is squeezing out middle-class consumers who soon will find themselves locked out of the banking system." Whitley went on to say that while those regulations hadn't really impacted people who were well to do, or the poor, they were having a significant impact on those in the middle by reducing their access to credit. This is forcing people to turn to payday lenders and other forms of credit that are considered to be nontraditional.

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Prior to the Dodd Frank financial reform bill was signed into law, we had warned our readers that it would result in higher fees and elimination of services. But we had not discussed the possibility that it would actually force consumers out of the banking system.

If Whitney is correct in her analysis, the trend she is describing is disturbing. Payday lenders are notorious for charging extreme interest rates for short term loans. Consumers that turn to payday lending can get caught up in a vicious credit cycle that is nearly impossible to get out of without filing for bankruptcy.

For these and other reasons, both the states and the federal government have increased regulations on payday lenders and, in some cases, have attempted to outlaw them.

Whitney's analysis is also troubling when considered within the context of an economic recovery. According to her, because new regulations have had little impact for the poor or the wealthy, both of these groups continue to spend. But neither group can drive an economic recovery. For that to happen, those in the middle need to begin spending again.

Unfortunately, if those in the middle are truly having difficulty in gaining access to credit, there is very little they can do to increase their spending. Instead, the money that they do have access to will go to paying for everyday expenses and paying down bills.

Over the long haul, a reduction in the amount of money that people owe is a positive thing. But in the short term, it could slow or even halt an economic recovery. And based on the steady stream of reports regarding consumer credit, it does appear that consumers are paying down their credit and have slowed their spending considerably when compared to pre-recession levels.

byJim Malmberg
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