Payday Lender Fined by Washington State for Interest Rates Approaching 2000 Percent

November 1, 2012 - Washington State regulators are targeting the loan operations of Martin Webb. Webb owns and operates five companies that offer payday-type loans. All of the companies are located in South Dakota; a state that doesn't have any cap on interest rates. He apparently doesn't have a license to lend in Washington however and that state has a 12% cap on interest rates. Therefore, the state has fined him nearly $700,000 and is pursuing legal remedies for restitution that would be paid to borrowers. But the real story here may not be what Washington State is doing. That's because, as we've previously mentioned, there is proposed legislation in Washington, DC that would strip the states of their authority to regulate this type of activity.

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In this particular case, Webb's companies were offering loans at interest rates that ranged from 90% to 1,825% according to an article in the Puget Sound Business Journal. To give you an idea of what that does for the monthly payments, here is a comparison. A $10,000 loan at 90% interest would be paid back over 7 years according to one of Webb's websites. The monthly payment would be $743. At Washington State's 12% interest rate, that same loan would have a monthly payment of $177.

Looking at the total cost of each of these loans, the borrower paying $743 per month would pay $62,412 over the course of the 84 months to repay the loan in its entirety. At a 12% interest rate the loan is still expensive but the total cost to repay it would drop to $14,868.

Webb's troubles don't end with Washington State. Similar actions are being pursued by other states including West Virginia, Florida, Colorado, Maryland and Missouri. Unfortunately, all of these actions may be brought to a grinding halt by an effort afoot in the halls of Congress to establish federal charters for non-banking firms involved in the financial services industry. This would include payday lenders.

The proposed Consumer Credit Access, Innovation, and Modernization Act is specifically designed to strip the states of their ability to regulate companies in the financial services industry that have federal charters. It is worth noting that this is precisely what occurred in the banking industry in the late 1990's and it was a key factor in the collapse of housing markets. It is quite likely that if the states had been able to enforce their consumer lending laws on mortgages, the conditions leading to the collapse, and the subsequent recession, never would have occurred in the first place.
byJim Malmberg
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