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Tribune update

Payday loan industry increases political contributions in Illinois, other states to make its case

Industry targeting Illinois lawmakers to seek compromise

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With its foothold threatened in Arizona and across the U.S., the $42 billion payday loan industry has pumped up spending in its defense.

Contributions to state politicians nationwide have mushroomed from just over $1 million in 2000 to $4.1 million in 2006, and Illinois has led all states, with $2.2 million given to politicians since 2000, according to figures from the National Institute on Money in State Politics.

Gov. Rod Blagojevich has received more than any other Illinois politician: $423,750, according to the Montana-based organization.

Abby Ottenhoff, the governor's spokeswoman, denied any link between the industry's contributions and Blagojevich's actions.

"He has one of the strongest records when it comes to protecting consumers and cracking down on bad lending practices," Ottenhoff said, pointing to the state's 2005 payday loan reform law that Blagojevich supported.

Illinois politicians have received a large share of the payday industry's contributions, experts suggest, because the state is among only five with no limits on campaign contributions, and because of the fight in recent years to rein in interest rates charged borrowers and attempts to impose more consumer-oriented regulations.

And the fight has continued.

Consumer advocates and payday industry officials in Springfield have been squaring off for the last few weeks amid an effort to close a loophole created by the 2005 law, which imposed a 400 percent cap on payday loans and a series of rules to protect consumers with loans up to 120 days.

Spurred by the 2005 law, consumer advocates say the industry has shifted customers to loans longer than 120 days, which have none of the protections, and which, they say, have continued to drag customers into debt with loans charging as high as 1000 percent annual interest.

Illinois is the only state with a cap on payday loans but none on longer-term loans.

The industry's strategy in Springfield, according to payday industry lobbyist Steve Brubaker, is to work out a compromise.

"We have to find a way to make this work, short of putting us out of business," said Brubaker, a lobbyist for the Illinois Small Loan Association, which represents a majority of the state's payday loan operators. "The longer the issue lingers, the more ammunition consumer groups will have."

His group has given $626,650 to state politicians since 2000, according to the Illinois State Board of Elections.

But Brubaker doubts whether the contributions have made a difference, and he said that his group has curtailed its funding in the last few years. "We thought there was a connection in our naivete," he added.

"Look at what happened in Ohio, Georgia and North Carolina. I am sure there were large campaigns in those states and [payday loan stores] went dark," he added, referring to states that have barred or capped payday loans.

While consumer advocates say the payday loan industry's contributions buy them access to politicians that they cannot match, Jamie Fulmer of Advance America of Spartanburg, S.C., the nation's largest payday loan operator, with 2,850 stores in 35 states, sees the situation differently.

"We are faced with a well-funded opposition who goes to great lengths to paint this industry in a way that we think is inaccurate," said Fulmer, whose firm has given $156,295 to Illinois politicians since 2000, state records show.

In Ohio, where the state legislature last Tuesday finalized legislation imposing a 28 percent annual interest rate cap on payday loans, Fulmer said his company will pull out of the state by closing its 250 stores there when the new law takes effect. Ohio Gov. Ted Strickland is expected to sign the bill, according to news accounts.

Earlier, Advance America pulled out of Oregon, North Carolina, Georgia and Pennsylvania because of interest rate cutbacks or the states' barring of payday loans, he said.

Ultimately the industry's money may be able to stave off the attacks on it, said Kent Redfield, a political science professor at the University of Illinois at Springfield.

But that, he said, is not the industry's short-term goal.

"If they can delay a policy, then that's to their advantage," he explained. "These are smart people. They wouldn't be giving money if it didn't have an impact."

But in Arizona the industry does not have time on its side.

When payday loans were approved in 2000 in Arizona, the same law required the state to renew the act in 2010 or the industry would face a shutdown.

With that date in mind, the industry launched a campaign earlier this year for a referendum ironically called Arizonans for Financial Reform. The campaign calls for a number of regulation changes to protect consumers, but it also wipes away the sunset provision halting payday loan operations.

To get on the November ballot, the drive needs more than 153,000 signatures by July 3.

Dave Higuera leads a group with the goal of defeating the industry's initiative. Despite the fact he has only about $23,000 in funding and his opposition has $2 million, Higuera said he is confident his group will prevail once Arizonans realize what is at stake.

"Our job will be to get out our message that [the payday loan industry's] idea of reform is a 390 annual interest rate forever," he said.

Yet Stan Barnes, a former Arizona legislator and a consultant to the industry's referendum effort, is equally confident about his group's success. "We wouldn't go forward if we didn't think the facts were on our side," he explained. "Nobody is interested in wasting money on a failed campaign."

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