



## Need for Short-Term Loans is No Joke

By Mark Calabria

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I'm a little behind on my comedy watching, as I get a regular dose just living in Washington DC, but last week comedians John Oliver and Sarah Silverman focused an entire segment on payday lending, which are short-term advances against a future paycheck. Matt Yglesias at Vox has posted the video, as well as making the important point "people end up at payday lenders because stuff happens." Yglesias is correct here: there is an undeniable need for short-term credit products. Even Dodd-Frank recognized this need by creating a government subsidized payday loan product (Section 1205 of Dodd-Frank).

The alternative to payday proposed by Oliver and Silverman? Do anything else but payday. I'm sympathetic to such. A payday loan should never be your first choice. I hope to never have to use a payday lender. But then, I hope my car never breaks down either. Silverman goes as far as suggesting just steal instead. I'd hope she was joking but it seems so many in Washington have already taken that advice to heart.

Yglesias's alternative is at least a little more thoughtful than stealing: he suggests allowing the postal service to offer short term loans, because apparently he believes the USPS could offer payday "without taking nearly as big a cut". Now "big" is subjective but scholars have examined this question. In research reported in 2012 in *Regulation*, UC-Davis Professor Victor Stango compared the performance of traditional payday loans to those offered by credit unions. Some of his conclusions: "there is little to suggest that credit unions can offer a payday loan with competitive terms. Existing credit union payday loans often have total borrowing costs that are quite close to those on standard payday loans." Maybe the USPS has a better cost structure than the typical credit union, but that seems unlikely as the USPS isn't exactly known for its efficiency.

Professor Stango also reports survey evidence that payday borrowers highly value the convenience of payday lender's hours and locations. Yglesias doesn't address this, but last time I went to a Post Office, the hours were about as convenient (or less so) than that of a traditional bank. And of course USPS isn't exactly known for its consumer friendly approach. In all, it seems highly unlikely that without a major revamp and cultural change that the USPS could be a serious competitor to payday. Perhaps as important, the USPS would likely be viewed as "too big to fail", so that allowing USPS to make high risk payday loans could easily result in a taxpayer bailout. Getting USPS into payday makes about as much sense as getting Fannie Mae into subprime mortgages.

Oh wait, we did that.

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