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## Your Money

### Trouble ... right here in River City

By Don Kuehn

Like Professor Harold Hill in "The Music Man" warning of the presence of a pool hall in River City, politicians in the tony suburbs of Kansas City seemed appalled recently that payday loan offices were popping up in their communities. They're right to worry.

To obtain a payday loan, a borrower gives the lender a postdated check or authorization for an automatic withdrawal from the borrower's bank account. In return, he or she gets cash (minus the lender's cut). For a \$300 loan, the borrower might net \$255 after fees are deducted.

The check is held until the specified date when the loan is due in full. If the check bounces or there are insufficient funds to cover the loan, the borrower incurs bad check fees from the bank and the lender can pass the check through the account several times, compounding the costs. Sometimes payday lenders take aggressive action or threaten criminal charges for writing bad checks.

Many of the 22,000 storefront loan offices (sometimes combined with pawn shops) are near military bases where lenders prey on military personnel. Sometimes these borrowers are shipped out before their loans can be repaid.

Active duty military personnel are three times more likely than civilians to take out such loans. One in five military personnel was a payday loan borrower last year and the excessive fees they paid hit \$80 million per year. That says a lot about how we pay the defenders of our freedom. In September, Congress passed a law limiting the interest rate that can be charged military personnel to 36 percent.

Minimum payments on credit cards can run up balances to uncomfortable levels. Offers for low- or zero-interest cards come in the mail almost every day. When the housing bubble was fully inflated, it seemed like one way out was to borrow against the equity in your home. When those loan payments are missed, though, and the risk of becoming homeless threatens, it is hard to resist the siren call of those TV commercials showing a perky young woman chirping that she

The rapid growth of the payday industry has caused mainstream lenders to examine their practices and start offering alternative, short-term loan products at lower interest rates. Here are a few examples from the CRL Web site, [www.responsiblelending.org](http://www.responsiblelending.org):

#### **La Salle Bank (Chicago, Ill.)**

CWFP Loan  
\$300 to \$1,000 loan for designated one-time, nonrecurring situations. Maximum loan term of 12 months with 12-month repayment plan at 12 percent APR.

#### **District Government Employees FCU (Washington, D.C.)**

Kwik Cash/Overdraft Loan  
May draft checks on personal line of credit or use as overdraft protection with an APR as low as 9 percent.

#### **Share/CD Loan**

May borrow funds by pledging shares up to the maximum amount in the account with an APR that equals the dividend rate plus 3 percent. Interest on share account continues to accrue during loan term.

#### **ASI Federal Credit Union (Harahan, La.)**

#### **Stretch Loan**

\$200 to \$500 line of credit at 15 percent APR, plus \$4/week fee. Requires six-month direct deposit history.

#### **Credit Enhancement Plan**

\$1,000 to \$3,000 line of credit at 15 percent APR, plus \$4/week fee and \$13.75 one-time fee. Requires six-month timely repayment history.

#### **Asset Builder Loan**

\$1,000 to \$3,000 line of credit at 15 percent APR, plus \$5.75 one-time fee (no weekly fee). Requires one-year timely repayment history. Includes placing 5 percent of each advance in a savings account.

borrowed money "and got to keep my car."

Payday loans and car title loans seem so easy, until you can't make the balloon payment at the end of two weeks. Then, like two-thirds of all payday loan borrowers, before you know it, you have five loans in a year. One in three borrowers takes out *12 or more* loans a year, according to the Center for Responsible Lending (CRL).

To avoid default the borrower often re-ups for another fee to extend the loan; or takes another loan to cover the first, again paying the lender's fees; or simply walks down the street and takes a loan at another storefront to make good on the original.

"The very structure of the payday loan product almost ensures that borrowers will need to take out another loan. Ninety-nine percent of payday loans go to repeat borrowers who are unable to meet their impossible terms, and are trapped in debt at 400 percent annual interest rates. The average payday borrower pays \$800 to borrow \$325," says the CRL.

But outrageous fees and high interest aren't just for goons and loan sharks anymore. In an era of low interest and low deposits, many banks and credit unions have been lured into the kind of predatory practices the payday loan folks use. The difference is they call it "overdraft protection."

You probably know how this works: The bank agrees to cover your checks, ATM withdrawals and debit card purchases even when you don't have enough money in your account—or they charge the amount of the overdraft as a "cash advance" to your credit card. That means chalking up additional fees for the bank and pushing the outstanding balance on the card to even higher levels. After all, if the borrower had any credit left, he or she wouldn't have bounced the check or sought the payday loan in the first place. What a deal, huh?

Problem is, the banks charge astronomical fees on each overdraft transaction—typically between \$20 and \$35—without the customer even knowing about it. By the time you get your monthly statement, the damage is already done. The charges have a way of snowballing. With no bells or whistles going off, you continue to write checks or use your debit card, not knowing that every transaction is costing you an extra \$20 or more. The Center for Responsible Lending estimates that we pay more than *\$10 billion* annually in overdraft charges every year.

Even if you cover a bad check the very next day, the cost, if projected into an annual percentage rate, will pin your ears back. A \$100 bad check that incurs a \$35 overdraft protection fee would cost the equivalent of an annual rate of 12,775 percent!

Why would your friendly hometown bank (owned by some

Payday Lender Rebuilder Loan Consolidation loan to pay off payday lenders up to \$3,000 at 15 percent APR for 18-month repayment period. Requires attending financial management classes and signing an agreement not to take out additional payday loans during loan term. \$15 per month must be put into savings account for future use.

**Austin Bank of Chicago  
(Chicago, Ill.)**

Ready Cash Now  
\$300 to \$999 loan at 12 percent APR over 12-month repayment period. Payments automatically deducted from borrower's deposit account.

**Wells Fargo & Co. of San  
Francisco (San Francisco,  
Calif.)**

Direct deposit accounts can borrow up to half of the money directly deposited (maximum \$500) a week in advance for a charge of \$2 per \$20 advanced. Loans must be repaid within 35 days.

**Faith Community United  
Credit Union (Cleveland,  
Ohio)**

Grace Loan  
\$100 to \$500 loan for one-month term at 17 percent APR. Loan based on income from direct deposit with line of credit option for those without direct deposit.

multinational conglomerate) do this? Because these overdraft programs have resulted in a 50 percent to 300 percent increase in their noninterest income, according to a firm that helps banks set up these programs. (Some traditional lenders are taking steps to help their customers caught in the cash-flow pinch. Several examples are listed at the right of this column.)

Now what? You can only take out so many loans before reaching the breaking point.

About a year ago, Congress passed a bankruptcy reform bill designed to halt record filings, restore the stigma once associated with bankruptcy and push more people into credit counseling. But, like many good ideas, this one is peppered with unintended consequences. The number of filings is actually up and bankruptcy lawyers are unhappy.

The cost of going broke has gone up. Basic attorney's fees have increased by \$500 or more, filing costs have risen and debtors must now pay up to \$150 for mandatory credit counseling and financial management courses.

In addition, "means testing" is required, which is imposing strange burdens on some filers and on the debtor's lawyers, who have to certify, under penalty, to the accuracy and veracity of bankruptcy petitions they file. The test compares the debtor's family size and income with state medians to determine whether a person is eligible for Chapter 7 relief. Some workers with high debt loads but more than one job could conceivably have to quit a part-time job in order to qualify for Chapter 7.

U.S. Bankruptcy Judge Arthur Federman says, "I don't see either debtors or creditors as winners here."

Behind all of this trauma of loans, debt and bankruptcy lies the same old problem: Consumers are outspending their paychecks, failing to reign in the impulse to keep up with the neighbors, and doing a poor job of budgeting their resources. Easy credit and changes in bankruptcy laws are a bit like designing a new Band-Aid. The root causes haven't changed. We're still bleeding cash.

That money you work for is *your money*. Why would you want to give it away on high finance charges, usurious interest rates or unnecessary fees, rather than spend it on things your family really needs?

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Don Kuehn is a retired AFT senior national representative. This column is intended to increase knowledge and awareness of issues of importance to members and retirees. For specific advice relative to your personal situation, consult competent legal, tax or financial counsel. Comments and questions can be sent to [dkuehn60@yahoo.com](mailto:dkuehn60@yahoo.com).

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