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CFSA Media Clips
April 1, 2005

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Collections & Credit Risk
April, 2005
National

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Portland Press Herald (Maine)
April 1, 2005
Maine

You could be pardoned if you thought that the idea of charging people 17.5 percent interest for a two-week loan was an April Fool's joke, this being April 1 and all. Despite its hard-to-believe nature, however, it is the subject of a real bill submitted to the Maine Legislature for consideration.

People who would use this so-called "improvement" to the sometimes unsavory practice of " payday loans " are the ones upon whom this very unfunny joke is being played, however.

Seeing Opportunity Where Once There Was None; With Deposit Growth Now The Name Of The Game, Institutions Large And Small Are Redoubling Their Efforts To Seek Out The Unbanked. And They're Not Sorry They Did.
US Banker
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by Key Bank. Similar studies unearthed a $1 billion cash economy in Harlem (16 percent of the aggregate market economy), $443 million in Houston (13.1 percent), and $76 million in the Anacostia/Hillcrest part of Washington, D.C. (12.3 percent).

While comprehensive data on check cashing, money-transfer and payday lending is elusive, a 2002 Marketdata report puts the total industry at $6.56 billion, serving 35 percent of Americans.

Time To Re-Regulate Pesky Payday Lenders
The News & Record (Greensboro, NC)
April 1, 2005
North Carolina

For people who exist from one paycheck to the next, taking out a loan from a payday lender is a fast track to long-term debt.

The General Assembly should end a four-year stalemate and regulate the industry that continues preying on poor borrowers who can least afford its exorbitant interest rates.

Back in 2001, the legislature settled on changes that forced many of the small-scale loan operators out of business. Some managed to keep their doors open, however, by affiliating with out-of-state banks that conveniently evade state oversight through a federal loophole.

Stop the Sharks
Winston-Salem Journal
April 1, 2005
North Carolina

No one ever lost money cheating poor people, and the loan sharks who run so-called "payday lending" firms know it. Despite the best efforts of Attorney General Roy Cooper and a legislative majority, the industry survives in this state and continues to rip off the poor with rates that would make a mob boss blush.

Payday lenders offer short-term loans that carry enormous annual interest rates. If borrowers are unable to repay the loan after 14 days - and they often are not able to do that - then the loan rolls over, and a whole new set of charges apply. After a time, borrowers can owe far more than they borrowed.

Payday Loan Company Asks Exception For Moratorium
Birmingham News
April 01, 2005
Alabama

A payday loan company is asking the Gardendale City Council for an exception to its moratorium on licensing certain new businesses in the city.

Steven Sengson, director of real estate for Check Into Cash, Inc., told the council earlier this week that because his company had contacted city zoning officials before the moratorium and spent money toward a new office, the council should allow the company to open in Northgate Village Shopping Center.

The city imposed a moratorium in January on licenses for used car lots, pawn shops and payday loan businesses. The moratorium is to allow the city time to update its zoning ordinances covering those businesses. "We are certainly not against businesses coming to Gardendale," said Mayor Kenny Clemons, "but we found that several types of businesses weren't adequately addressed in our current zoning ordinances.

Brief Case
South Bend Tribune (Indiana)
March 31, 2005
Indiana

Payday lender agrees to refund customers

Payday lender Cash-Connects.com owes its customers $400,000 for allegedly charging higher than allowed fees, Indiana Attorney General Steve Carter said.

Carter announced an agreement with the lender Wednesday to refund money charged above the state-allowed maximum fee of $35. Cash-Connects.com said it will notify the 5,000 Indiana customers eligible for refunds in 90 days. Refund amounts will be calculated through a formula based upon loan value and payments made.

Regulate 'Debt Traps'
The Herald-Sun (Durham, NC)
March 31, 2005
North Carolina

Clearly, life is difficult for folks who live paycheck to paycheck, or whose financial situation is so tenuous that an unexpected expense can overwhelm their cash on hand. People in that situation may find themselves with few alternatives.

In those circumstances, the free market created a boom in payday lending services. Those businesses will make short-term, small denomination loans, often just until the borrower's next paycheck can cover the bill -- hence " payday lending. "

Loan Put Couple In Financial Bind; Interest, Penalties Keep Piling Up
Gallup Independent
March 31, 2005
New Mexico

GRANTS — Like an alarmingly increasing number of New Mexicans hit with hard times these days, Dorothy and Paul Eversole went to a payday loan store in Gallup to get money.

She admits now it was an act of desperation. She's 71 years old and he's a bit older. Paul got out of the teaching profession and then got sick. Dorothy was a teacher's aide at school, but now her only job is to take care of Paul she said. "Besides, I have diabetes and arthritis, so I couldn't work if I wanted to work," she said. Paul is bed-ridden because of his health. They are trying to get by on Social Security. Their problem is, between the two of them they make $1,851 a month and with a huge chunk of money taken out for medical supplies and bills, other payments, sometimes there isn't enough left over for food.

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The agencies released a list of Top 10 complaint categories in 2003-04. Those involving debt collection/billing practices ranked sixth, says Jean Ann Fox, CFA's director of consumer protection. "In 1999, the category was down at No. 9 on the list."

The main grievances concerned finding errors on credit reports, as well as collectors trying to collect on debts already written off by the creditor, Fox says. One reason for the rise in complaints, according to the report, could be the fact that consumers now have greater access to their credit reports, are discovering inaccuracies faster or for the first time, and are experiencing problems correcting them.

Another high-ranking category on the list involves credit-related complaints. State consumer agencies ranked the category at No. 4 for 2003-04, a ranking Fox says has held fairly steady in the past five years.

Credit and financial fraud cases were reported by 86% of the agencies as the most frequently reported complaints. Correcting credit reports followed in second place at 75%.

The NACAA/CFA report includes examples of the worst scams and major incidents, including many credit-related scams, Fox says. Complaints centered on predatory lending practices, credit card fees, payday loans, and credit repair and reporting. Predatory lending is a major problem, she says, involving complaints about the high cost of loans as well as marketing lending products to non-English speaking consumers.

Complaints about identity theft, included as a standalone category this year for the first time, also made the list at No. 7. The number of consumer complaints in this category reported by CFA member agencies reflects an increase in the number of identity theft and identity crimes reported to the Federal Trade Commission, the report says.

The survey also asks the agencies what consumer protections are most needed. The responses underscored the need for stiffer penalties for payday loan violations and stronger action taken under the Fair Debt Collection Practices Act, particularly regarding companies trying to collect old debt. - AM

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High Points for Credit Scoring; With Generic scores Becoming Antiquated, Credit-Scoring Providers Are Focusing on New Offerings. How Are These Models Helping Creditors Make Better Decisions?

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National

By Ann McDonald

Scoring models are evolving from generic scores based strictly on data culled from the big three credit bureaus to models drawing information from varied sources, and with more sophisticated analytic capabilities.

The goal is to help predict much more than whether an account will charge off in any given month, but to forecast other possible problems such as fraud, as well as help set collections strategies and assist financial institutions in determining the risk of dealing with consumers with thin credit bureau files - ones, for example, with no credit card accounts or auto loans.

There's always a need for stronger analytics in the fraud space, says Thomas Brown, vice president of financial service solutions for LexisNexis, Boca Raton, Fla. Most fraud scoring models are two-fold: verifying identities and monitoring suspicious activities that may signal fraud.

In the e-commerce world, where it's harder to know whether people are who they claim to be, having a more complete data set to analyze is critical. Once all available data is gathered, companies can apply analytics to validate an individual's identity. "If phone information and the date of birth correlate, we can be comfortable in saying the person is who they say they are," Brown says.

Since fraud is so dynamic and changing, it's important to redevelop solutions regularly, says Chet Wiermanski, vice president of analytical services for Chicago-based TransUnion. "The profile of a fraudster changes daily," he says. "You need to be able to get data faster and build models quicker to keep up with changes in the environment."

TransUnion's fraud management platform uses advanced models and multiple sources of information to verify identities and come up with actions their customers should take to protect themselves. The results can be delivered in a batch process, so that the most current information always is available, Wiermanski says.

The scoring business is changing, in part because of industry consolidations, says Trevor Rubel, vice president of marketing for Intelligent Results, Bellevue, Wash. New executives joining collections companies after mergers are bringing scoring's best practices with them and helping companies differentiate their collections strategies, he says.

Intelligent Results provides information to help agencies make decisions throughout their collections activities by integrating untapped data from collector and call center notes with traditional structured data from transactions, credit bureaus, and account master files, Rubel says.

The company's IR Settlement product helps an agency target accounts for settlement offers to generate new revenues and decrease chargeoffs. "Instead of just predicting something that agencies may not really care about," he says, "we started focusing on things they would want to know and started to make the technology more focused for collections agencies."

Offering scores for prioritizing collections efforts is an important focus for many scoring providers. Costa Mesa, Calif.-based Experian-Scorex's scoring technology pulls in credit bureau data and payment information to develop scores for how to treat accounts, says Charles Chung, vice president of sales for Experian-Scorex.

A score can be developed to help an agency determine which delinquent accounts are most likely to result in the highest repayment amount, and the agency can rank the amounts likely to be repaid on bankcard accounts from the time they are 90 days delinquent until chargeoff.

Ten years ago, technology was not mature enough to put all the different pieces together and manage accounts through the credit cycle, Chung says. "Credit scoring has really evolved. It's a much more integral part of making credit decisions then ever before. Companies can get much more specific information about changes and trends."

Beyond the collections space, Fair Isaac Corp. in San Rafael, Calif., focuses on providing scores and analytics for predicting credit risk. The company recently leveraged the technology used in its Falcon ID product, which analyzes suspicious account activity and provides an identity fraud score, to work in the credit risk space.

For example, the technology can monitor transactions and determine if a customer is falling on hard times, says Craig Dillon, vice president of scoring solutions for Fair Isaac. The behavior scores can help companies determine which accounts may be at the greatest risk of becoming delinquent or even which may generate the most revenue.

Instead of providing a score from a credit bureau, which indicates the account status of an individual 20 or 30 days later, the technology calculates creditworthiness at the transaction level, looking at spending behaviors and patterns. "It's a pretty powerful indicator of risk," Dillon says. "It picks up changes in behavior a lot faster."

Experian-Scorex also focuses on helping companies manage risk with its Scorex-Plus product. The technology represents the company's next generation of bureau-based risk scoring by showing score performance across multiple timeframes so a financial institution can see consumer behavior changes over time, Chung says. "Traditional bureau scores are stale; they were built years ago. There have been tweaks and updates over time, but there has never been a major overhaul until now," he says. "This is taking bureau-based scoring to the next level."

Another key feature of Scorex-Plus is that it addresses consumers who haven't typically been scored by credit bureaus. Traditional risk models historically were unable to score a large percentage of consumers due to insufficient credit information. Scorex PLUS scores records that traditional risk models label "unscoreable," the company says.

Penetrating new markets is an important strategy for many credit grantors, so finding ways to score consumers with slim credit bureau files is a growing concern for many scoring providers. Fair Isaac's Expansion Score, released late last year, draws from non-traditional data sources - such as deposit account records and pay-day loan cashing - to help financial institutions judge a consumer's risk profile.

LexisNexis pulls data from several other public sources, such as housing assets, auto loans, and bankruptcies and judgments. The company recently began focusing on extracting information from textual sources - such as lawsuit filings or newspaper articles that could contain useful information about an individual or business.

Gathering information from textual sources can help in underwriting for small businesses, since there aren't many resources for that market, LexisNexis' Brown says. A company could be taking a big risk, for example, by lending to a firm facing a pending lawsuit. It would help to know about it beforehand.

LexisNexis' online database can http://www.cashnet500.com/payday_loan.html scour textual sources of information to identify early warning signs that can help businesses perform due diligence.

Now that companies are more open to the various applications of scoring models, the market for new products should continue to grow. For example, a number of scoring providers have targeted the debt-buying industry as the next emerging market for scoring products.

Wiermanski of TransUnion says that many debt buyers are interested in building scores to evaluate portfolio prices. "The debt-buying market is growing," he says. "It's moving with trends we see in debt buying in general. Debt buyers want to be more sophisticated about pricing."

Years ago it may have been difficult to convince financial institutions to buy new scoring technologies, but industry experts interviewed for this article say there's a lot more openness to new technologies today. With Basel II compliance lurking around the corner for large U.S. financial institutions, the need for more powerful tools to assess risk and make quicker decisions remains strong.

"The need for more accurate data due to regulatory pressure and privacy concerns is increasing," says Chung at Experian-Scorex. "There's a need to incorporate more information, and more accurate information. There is a risk to not doing that."

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Payday loan companies, which provide short-term loans for small amounts of money without collateral, can legally charge interest rates of up to 60 per cent a year. But some get around the rules by charging additional fees that dramatically increase the total cost of borrowing. In one of the Ottawa cases, a loan of $587 grew to a $902 debt in less than two months. In another, a customer who borrowed $280 owed $551 a month later.

Some provinces already regulate the industry, including Saskatchewan, Quebec, New Brunswick and Nova Scotia. Alberta does not, other than requiring the companies to reveal the cost of credit and treat consumers "in a fair and equitable manner."

The fact that there are more than 1,000 such outlets across the country, with at least 60 in Edmonton alone, is testament to their popularity. In fairness, they provide a legitimate service to people unable or unwilling, for whatever reason, to get lower-interest loans elsewhere. And banks don't offer the same kind of short-term, small-sum loans intended to tide people over until their next paycheque.

In response to the federal-provincial review, the industry has set up an association that recently introduced a voluntary code of best business practices. Among other things, it bans loan rollovers -- one of the most controversial industry practices -- which extend the deadline to pay back a loan for a fee or advance a new loan to pay out an existing loan. The concern is that rollover loans trap people in a continuing cycle of debt.

Association members must also disclose the full cost of borrowing, advertise without deception and protect customers' privacy. About 70 per cent of payday loan operators belong to the association.

While these are good guidelines, they are voluntary and, even then, don't apply to some 300 outlets, among them the two companies cited in this week's Ontario court ruling. Government regulation would obviously be more enforceable and far more effective in protecting consumers.

The head of the industry's association, Bob Whitelaw, agrees. He wants regulation and licensing of payday loan companies in all provinces to separate the legitimate payday loan operators from the shady ones.

As he rightly points out, it is in the best interests of both consumers and business to have a viable industry. Certainly it is preferable to the alternatives, which Whitelaw says include more Internet lenders, pawn shops and title loans, in which borrowers hand over the title to their vehicle as collateral for a loan.

People who use payday lenders must have a job and a chequing account. Most say they use payday loans to cover unexpected bills, to avoid late charges on bills or to avoid bouncing cheques, according to Whitelaw. The outlets are also open late, sometimes 24 hours a day.

Even those who criticize the payday loan industry acknowledge it provides a needed service to people for whom there are few alternatives. The problem is not that people are paying high interest rates for relatively high-risk, short-term loans, but that some unscrupulous companies are taking advantage of these people with rollover loans and other techniques to saddle them with insurmountable debts.

The industry's legitimate operators are trying to distance themselves from their underhanded counterparts and are welcoming regulation that would licence lenders, prohibit rollover loans and go even farther than the voluntary rules they have set for themselves. Provincial and federal officials should give them what they want in releasing recommendations for overhauling this industry this summer.

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Heartless Budget Cuts Mobilize People of Conscience
The Kansas City Star
April 1, 2005
Missouri

BY: Lewis W. Diuguid

In a few places around Kansas City, people keep trying to forge plans to counter the state and national Republican assaults on social programs.

At one recent Saturday session, dozens of people participated in a daylong workshop to learn how to reframe core concerns of Democrats, moderates, liberals and progressives. They focused on such words as honesty, trust, strength, freedom, cooperation, community, compassion and open communication.

However, group presentations afterward on controversial issues such as Social Security, justice and the environment lacked the spin-doctor polish of the Republican machine. The Republicans have spent 30 years crafting their message.

They've promoted a national mindset of tax cuts, good; funding for social programs, bad; massive tax breaks for the wealthy, good; welfare for the poor, bad. President Bush's budget builds on that, seeking cuts in spending for environmental protection, home heating assistance, education, Medicaid, community development block grants and Amtrak.

Bush wants to reduce the deficit that he created in his first term. The enormous debt Bush ran up amounts to keeping the country standing for generations in a global payday loan line. It's objectionable that Bush's plan is to shovel the burden on the backs of middle-, lower- and working-class Americans.

In his rebuttal to Bush's State of the Union speech, Sen. Minority Leader Harry Reid, a Nevada Democrat, best captured the effects of Bush's borrowing, tax cuts for the rich and megabillion-dollar spending on the endless wars in Afghanistan and Iraq. Reid said Bush has created "a 'birth tax' of $36,000 on every child that is born."

Democrats, progressives, moderates and liberals need to reframe pocketbook issues in skillful ways to make them appeal to people who are being pinched in these tight economic times.

These folks also are struggling on a second front against the Republican machine. In Missouri, the Republican governor and the Republican-dominated General Assembly are fashioning a perfect storm of budget cuts affecting children, families, low-income folks, people with disabilities and people with mental illness.

At another session I attended recently, social workers, day-care providers, educators, advocates for homeless people, community activists and people of faith gathered for lunch in the living room of a midtown Kansas City home to determine how they could respond. Some talked about big protests in Jefferson City. Others wanted to organize rallies in Kansas City.

They said then that no one could ignore so many people from all of the groups affected by Missouri Gov. Matt Blunt's proposed $1.1 billion in state and federal budget cuts. Some protests occurred. But last week Blunt showed how insulated he truly is from the clamor of people in need and the agencies that serve them.

He proposed an additional $240 million in spending cuts that would include further trims to social service programs. Medicaid would suffer more cuts. So would funding for mental health programs.

Fewer services would be available for child abuse investigations, and funding for the grandparent foster care program would be reduced.

In meetings where people are outraged and want to do something, most are women. Many wonder how they can make more people care even if they are not directly affected by the Republican juggernaut.

Others I know wonder whether groups benefiting from state aid have any bargaining power -- except for directing bad publicity at the Republicans.

Some people think the bad press is enough to derail the Republican romp. I'm not so sure.

People who care about kids and those who are poor said they see the nation as being at "Red Alert." Domestic threats are terrorizing people.

Proposals to cut federal and state budgets put people's well-being at risk. Many of those affected are politically voiceless. Even when they scream they're rarely heard.

"We don't have forever here," a child care provider at the living room luncheon said.

The urgency to act is now for progressive people of conscience and goodwill.

Lewis W. Diuguid is a member of The Star's Editorial Board.

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Keep Payday Loans a Convenience, Not a Crushing Burden; A Bill Proposing to Hike Interest Rates to Unconscionable Levels Should be Defeated
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April 1, 2005
Maine

Editorial

You could be pardoned if you thought that the idea of charging people 17.5 percent interest for a two-week loan was an April Fool's joke, this being April 1 and all. Despite its hard-to-believe nature, however, it is the subject of a real bill submitted to the Maine Legislature for consideration.

People who would use this so-called "improvement" to the sometimes unsavory practice of " payday loans " are the ones upon whom this very unfunny joke is being played, however.

Payday loans, popular in low-income neighborhoods and around military bases, are essentially short-term advances on a person's next paycheck - for a fee. Because those who offer such loans often set up shop in areas of small neighborhood businesses, they are sometimes called "storefront lenders."

Right now, Maine only has a few such operations, and they are usually found in the state's larger cities. Under a bill before the Legislature, however, the interest for such loans could jump considerably, making the state more attractive to large national chains of lenders.

Their patrons typically write a check to the lender for the amount of the loan, plus a fee. After a couple of weeks, the lender cashes the check, presumably after the borrower's next paycheck has arrived and the funds are now on deposit to cover the check.

Now, the fees are set by state law at $15 for loans up to $250 and $25 for loans over that amount. The bill would hike that to $17.50 per $100, or as much as $43.75 for a $250 loan. It's easy to see how quickly a borrower could get in trouble repaying that amount.

Far too often, say credit advisers http://www.cashnet500.com , such borrowers find themselves in an ever-increasing cycle of borrowing more to repay the last loan, until finally they can't, ending up owing not only the lenders' fees, but bank charges for bounced checks. Right now, payday loans are a reasonably priced service.

Let's keep it that way in Maine.

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Seeing Opportunity Where Once There Was None; With Deposit Growth Now The Name Of The Game, Institutions Large And Small Are Redoubling Their Efforts To Seek Out The Unbanked. And They're Not Sorry They Did.

US Banker
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By Matthew de Paula

After a decade or more of fumbling, banks of all sizes are finally making headway in serving unbanked consumers and acknowledging the multibillion dollar potential of this untapped segment with aggressive initiatives. Two keys to success: creating tailored products and delayed profit expectations.

Studies from Social Compact, a nonprofit coalition that promotes investment in low-income communities, indicate massive cash economies in under-banked inner cities, which hint at the amount of business financial services providers will miss if they continue to ignore un-banked consumers. Cleveland, for example, has a cash economy of $828 million, representing 12.2 percent of the aggregate market economy, according to a recent study, co-sponsored by Key Bank. Similar studies unearthed a $1 billion cash economy in Harlem (16 percent of the aggregate market economy), $443 million in Houston (13.1 percent), and $76 million in the Anacostia/Hillcrest part of Washington, D.C. (12.3 percent).

While comprehensive data on check cashing, money-transfer and payday lending is elusive, a 2002 Marketdata report puts the total industry at $6.56 billion, serving 35 percent of Americans.

The unbanked, or under-banked population, as some now call it, is vast and varied. It includes low- and moderate-income people considered unprofitable or "poor" credit risks. A large part is comprised of immigrants. Ethnic groups are growing much faster than non-Hispanic whites. The Census Bureau projects that by 2050 ethnic populations will comprise half of the U.S. population. From 2000 to 2050, Hispanics are projected to grow 188 percent, Asians 213 percent and blacks 71 percent. "If you're not serving that population, you probably won't be in business very long," says Liliana Salas-Grip, Wells Fargo's Latino segment manager. By contrast, the number of non-Hispanic whites is projected to grow 7 percent.

Hispanic consumers are very loyal. "Once in the bank, they don't move," says Michael Frias, who heads the Federal Deposit Insurance Corp.'s New Alliance Task Force, bent on improving services to immigrants. Remittance services are a popular hook, despite being unprofitable "loss leaders." The goal of this and most initial offers to the unbanked are to cultivate a long-term relationship and eventually sell them more traditional-and profitable-products. "It isn't the first time the industry has suddenly decided to wake up and try to bank the full credit spectrum," says Fitch Ratings bank analyst Sharon Haas.

For banks, building internal momentum is key to a successful strategy for the under-banked market. That usually doesn't happen without a champion among the ranks, such as Key Bank's Edna Sawady, COO of community development banking. Thanks to her vision and the support of management, the bank is building critical mass through an innovative program.

The effort, which took two years of development before being launched last spring, is both a social mission and a business mission, Sawady says. Key is targeting working people aged 18 to 44 who live in densely populated areas and earn between 50 percent and 80 percent below area median income. "We believe that these people can and will be good clients," Sawady says. "This view was atypical three or four years ago when we started this. We made a philosophical leap."

Banks' past efforts to target the unbanked evolved through the creation of products and services designed for other markets, she says. "Serving this population does not mean taking a solution that was created for the mass market and stripping it down," she says.

One example is minimum balance requirements. Many low- and moderate-income people don't have $500 to leave in an account, so charging them a fee for falling below a threshold makes them feel unwanted. "Two hundred bucks is a lot

of money to someone who earns $30,000 with two kids at home," Sawady says. Key offers savings accounts with no minimum requirements and she thinks they're a better entry point for these consumers than checking-account products.

Last June the bank started offering a "checkless" account with ATM-card access to direct-deposited payroll checks (no check writing or other deposits). In Cleveland the bank is piloting lines of credit as low as $100 as an alternative to predatory payday loans.

A separate group of Key mortgage lenders specializes in getting low- and moderate-income people into homes. They don't rely on automated credit decisioning and look at the merits of each case individually, taking into account nontraditional sources of income. The bank also has started to use a new credit bureau, Pay Rent Build Credit, that extrapolates credit risk from a payment history of utility and rent bills.

Like most banks targeting under-banked consumers, Key offers free financial education, both in classes and one on one. It also offers Check Systems' Get Checking program, which works to repair people's damaged financial records.

Sawady expects customers will become profitable in three to four years. "There is no free lunch," she says. "This is a long-term strategy. Believe me, I wrestled with the economics." The initiative kicked off in five locations last March. The bank has locations in 12 states and hopes to scale up to 20.

Laid out differently than a traditional branch, each location's dcor reflects the local ethnic and demographic mix. The lynchpin is making these low- and middle-income consumers, many of whom harbor resentment towards mainstream banks, feel respected, Sawady says.

Wells Fargo is also building new branches in neglected areas. One recently went up in the Compton section of L.A. "When I walked in a few weeks ago, I burst into tears. It was so beautiful," says Shelly Freeman, Wells Fargo's L.A. metro regional president.

The bank partners with Emerging Markets Inc. to infiltrate distressed Los Angeles neighborhoods. It can take up to two years before the bank will even set up a branch, allowing time for grassroots efforts like financial education workshops in people's homes to not only educate consumers, but learn what products are needed.

In the L.A. neighborhood of Pacoima-a slice of Tijuana, Mexico, with immigrants comprising most of the community's 90,000 residents-Wells reached 1,500 households, 10 families at a time. Over two months, one family out of a group of 10 hosted a potluck financial-education session.

It was through such meetings that Wells decided to create Pacoima Federal Credit Union to meet credit needs outside its risk envelope and to better compete with the neighborhood's 26 check cashers. Keeping close ties to Wells, the credit union acts as a feeder for future bank business.

Informal ground-level penetration into households also gives insight into cultural nuances, which vary widely depending not only on ethnicity, but nationality. Mexican immigrants are distinct from Chicanos, American-born residents of Mexican descent, and so must be approached differently. Emerging Markets' grassroots strategy is also helping Wells thrive in demographically complex South Central and Compton, where large Hispanic populations coexist with blacks who control much of the business and infrastructure.

Leveraging local non-profits like school-based parent centers and the Valley Economic Development Center is also part of the strategy. Synergies within Wells Fargo encompass Community Reinvestment Act development, where investments in affordable-housing efforts create a pipeline for future mortgage business and help mitigate abysmal home-ownership rates as low as 0.04 percent in some parts of L.A.

Emerging Markets is working with a dozen banks in the area, with Wells and Bank of America the farthest along. Each is expanding into several new neighborhoods this year. Elwood Hopkins, managing director of Emerging Markets, says larger banks are better positioned than smaller ones for such initiatives. Fitch Ratings' Haas agrees. "Large banks have the scale and the ability to incubate these products," she says, adding that they may also benefit from existing brand recognition in certain markets.

This isn't to say small and midsize banks can't thrive, too. Community banks in particular are beginning to perk up to the benefits of reaching the under-banked.

Milwaukee-based Legacy Bank is a small bank making Herculean overtures to the under-banked. "The whole reason for starting the bank in 1999 was because of a lack of banking services in the community," says founder and vp Margaret J. Henningsen. Strong commercial-banking business and growing mortgage efforts have enabled Legacy Bank to offer "second-chance" checking accounts and non-traditional credit products to the unbanked, which don't immediately reap profits.

It took a lot of work to get things in motion, with Henningsen herself meeting with local non-profits like Wisconsin Early Childhood Association. But her financial education classes laid a foundation for the thousand or so second-chance accounts Legacy now has on the books. With charge-offs under one percent, they're doing better than the bank's regular checking products, she says. Loyalty is high among second-chance customers. And they're the most efficient marketers, bringing in friends and family, even helping to explain the process of financial repatriation.

Second-chance checking and savings accounts are opened with a minimum of $10 after a banker reviews individual Check Systems records. Customers who overdraw their accounts are charged a fee and must take more classes to keep their accounts while those of repeat offenders get closed. "We've had some issues where fraud was committed, but we haven't taken big hits," Henningsen says. The minimum for money-market accounts is $100. "We're seeing profitability after two years," she says. "Part of the education is to groom them to become loan customers. That's how we're going to make money off of them." Efforts have already generated a handful of mortgage and small-business loans.

Now the window of opportunity is wide open as the interest-rate rate environment swings efforts to higher deposits and more branches, says Jennifer Tescher, director of The Center for Financial Services Innovation. "All of those things have converged to make this the issue of the moment," she says. "It's important to capitalize on it before market conditions change and that window is closed."

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Time To Re-Regulate Pesky Payday Lenders
The News & Record (Greensboro, NC)
April 1, 2005
North Carolina

Editorial

For people who exist from one paycheck to the next, taking out a loan from a payday lender is a fast track to long-term debt.

The General Assembly should end a four-year stalemate and regulate the industry that continues preying on poor borrowers who can least afford its exorbitant interest rates.

Back in 2001, the legislature settled on changes that forced many of the small-scale loan operators out of business. Some managed to keep their doors open, however, by affiliating with out-of-state banks that conveniently evade state oversight through a federal loophole.

Here's how it works: The borrower writes the lender a check and postdates it for the time the loan expires. The lender advances the money after subtracting a fee.

But when the borrower defaults, he's encouraged to refinance or take out another loan. At a rate of more than 400 percent annually, there's little chance of paying the interest, much less the principal.

Penalties are assessed for paying off loans early http://www.cashnet500.com , and it's next to impossible to refinance at a lower rate. The loan's short duration -- usually two weeks -- guarantees that low-income borrowers likely saddled with poor credit ratings get hopelessly trapped.

If you're in desperate need of cash, the alternatives are limited or nonexistent. Traditional banks have been slow to serve low-income or immigrant populations that may lack collateral or property. Not surprisingly, a disproportionate number of payday lending office are located in minority neighborhoods.

Over the years, North Carolina has effectively cracked down on legal loan-sharking. Predatory loans decreased dramatically after pace-setting legislation in 1999 tightened the reins on financial institutions that take advantage of people with poor credit. Yet companies still could make a fair profit on potentially risky loans without ripping off customers by charging excessive repayment.

Payday lenders got a new lease on life when the federal Office of Comptroller of the Currency exempted the national banks that it charters from state-enforced predatory lending statutes. Efforts in Congress to override that interpretation of the law stalled, and the courts haven't yet ruled.

Given the inaction at the federal level, the state should fill the void. For starters, the minimum time for paying back a payday loan should be lengthened to at least 60 days. Increasing the payback time lessens the opportunity for gouging. And borrowers should be allowed to make early or partial payments without penalty.

Also, there should be a reasonable cap on loan amounts: Credit experts say $500. Finally, out-of-state banks that "facilitate" local storefront lenders must stop violating state law.

Delay is no longer acceptable.

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Stop the Sharks
Winston-Salem Journal
April 1, 2005
North Carolina

Editorial

No one ever lost money cheating poor people, and the loan sharks who run so-called "payday lending" firms know it. Despite the best efforts of Attorney General Roy Cooper and a legislative majority, the industry survives in this state and continues to rip off the poor with rates that would make a mob boss blush.

Payday lenders offer short-term loans that carry enormous annual interest rates. If borrowers are unable to repay the loan after 14 days - and they often are not able to do that - then the loan rolls over, and a whole new set of charges apply. After a time, borrowers can owe far more than they borrowed.

Payday lending is illegal under North Carolina law, but some lenders use federal law to remain here. A study conducted by The Center for Responsible Lending determined that payday lenders are targeting blacks. The study found that a poor, black neighborhood was three times more likely to have a payday-lending office than was a predominantly white neighborhood with the same economic characteristics.

The legislature let a short-term law that had authorized payday lending expire four years ago. Now the industry is back in Raleigh, trying to get new authority to operate here. The industry makes two fallacious arguments.

The first is that the people to whom it lends need the service and the help of payday lenders. That's bunk. No one needs to be ripped off. Some people are gullible - or desperate - enough to pay these rates, but no one needs them.

The state's banking laws provide for small loans at a healthy 36 percent interest. With fees and add-ons, the effective charge amounts to almost 50 percent. Last year, some $47 million in such loans were made by reliable lenders in the state.

The second argument is that by re-authorizing a state payday-lending industry with interest caps far below levels currently being charged by the federally chartered lenders, the legislature will drive them out of business. Legislation currently in the hopper would put the cap at 120 percent per year, far below the 400 percent some payday lenders have charged in recent years.

But North Carolina should not authorize loan barracudas to drive loan sharks out of the state. It should stick with its policy of making such loans illegal and then find ways to encourage the state's reputable lending industry to make their small, short-term loans more available to the state's poor. Considering how friendly the legislature has been to the state's banks with tax breaks, the least that industry can do is more heavily market its 36 percent loans in poor areas.

Payday lenders are getting rich preying on the most vulnerable in North Carolina. The legislature should do all it can to put them out of business.

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Payday Loan Company Asks Exception For Moratorium
Birmingham News
April 01, 2005
Alabama

By Wayne Martin

A payday loan company is asking the Gardendale City Council for an exception to its moratorium on licensing certain new businesses in the city.

Steven Sengson, director of real estate for Check Into Cash, Inc., told the council earlier this week that because his company had contacted city zoning officials before the moratorium and spent money toward a new office, the council should allow the company to open in Northgate Village Shopping Center.

The city imposed a moratorium in January on licenses for used car lots, pawn shops and payday loan businesses. The moratorium is to allow the city time to update its zoning ordinances covering those businesses. "We are certainly not against businesses coming to Gardendale," said Mayor Kenny Clemons, "but we found that several types of businesses weren't adequately addressed in our current zoning ordinances.

"We found some of the businesses were buying business licenses for certain businesses, then operating businesses other than what they were licensed for," Clemons said. "We want to make our laws clear enough that no misunderstanding can occur, to protect us and the people who are doing business in Gardendale."

Sengson and his attorney said the firm had written contact with the zoning board twice in December and received notification of which zoning classification applied. The company then leased an old Subway sandwich shop in Northgate Village and began renovation. Sengson said about $50,000 had been spent before application was made for a business license, after the moratorium had been approved.

Upon questioning by the council, Sengson said the $50,000 included money spent by the company in training personnel to work at the business. It also included about $18,000 spent by the owner of the property for renovation.

"We just wanted to come up here in the spirit of fair play and work this out," Sengson said.

The council tabled action on the request until Monday's meeting to allow time to get an opinion from the city attorney. "We would be more comfortable with a legal opinion to make sure everything is in order, for us and for you," Clemons said.

Sengson said Check Into Cash, Inc., operates 1,100 locations in 29 states.

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Brief Case
South Bend Tribune (Indiana)
March 31, 2005
Indiana

INDIANAPOLIS

Payday lender agrees to refund customers

Payday lender Cash-Connects.com owes its customers $400,000 for allegedly charging higher than allowed fees, Indiana Attorney General Steve Carter said.

Carter announced an agreement with the lender Wednesday to refund money charged above the state-allowed maximum fee of $35. Cash-Connects.com said it will notify the 5,000 Indiana customers eligible for refunds in 90 days. Refund amounts will be calculated through a formula based upon loan value and payments made.

The attorney general's office received 83 complaints against the company, which operated offices in Bloomington, Indianapolis, Kokomo, Lafayette and Lebanon.

Carter filed motions for preliminary injunctions against Cash-Connects.com and eight other payday lenders in October 2003 for charging the higher fees and operating without a small loan company license. Lenders QuickNet, Cash Links and Midwest Digital closed their doors following the action. Court cases are pending against Planet Cash, MegaNet, American Cash and Short on Cash.

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Regulate 'Debt Traps'
The Herald-Sun (Durham, NC)
March 31, 2005
North Carolina

Clearly, life is difficult for folks who live paycheck to paycheck, or whose financial situation is so tenuous that an unexpected expense can overwhelm their cash on hand. People in that situation may find themselves with few alternatives.

In those circumstances, the free market created a boom in payday lending services. Those businesses will make short-term, small denomination loans, often just until the borrower's next paycheck can cover the bill -- hence " payday lending. "

But the cost is steep. The services may charge as much as 25 percent to postpone cashing the borrower's check.

Those are for loans of only a few days. The loans generally cost the equivalent of an annual rate of 400 percent, according to the Center for Responsible Lending, a division of Durham's Self-Help Credit Union.

Since 2001, the industry has been essentially unregulated in North Carolina. Anti-predatory lending groups and lobbyists for the industry have fervently disagreed on the scope and detail of regulation, and the General Assembly has never renewed regulations that expired in 2001.

Now, this session of the legislature is poised to again consider regulating the industry.

It is true, as many argue, that consumer education is a key response to this problem. Potential borrowers need to understand the obligation they are taking on, and need to understand that other, often less expensive options may be open to them.

But payday lending customers are often among the most vulnerable of consumers, with few options but to turn to a nearby payday lender to bail them out.

The state owes those people more protection from predatory lending practices. Reasonable caps on interest that can be charged, a provision for installment payments when a person is too broke to pay off a loan in full, and state enforcement procedures would be sensible safeguards.

Durham residents would seem to have an additional stake in such legislation. A study by the responsible lending center -- disputed by the industry -- found that minority neighborhoods in Durham and elsewhere in North Carolina have twice as many payday lenders as white neighborhoods of the same size.

"The racial disparity adds insult to injury," the lending center's Mark Pearce said.

The legislature needs to step in to curtail the activity of these - in Pearce's words --"debt traps."

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Loan Put Couple In Financial Bind; Interest, Penalties Keep Piling Up
Gallup Independent
March 31, 2005
New Mexico

By Tom Purdom

GRANTS — Like an alarmingly increasing number of New Mexicans hit with hard times these days, Dorothy and Paul Eversole went to a payday loan store in Gallup to get money.

She admits now it was an act of desperation. She's 71 years old and he's a bit older. Paul got out of the teaching profession and then got sick. Dorothy was a teacher's aide at school, but now her only job is to take care of Paul she said. "Besides, I have diabetes and arthritis, so I couldn't work if I wanted to work," she said. Paul is bed-ridden because of his health. They are trying to get by on Social Security. Their problem is, between the two of them they make $1,851 a month and with a huge chunk of money taken out for medical supplies and bills, other payments, sometimes there isn't enough left over for food.

The bottom line is, they make too much to qualify for certain government programs and not enough to make ends meet.

Faced with overwhelming bills and too little money for food, on Feb. 7, they drove to Gallup and went into one of the many payday loan places.

McKinley County has its share of the loan businesses, but so does Grants and Milan in Cibola County. Between Milan and Grants there are about 13 payday loan companies. A year ago there were about four, but as times get more difficult and the purse strings tighten, more of them seem to materialize. Many are franchise operations, which gives an indication of just how serious the financial health of America's working poor is.

"It seems like we had no other place to turn," Dorothy said.

Dorothy said they went into a payday loan business on Feb. 7, and borrowed $950. The monthly finance charge on that $950 loan is $221 per month. Realistically, they could pay $2,652 a year in interest payments alone and still not have paid one penny toward the original $950 loan.

"We knew the interest payments were going to be high, but we needed the money to buy medicines," Dorothy said.

This month they had to make the first interest payment of $221. Dorothy said they scraped together every penny they could find and had the $221, but virtually nothing else. "We had to borrow money from our son to buy a stamp to send the interest payment to the loan company," Dorothy said. As she spoke, her voice became very low several times. She was not proud of her situation.

She said the payment was sent and then about two weeks later they got a call from an employee at the payday loan company saying they owed a $63 late payment because their interest payment did not arrive on the due date.

Dorothy said the loan company employee said if they did not make the $63 payment, there would also be a $15 per day fee added for every day the $63 was not paid. Dorothy said the loan company employee said the envelope in which she sent the payment did not have a postmark on it from the post office. "I called the postmaster and she said mail to Gallup usually takes two or three days, and she makes sure she always puts a postmark on every letter sent out of the post office."

Dorothy eventually was directed to Theresa Martinez with the New Mexico Attorney General's Office. "She is trying to help us with the loan company," Dorothy said.

Dorothy said she and Paul were not trying to avoid paying back the $950 loan. "We owe that money, we know that, but we can't keep up with all these other charges."

For Dorothy and Paul, the lesson learned is a hard one. "I'll never do it again," she said. "Never, never, never borrow a penny from one of those places."

New Mexico Attorney General Patricia Madrid's office wanted to see one piece of legislation passed this past session dealing with the car title and payday loan companies. That legislation would have put an interest cap on any loan. That legislation also died primarily because of a very strong lobbying effort made by payday loan and car title loan interests, according to information supplied by the attorney general's office.

Sam Thompson, a public information officer with the attorney general's office said the Eversole's story is one heard time and time again. "When you see a place that doesn't even do a credit check, be careful," Thompson said. "We've seen instances where people making $400 a month were loaned $400. There's no way they can pay that back."

Martinez said some payday loan companies will piggyback a new loan just to pay the interest payment, which drags the unsuspecting borrower even deeper into financial quicksand.

Thompson, meanwhile, said Madrid's next step is to sit down with consumer groups and lenders from the payday and car title loan industry to see what room there is for legislation. "We'll then write a bill from that," Thompson said.

Madrid created an internet website about the payday loan industry as an educational tool. The site even has a letter from the Defense Department strongly suggesting that the New Mexico Legislature curb the industry.

"We're not saying these lenders do not deserve some interest, cash advance provider but not like what they have been charging," Thompson said.

Attempts were made to contact representatives from the payday loan and car title loan industry telephone calls were not returned.

At the same time, Paul Milan, from Grants State Bank, did want to say something. The bank is a full service financial institution and not one of the payday loan or car title loan companies.

Milan said the payday loan and car title loan companies fill a niche in the lending industry. "They do serve a purpose for people who can't get credit through a bank, but the banking industry does have a problem with the tremendous interest rates charged by these companies," Milan said. "The banking industry supports legislation which would put a cap on the interest rates."

Milan pointed out another danger of the payday loan and car title loan industry consumers. "There are a lot of people who get a loan, and then go to another place to get another loan to pay off the first one," Milan said. "Usually, it just snowballs on them."

Milan had one last word on the situation. "People getting those loans think they are buying time, but they are not," he said.

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