3 banks bypass state law

Offer payday loans to their customers

BY DAVID SMITH
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LITTLE ROCK — Three out-of-state financial institutions — Regions Bank, US Bank and Wells Fargo — are offering their Arkansas customers payday loans even though the practice was outlawed under a 2008 state Supreme Court decision.

Dustin McDaniel, the state's attorney general, ran the last of the payday shops out of Arkansas in 2009. And in recent years, McDaniel's staff has sued online payday lenders offering loans in Arkansas.

Regions, US Bank and Wells Fargo are able to circumvent Arkansas law because of a section in the Gramm-Leach-Bliley Financial Modernization Act of 1999 that allowed out-ofstate banks to offer loans through their Arkansas branches with interest rates set in their home states.

Arkansas law caps the annual interest rate on loans at 17 percent for all lenders except out-of-state banks.

The banks are charging annual interest rates of 120 percent to more than 500 percent on the payday loans, which are known as a "Regions ready advance" loan at Regions, a "checking account advance" at US Bank and a "direct-deposit advance" at Wells Fargo.

Regions has 100 branches in Arkansas, US Bank has 45 and Wells Fargo has four.

The banks' loans generally are limited to half of a customer's regular direct deposit or $500, whichever is less. For example, if a customer regularly receives a direct deposit into his account of $1,000, the customer can borrow $500. The banks typically charge 10 percent of the loan, or $50 in the example, to make the loan. The bank automatically deducts the loan amount from the next direct deposit.

That equals an annual interest rate ranging from 120 percent, if the customer receives the deposit monthly, up to 520 percent if the deposit is made weekly.

The problem for customers, especially those on fixed incomes, is that when the bank deducts the loan amount from the next deposit, the customer may not be able to cover his normal expenses, according to the Center for Responsible Lending, a Durham, N.C., nonprofit organization that seeks to eliminate abusive financial practices. That often leads the customer to take out another advance loan to keep up with his financial responsibilities.

“Repayment in full from a single paycheck or benefits check is a tall order for a household already living close to the financial edge,” the group said in a report on “big bank payday loans. Ultimately, this series of so-called ‘emergency short-term’ loans is essentially long-term debt carrying annual interest rates averaging 417 percent and leading to a host of negative financial outcomes for borrowers.”

The loans are “unfriendly to consumers and are an expensive way to borrow money,” Aaron Sadler, spokesman for McDaniel, said in an e-mail.

“Consumers should be aware of the dangers these products pose, and we urge the federal government to focus more on consumer protection and less on burdensome overregulation,” Sadler said.

Last year after filing a lawsuit against two online payday lenders, McDaniel said in a prepared statement, “I will not retreat from my pledge to eliminate all payday lending whether it occurs at a storefront in Arkansas or over the Internet.”

Regions’ customers say they are satisfied with the loans, Evelyn Mitchell, a bank spokesman, said in an e-mail.

“For the approximately one-third of the people — including our customers — who use alternative financial tools, banks can offer a viable, less expensive means to manage their finances as they choose,” Mitchell said.

Regions does not offer the product to a customer with a line of credit or a credit card with the bank.

Regions considers the bank’s charge for taking out the loan to be a fee and not interest. Payday lenders in Arkansas used the same argument, but the Supreme Court ruled that the charges payday lenders exacted for their loans were clearly interest.

US Bank’s “checking account advance” loan gives customers short-term access to funds, said Lisa Clark, a spokesman for US Bank. Because the bank already has a relationship with the customers, the loan is a more viable alternative to more expensive nonbanking options, Clark said.“It’s for an emergency situation,” Clark said. “We don’t want it to be a habit [for customers]. But we know there are times when they get in a jam and we want to help them out.”

Both Regions and US Bank have a one-month cooling-off period during which a customer cannot take out a loan after he has used the direct-deposit loan for six to nine consecutive months.

Wells Fargo has offered its direct-deposit loan since 1994, said Richele Messick, a bank spokesman. Wells Fargo charges $7.50 for every $100 borrowed, which equates to 90 percent interest for a onemonth loan to 195 percent interest on a one-week loan.

For customers in financial trouble, Wells Fargo also has an option that allows a customer to have a payment plan and pay off $100 of the direct-deposit loan at a time instead of the full amount, Messick said.

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