



Consumer Federation of America

Bank Payday Loan Products

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Three major banks offer payday loan-type products to their checking account customers. U.S. Bank, Wells Fargo, and Fifth Third Bank offer open-end lines of credit to checking account customers at a disclosed cost of 120 percent annual interest. The maximum loan is up to half the regular direct deposit income into the borrower's account or \$500 maximum. On request, funds are deposited into the account by the bank, fees result in triple digit interest rates, and payment is due in full on the borrower's next payday. Since these are open-end lines of credit, the disclosed APR is for a one statement cycle term. \$10 per \$100 borrowed results in the 120 percent APR disclosure. If calculated as a closed end payday loan, a two week direct deposit advance would cost 240 percent APR and a one week loan would cost 520 percent APR. The three banks acknowledge that these are very high cost products.

To be eligible for direct deposit advances, borrowers must get direct deposit of their pay or benefits into their checking accounts at the same bank. After setting up the line of credit, consumers can request advances via ATM, toll free call or online bank website. The banks are first in line to take deposited funds to repay the loans before paychecks or benefits are available to customers. Since payments are taken from the next direct deposit of at least \$100, these loans can have extremely short duration.

Despite being structured as open-end credit, like a credit card, direct deposit loans must be repaid in within a short period of time. Inability to repay the loan in full within the maximum 35 day term will result in the banks withdrawing funds from the account even if this puts the account in overdraft status. Wells Fargo and Fifth Third do not impose their own overdraft or insufficient funds fees when the direct payment places the account in negative balance but warn that other transactions may trigger penalty fees.

US Bank adds its own overdraft fees if their collection of a checking account advance overdraws the account. If a borrower is unable to repay a \$100 Checking Account Advance at U.S. Bank within 35 days, the bank collects \$10 for the initial advance, the bank's \$37.50 maximum overdraft fee, and \$8 every day after four days that the account remains overdrawn and the loan unpaid. If the loan is not repaid until 7 days after the due date, the borrower would have

paid \$71.50 for a 42-day \$100 loan. That comes to roughly 621% APR if calculated as a closed-end payday loan would be.

Following are summaries of direct deposit loan programs based on bank disclosures, account agreements, and information provided at the banks' websites.

US Bank Checking Account Advance[\[i\]](#)

Eligibility Requirements: 2 Methods of Eligibility: 1) Have a US Bank account open during the last six months and in good standing (not counting an ETA account, accounts held by minors or accounts titled as non-individual). The account must receive at least one direct deposit of \$100 or more in each of two consecutive statement cycles, one in the last 35 days. 2) Have a US Bank account open during the last 12 months and in good standing. Must receive at least \$300.00 total in ATM/Branch deposits, all deposits must be \$100 or more to count towards total, in each of the two consecutive statement cycles, one in the last 35 days. The account must also not be subject to legal process (garnishment or levy) or included in a current bankruptcy proceeding or involved in the charge-off process or in the Checking Account Repayment Plan. Eligibility is determined every month and US Bank reserves the right to discontinue eligibility at any time, without prior notice

Loan Available at: U.S. Bank ATMs, calling the Bank's toll free number, at any U.S. Bank branch location, or by logging onto the Bank's website and using Retail Internet Banking feature.

Loan Terms: 1) Direct Deposits: Credit limit is lesser of \$500 or half(50%) of the total direct deposits listed on most recent account statement. 2) ATM/Branch Deposits: Credit limit is lesser of \$300 or 25% of total ATM/Branch deposits of \$100 or more. If an account receives both Direct Deposits and ATM/Branch Deposits, then the Credit Limit will be the greater of the two calculations, if they are equal default to the Direct Deposit credit limit and terms. Minimum loan is \$20. Total Payment, including finance charges and advance is due within 35 days. Minimum loan term is one day.

Loan Cost: \$10 per \$100 borrowed, or \$2 per \$20. For a one-month loan term the fee translates to 120% APR.

Loan Delivery: Loan proceeds are deposited into the borrower's bank account at U.S. Bank immediately. If the account is overdrawn, the advance has to be sufficient to bring the account to a positive balance rounded to the nearest \$20.

Repeat Loans: If borrower gets an advance in each of *nine* consecutive statement cycles, they are ineligible for an advance for up to 90 days following the ninth month.

Access to credit from Checking Account Advance may be restricted if any of these things happen: The account is continuously overdrawn for 5 consecutive business days or more (have to bring account up to zero or positive balance.) If automatic payment from the account on the due date overdraws the account (not eligible again for 30 days). If the account is overdrawn an “excessive” number of times, ability to get an Advance may be restricted until total overdrafts are reduced. If available credit or requested advance is insufficient to bring the account balance to at least a zero balance. If the customer successfully completes the Checking Account Repayment Plan program, she must wait one statement cycle before being eligible for another Advance.

Default: Borrowers are in default if the account is in continuous overdraft status for more than 13 consecutive days and the Bank can close the account. In that case, the Bank will add the outstanding Checking Account Advance balance and finance charges to the overdraft balance that borrowers are obligated to pay. If eligibility is based on ATM/Branch deposits and 3 or more deposited items are returned unpaid in the last 3 months borrowers will be found in default and their account may be closed.

Methods to Pay. Payments can be automatically deducted from the checking account at the time a direct deposit of \$100 or more is received, no sooner than one business day after an Advance is taken. The payment may be all or part of the eligible direct deposit. Manual payment through online banking, at any branch or by calling 24-Hour Banking line. Manual payment option must be used when direct deposit is not sufficient to pay off a loan within 35 days.

Automatic payment on the due date: “If your outstanding Checking Account Advance balance is not fully repaid within 35 days, you authorize us to automatically deduct this amount, including any related Finance Charges, from your Associated Checking Account – **even if this creates an overdraft position in your Associated Checking Account and becomes subject to applicable fees under the terms of Your Deposit Account Agreement, such as per item and continuous overdraft fees, until paid.**” (emphasis added)

In all these forms of payment the Checking Account Advance is paid before all other transactions are processed, including checks, preauthorized transfers and any other transactions.

US Bank Overdraft Fees: 1st paid overdraft \$19 per item; 2 to 4 occasions \$35 per item; 5 or more occasions, \$37.50 per overdraft item. If the available balance in the account is below zero, beginning on the fourth calendar day, U.S. Bank adds an \$8 per day “continuous overdraft fee.”[\[ii\]](#)

Fifth Third Bank “Early Access”[\[iii\]](#)

Eligibility Requirements: Customers of the bank can enroll in person or online with the bank but do not need to “apply” for this form of credit. An account is eligible if it has been open for at least six months, is in good standing, and has received at least one direct deposit of \$100 in each of two consecutive statement cycles, with one in the last 35 calendar days. Some accounts are not eligible: Student Checking, accounts held by minors, non-individual accounts (custodial, trust), accounts being garnished or subject to levy, or accounts in the charge-off process. Only one account can have the “Early Access” feature.

Loan Availability: This open-end line of credit is available to customers in OH, IN, IL, TN, KY, MO, FL, MI. Available on most checking accounts. Bank account holders can get an advance if currently overdrawn if the advance is large enough to bring the account to a positive balance. The advance can be requested at Fifth Third Bank ATMs, via internet banking and at a bank branch.

Repeat Loans: If borrowers use the Early Access line for six consecutive months, they are ineligible to use it for 30 days.

Loan Terms: Loan size is \$500 or half the combined monthly direct deposits based on a three month average rounded to the nearest \$20, whichever is lower. Minimum advance is \$1 but is rounded to the nearest \$20, making the minimum advance \$20.

Loan Cost: Quoted as \$1 per \$10 borrowed, but minimum loan is \$20, so \$2 per \$20. For a full month loan, paying \$10 to borrow \$100 costs 120% APR.

Loan Delivery: As soon as a loan request is submitted, funds are deposited into the account for immediate access. If the account has a negative balance, the advance goes toward bringing the account up to zero before the remaining advance is available to be used.

Access to Credit: Fifth Third Early Access loan can be restricted if direct deposit is stopped or interrupted; account has a negative balance over the Early Access limit; account is continuously overdrawn for 10 consecutive days; account had more than 20 overdraft events or overdraft protection transfers in past two statement cycles; advance is not repaid in full by the 35th day after the advance date and the bank withdraws payment from the account, putting it into overdraft status (have to wait 60 days); or if the customer advanced the maximum credit limit in each of the last six statement cycles, triggering a 30-day cooling off period. If the account is in continuous overdraft for 15 consecutive days, borrowers are in default on Early Access and the bank may close the feature.

Default: Borrowers are in default if they move to a state where the bank doesn't offer Early Access; the account is assigned to a financial center in a state where this isn't offered; customers violate the account agreement or there is fraud or material misrepresentation on the checking account or the line of credit;

borrowers fail to meet repayment terms, die or the account is closed. If in default, the bank can require borrowers to repay the entire unpaid balance and finance charges before the scheduled due date; set off the debt against any account held with the bank; terminate or suspend further advances; and pursue any other method permitted by law to collect the debt.

Methods to Pay: Repayment is automatic. Bank takes payment out of the next direct deposit of at least \$100. Advances not paid in full by the end of the 35 day advance term will be paid out of the associated checking account, even if it causes the checking account to have a negative balance. If that happens, Fifth Third does not charge an overdraft fee but access to the credit product is cut off for 60 days. Other subsequent transactions may overdraw the account and trigger overdraft or insufficient funds fees.

Customers can also make manual payments to the line of credit, using the bank's online service or at a branch. Payments are applied first to unpaid finance charges and then to unpaid principal. If the account is closed, the bank automatically deducts the line of credit balance from account. If there are insufficient funds to repay the line of credit, the bank may refuse to close the account until the line of credit and fees are repaid in full.

Fifth Third Bank takes a security interest in the borrower's underlying checking account and reserves the right to use set off to collect payment directly from the funds in the account. Borrowers agree to pay costs incurred by the bank in collecting debts if they default.

Change of terms: The bank can change any term with notice to the borrower. The changes apply to outstanding Advances and to future ones. If customers continue to use the Early Access line or keep a checking account open, they have agreed to the changed terms. Customers can decline the change of terms by stopping use of the line of credit prior to the effective date or by requesting that access to the credit line be discontinued.

Fifth Third Bank Overdraft Fees: Overdrafts paid by the bank cost \$25 for the first incident in a year, \$33 for each of two to four overdrafts, and \$37 each for five or more over a one year period. If an overdraft is unpaid after three days, the bank adds an \$8 per day sustained overdraft fee. Fifth Third has no maximum number of overdraft fees imposed in one day.

Wells Fargo Direct Deposit Advance[\[iv\]](#)

Eligibility Requirements: Customer must get at least one recurring Direct Deposit of \$100 or more every 35 days to a consumer checking account from an employer or outside agency. The Direct Deposit Advance is not available to minors, ETA accounts, or accounts with a representative payee. Account must not be frozen or under legal process or in default of Advance agreement.

Loan Available: Open end line of credit is not available in all states. Customers get an advance by using Wells Fargo ATM and pressing Direct Deposit Advance button; by calling bank's toll free number, or using online banking access. Funds are immediately transferred into account.

Repeat Loans: If borrowers use loans for more than 12 consecutive statement periods, the bank will reduce credit limit by \$100 in future periods until limit is zero or until borrowers skip a month.

Loan Terms: Loans up to \$500 or half monthly direct deposit income up to nearest \$100 up to \$500. Advances are made in \$20 increments. Maximum loan term is 35 days. Depending on timing of direct deposits into the account, the term can be as short as a day or two. With notice, bank can change credit limit.

Loan Cost: \$10 per \$100 or 120% APR for a one statement cycle.

Loan Delivery: Immediate deposit into account. If account overdrawn at time get an advance, it serves as a "deposit" to bring the account positive.

Access to Credit Limits: At Wells Fargo ATMs, at bank toll free phone line, online at Wells Fargo online banking. Monthly account statement shows the available credit on Advance. If account negative for 7 days, borrowers can't get an advance.

Default: Agree to pay bank's attorneys fees and costs to collect loan. Late fee of \$35 is charged if payment is not received by cut-off time. In default if chose pay by mail and bank closes account. Borrowers must pay the advance in full before being allowed to close their account. Failure to pay triggers adverse credit reporting.

Borrowers are in default and cut off for 90 days if they don't pay the overdraft created by the Bank's "automatic payment" within 8 days. The loan is considered in default if borrowers file for bankruptcy, commit fraud, make a misrepresentation with service, or fail to pay an outstanding advance balance after account is closed. If customers close an account and owe an advance, the bank automatically deducts the balance due from account balance even if insufficient funds.

Methods to Pay: No grace period. Automatic deduction from checking account is default method. Bank deducts payments out of any direct deposit of at least \$100 to the account. If not paid in full within 35 days, the bank automatically deducts full payment from account even if that overdraws the account. Other transactions posting to the account will trigger overdraft or insufficient funds fees.

Payment by mail: Borrowers can arrange before getting an advance to pay by mail or transfer from account. A one-time \$100 set-up fee applies to pay by

mail. If a customer elects payment by mail, borrower can only get advances by calling the Wells Fargo toll-free phone number to request a loan.

Customers can opt for a longer payment plan with automatic payment in \$100 increments from direct deposits into the account. The longer payment plan is available if the borrower is already using automatic deductions, had a direct deposit advance for at least 4 consecutive statement periods, and owes at least \$300 not including finance charges. This customer cannot use the advance service while the account is on the payment plan. Payment plan payments are automatically deducted from any direct deposit of \$100 or more into the account. If no payment by 35th day, bank can automatically deduct the entire amount of the Advance and fees from checking account. If this overdraws the account, other transactions will trigger overdraft or insufficient funds fees. Customers cannot get another Advance until they pay both the advance with finance charges AND the overdraft fees.

Wells Fargo Overdraft Fees: \$35 per overdraft, maximum ten overdrafts per day.

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[i] www.usbank.com pages on Checking Account Advance, last visited August 3, 2009. https://www4.usbank.com/internetBanking/en_us/transfer/CheckingAcctAdvanceTerms.jsp See also "Your Deposit Account Agreement, U.S. Bank, March 15, 2007 and Addendum, November 1, 2007.

[ii] www.usbank.com pages on US Bank, Service Fees, last visited August 3, 2009. https://fastapp.usbank.com/fastapp/en_us/termsAndConditions/serviceFees/servicesCurrent.jsp#SF_az

[iii] Fifth Third Early Access, <https://www.53.com>, last visited 8/3/2009. Fifth Third Early Access Frequently Asked Questions and Fifth Third Bank Early Access Summary of Key Features, accessed through bank website, 8/3/2009.

[iv] Wells Fargo Service Agreement and Product Guide Page, <https://www.wellsfargo.com/checking/dda/index>, last visited 8/3/2009. Wells Fargo Direct Deposit Advance Service Questions, https://www.wellsfargo.com/help/fazs/dda_faqs, last visited 8/3/2009. Wells Fargo, "Important Change in Terms Notice," Arizona and Minnesota, Effective March 9, 2009, Direct Deposit Advance Service and Direct Deposit Service Agreement and Product Guide, Effective July 17, 2006, accessed through links on Wells Fargo website, on file with CFA.

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