

300% Bank Payday Loans Spreading

Regions Bank Joins Wells Fargo,
 U.S. Bank and Fifth Third in Predatory Lending

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A century ago, a 300% loan due in full on your next payday was illegal, the province of mob loan sharks. After deregulation of interest rates, a legal payday loan industry sprang up, but mainstream financial institutions wisely stayed away from this form of predatory lending. But today, a **growing number of banks are jumping on the payday loan bandwagon**, offering “account advances” that exploit the struggles of American families living paycheck to paycheck. Recently, Regions Bank became the fourth large bank to start offering 300% APR or higher payday loans, following Fifth Third, U.S. Bank and Wells Fargo. Fiserv and other bank consultants are encouraging banks to offer payday loans as a way of augmenting overdraft fee income. Smaller banks, such as Guaranty Bank and State Bank (Michigan), are also adding payday loans.

For consumers with direct deposit of their pay or Social Security or other public benefit check, the banks will advance up to half of the next deposit and grab the funds as soon as they come in. Bank payday loans have the **same dangerous features** of traditional payday loans that make them unaffordable and lead to a debt trap:

- Triple-digit interest rates disguised with fee-based pricing.
- Short term, typically less than two weeks.
- Single, balloon payments.
- A security interest in the wage or benefit check and loss of control over the bank account.

Bank payday loans are slightly cheaper than traditional payday loans but can have steep late fees that payday loans do not.

| Bank | Terms | Cost for \$400, 10-day loan | APR for 10-day \$400 Loan | Max Indebtedness Per Year ¹ | Max % of Pay/Benefits Check Seized |
|------------------|---|-----------------------------|---------------------------|--|------------------------------------|
| Fifth Third Bank | \$10 per \$100 | \$40 | 365% | 11 months | 50% |
| Guaranty Bank | \$30 application fee | \$30 | 274% | 11 months | 50% |
| Regions Bank | \$10 per \$100 \$15 returned payment fee | \$40 | 365% | 11 months | 50% |
| U.S. Bank | \$10 per \$100 \$35 late fee | \$40 | 365% | 11 months | 50% |
| Wells Fargo | \$7.50 per \$100 \$35 late fee | \$30 | 274% | 11 months | 50% |

¹ The precise amount of time that a borrower is permitted to have an outstanding advance over the course of a year could be fewer than 11 months, depending on the borrower’s pay period and the number of consecutive rollovers before a break. The bank policies vary, but every bank cuts off access to rollovers temporarily after a period of time, from six to nine months, before the cycle begins again.

Bank payday loans *ignore state payday laws* and are offered in states that restrict payday lending: Fifth Third Bank (OH), Guaranty Bank (GA), Regions Bank (AR, GA, NC, VA), U.S. Bank (AZ, AR, CO, MT, OH, OR), Wells Fargo (AZ, CO, MT, OR, and perhaps coming to Wachovia branches in CT, GA, MD, NJ, NY, PA, VA).

Bank payday loans *evade protections for Social Security, disabled and unemployment benefits* and other laws designed to ensure that creditors cannot grab income needed for food, rent and medicine. Banks do not consider ability to pay and take up to half of the borrower's next pay or benefits check, even if the person is on the poverty line. Banks offer 300% payday loans to *military servicemembers* by using a loophole in the law that normally limits military loans to 36% APR.

If regulators do not stop bank payday loans, the loans will *return to prepaid cards* and permit *traditional payday lenders to open up shop* in places where payday lending is illegal. The Office of Thrift Supervision (OTS) shut down payday loans on prepaid cards last year, but the OTS has been abolished and its duties taken over by the federal bank regulator, the Office of the Comptroller of the Currency (OCC).

The OCC, other bank regulators, and the new Consumer Financial Protection Bureau have the power to examine and regulate bank payday loans. The National Consumer Law Center urges them to use their authority to protect families from these predatory lending schemes.

Resources with more data:

National Consumer Law Center: [Runaway Bandwagon: How the Government's Push for Direct Deposit of Social Security Exposes Seniors to Predatory Bank Loans](#)

National Consumer Law Center: [Stopping the Payday Loan Trap: Alternatives that Work, Ones that Don't](#)

National Consumer Law Center: [NCLC Applauds End of 650% MetaBank Prepaid Card Payday Loan](#)

Center for Responsible Lending: [Big Bank Payday Loans](#)

The National Consumer Law Center® (NCLC®) is a non-profit organization specializing in consumer issues on behalf of low-income and other vulnerable people. Since 1969, NCLC has worked with legal services and nonprofit organizations as well as government and private attorneys across the United States, to create sound public policy for low-income and elderly individuals on consumer issues. Visit: www.nclc.org.