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Limits sought for bank payday loans

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Federal bank regulators moved Thursday to clamp down on the deposit advances banks offer, a first step in what's expected to be a broader crackdown on the country's multi-billion dollar payday loan industry.

Although most people associate high-interest, fast-cash payday loans with check-cashing shops on the street online, a handful of commercial banks, notably Wells Fargo & Co. and U.S. Bancorp, offer similar advance paychecks or Social Security checks, for instance. The loans are pitched to people with existing accounts as handy help for financial emergencies and a way to avoid overdrafts.

In Arkansas, at least four banks offer payday lending products - Regions Bank, Wells Fargo Bank, US Bank Bank of Arkansas.

Arkansas law caps the annual interest rate on loans to 17 percent for all lenders except banks based out of st

The banks can circumvent Arkansas law because of a section in the Gramm-Leach-Bliley Financial Modernization Act of 1999 that allowed out-of-state banks to offer loans through their Arkansas branches w interest rates set in their home states.

Consumer advocates have protested that the bank products are no different from the payday loans on the stre which they view as predatory products that catch vulnerable consumers in a churn of repeat borrowing that' tough to break.

On Thursday, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. issued page guidance document seeking to rein in the products and establish a clear ability-to-repay standard. Altho relatively few commercial banks offer the products, many have been eyeing them as they seek new revenue sources.

"The proposed supervisory guidance released today reflects the serious risks that certain deposit advance products may pose to financial institutions and their customers," FDIC Chairman Martin Gruenberg said in news release. "Many financial institutions already profitably offer affordable small-dollar loans as an alterna to high cost payday loans, and we encourage institutions to continue to seek ways to responsibly meet the ne for small loans."

The guidance highlights several existing federal laws and regulations already governing the deposit advance loans and gives banks a stern warning to comply. It also pushes further, requiring banks to clearly disclose t costs of the loans in terms of an annual percentage rate and to develop specific board-approved policies on underwriting deposit advance loans.

Among the requirements, banks would have to use adequate underwriting to determine whether a borrower l enough income to repay the loan without getting another one. There would need to be a cooling-off period o least one monthly statement cycle between loans.

Banks would also need to repeat the underwriting before raising credit limits and re-evaluate eligibility at le every six months.

The guidance isn’t final. The public has 30 days to comment.

Consumer advocates cheered. “This guidance will probably lead to the elimination of payday loans at banks said Nick Bourke, project director at the Pew Charitable Trusts.

Kathleen Day, a spokesman for the Center for Responsible Lending, said the proposals were what her group expected and that she hopes regulators adopt them. “It’s amazing you have to codify this, because it’s really Banking 101,” Day said.

The Consumer Financial Protection Bureau, which supervises nonbank payday lenders as well as some bank said Thursday that it supports the guidance and is still studying the products and will use its authority to add what it has found to be “serious consumer protection concerns related to the sustained use of a high-cost product.”

On Wednesday, the consumer agency issued a white paper on payday loans and the deposit advances banks noting several problems with the products. Among these was the lack of basic underwriting to determine wh borrowers can actually repay the money.

The median size of individual deposit advances at banks is $180, the agency said in its report, and banks typically charge around $10 per $100 borrowed, which translates into an annual percentage rate of 304 perc for a 12-day advance. There’s a lot of repeat borrowing.

The Federal Reserve, which didn’t join the guidance, sent a letter and statement via e-mail on Thursday to a banks it supervises saying the products pose “significant consumer risks.” It encouraged state member banks find responsible products to meet small-dollar credit needs.

Spokesmen for San Francisco-based Wells Fargo & Co. and U.S. Bank in Minneapolis said staff members v reviewing the guidance and weren’t immediately available for comment.

“Our Checking Account Advance gives customers access to funds for use in case of an emergency, with transparent pricing, as well as limits, safeguards and cooling-off periods built in to help customers avoid becoming overextended,” US Bank spokesman Tom Joyce said in an e-mail. “Ninety-six percent of our customers who have used CAA say they are satisfied or very satisfied with the service. We received the regulators’ proposed guidance for the industry this morning, and are currently reviewing it.”

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