



Banks vie with payday lenders

By JOHN HOFHEIMER
Leader staff writer

Even as consumer groups attack the payday cash advance lenders that have cropped up in the state since 1999 as "predatory" and "usurious," most local banks are offering overdraft protection that resembles those operations, some critics say.

The Consumer Federation of America, which is a partner in Arkansans Against Abusive Payday Lending, says that so-called overdraft protection can be as predatory as payday lending—and sometimes more expensive.

The federation says banks are going after the customers usually attracted to payday lenders and to the high return from those small loans.

A Consumer Federation report, entitled "Bounce Protection: How Banks Turn Rubber Into Gold by Enticing Consumers to Write Bad Checks," charges that "banks are aggressively marketing a new form of high-cost credit intended to boost their fee income at the expense of the most vulnerable consumers. They are deliberate, systemic attempts to hook consumers on to overdrafts as a form of high cost credit."

Nearly all area banks surveyed by The Leader this week offered overdraft protection on checking accounts, charging a new fee for each insufficient check covered. The fees range from \$15.93 at Superior Federal to \$34 per item at U.S. Bank, with most charging about \$25 per insufficient check.

In addition, banks typically charge a daily fee of \$2 to \$5 per day until the customer brings the balance back into the black.

No one from the Arkansas Bank Department was available for comment Friday afternoon.

Bill Holmes, director of services for the Arkansas Bank Association, calls the comparison of bank overdraft protection to payday lenders "apples and oranges."

"(Payday lenders) are an unregulated industry," he said Friday.

"We view overdraft protection as a service to our customers. They have requested it. It's heavily desired, and they are willing to pay for it."

Bankers say it's cheaper to pay \$25 to have a bank cover a bounced check than to have the same bank charge a \$25 bounced check fee, then to return the check to the vendor who might charge the customer another \$25 for the bounced check.

Holmes said 40 billion checks are written each year with less than 1 percent bouncing.

He disagrees with the consumer federation notion that banks encourage customers to bounce checks or effectively write themselves loans.

"There are virtually no banks that encourage bounced checks," he said. He says bounce protection fees are intended, like parking tickets, as deterrents.

Maybe, but the Consumer Federation says banks net more than \$5 billion a year from bounced check fees.

Locally, banks providing overdraft protection include First Security, Community Bank, First Arkansas Bank and Trust, Metropolitan National, U.S. Bank, Eagle Bank and Superior Federal.

Neither the Bank of America nor the Arkansas Federal Credit Union offer the same sort of bounce protection, spokesmen said.

Instead they either transfer money from a customer's savings account or they borrow \$100 or so for the customer's checking account from the customer's credit card.

At the credit union, that would be \$5 for the transfer from savings or 9 percent annual interest on the credit card, according to Craig Savell, executive vice president of the credit union.

"We don't encourage writing bad checks," said Savell. "Eventually people are living off their line of credit. It makes them dependent on money they don't have."

The Consumer Federation said the finance charge for a \$100 overdraft would incur at least a \$20 fee. "If the consumer pays the overdraft back in 30 days, the annual percentage rate would be 243 percent. If paid back—more typically, they said—in 14 days, the rate would be 541 percent, which is higher than many payday lender interest rates.

By way of contrast, initiating a \$200 transfer from the customer's credit card to his checking account would cost \$1.63 in interest for 30 days," Savell said.

Holmes said Arkansas Banks don't promote overdraft protection as cash advance loans, but some banks do.

"Access your paycheck before you have it!" begins one Oklahoma bank's bounce protection advertisement. "You can now start writing checks before you get paid without the worry of returned checks."

Companies that market overdraft programs, software and promotion emphasize increase in fee income as a major selling point, according to the Consumer Federation.

One company's website promises banks an increase of overdraft fee income by "100 percent, 200 percent, 300 percent or more."

Bank consultants pitch overdraft protection as competition for payday lenders.

Reforms recommended to the Federal Reserve Board include a prohibition against imposing overdraft protection on customers who haven't asked for it; truth in lending disclosures, including per item and per day fees; prohibition against encouraging consumers to write checks without sufficient funds, from promoting bounce protection plans without disclosing less expensive alternatives and from seizing exempt funds like Social Security benefits deposited directly.

No action has been taken yet, according to Holmes.

State Senator Will Bond has said he and others are interested in looking into payday lenders such as Arkansas Check Cashers when the General Assembly reconvenes. At the very least, it seems legislators will have to distinguish between some overdraft protection practices and payday loans.

Hank Klein, CEO of Arkansas Federal Credit Union and president of Arkansans Against Abusive Payday Lending, says some elements of overdraft protection also need scrutiny.

LITERAL CHECK CASHERS

Although the payday lenders are sometimes called check cashers, straight check cashing differs from cash advance or payday lending, even if both services are sometimes available at the same location.

Three of Jacksonville's six payday lenders not only make high interest loans—like the others—but they also cash checks for a percentage, according to a report published by Arkansans Against Abusive Payday Lending.

The report identified those as C&B Jewelry Exchange and Loan at 84 Municipal Drive and E-Z Check Cashing at 424 W. Main St. and noted they would cash paychecks and government checks for 3 percent of the value. E-Z Checking Cashing also cashes two-party checks for 5 percent, according to the report.

So the fee for cashing a \$1,000 paycheck is \$30, which may sound good if you don't have a local bank, for instance.

On the other hand, Wal-Mart would cash a printed pay or government check for \$3, a company spokesman said.

Tom Galante contributed to this story.

IN SHORT

Consumers face several alternatives when it comes to short-term loans, from going to check cashers to paying for overdraft protection.