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BANKING DEPARTMENT CALLS COMMONWEALTH COURT RULING A VICTORY FOR PENNSYLVANIA CONSUMERS

Ruling Says Advance America's Line of Credit Violates State Law

HARRISBURG – Acting Banking Secretary Victoria A. Reider said she is gratified that Commonwealth Court ruled today that Advance America, the nation's largest payday lender, can no longer offer its "Choice Line of Credit" to consumers in Pennsylvania.

The court said the product, which allows customers to borrow up to $500 if they pay a $149.95 monthly "participation fee" and 5.98 percent interest, violates Pennsylvania's Consumer Discount Company Act. The court referenced Pennsylvania's significant interest in protecting borrowers from exploitative lending practices in finding that the law applies to this product.

"The court has ordered this product taken off the market and, for that, I am thankful," Reider said. "When the Governor announced this suit, he called the product 'outrageous' and 'one that took advantage of hard-pressed families.' Today is a victory for those families."

Reider also said that she will seek restitution through the court requiring Advance America to repay consumers.

Advance America, which operates nearly 100 offices in Pennsylvania, began offering the "Choice Line of Credit" in June 2006 after the Federal Deposit Insurance Corporation issued stricter rules for banks involved in payday lending. The added pressure from federal regulators forced most banks out of the business, severing the partnerships with out of state banks that had allowed payday lenders to charge fees and rates much higher than those permitted by Pennsylvania law.

The Banking Department filed suit in September, alleging that Advance America was providing lines of credit to borrowers without a license and with interest and fees in excess of state law.

"This suit was filed to protect Pennsylvania consumers from a harmful product that we believe is payday lending by another name," Reider said. "Families who seek these types of loans are usually living paycheck to paycheck and need just a little bit more to make it to Friday. Preying on their need by charging exorbitant fees is simply unconscionable."

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EDITOR'S NOTE: Payday loans are generally defined as short-term, high-interest loans that borrowers promise to repay in one or two weeks. A borrower presents either a post-dated check or provides a debit authorization for the loan amount plus a fee, usually $10 to $30 per $100 borrowed. These fees, when expressed as annual percentage rates, can range from 300 to more than 600 percent. If a borrower cannot repay the loan at the agreed upon date, the loan is often refinanced for an additional fee. By repeatedly financing, or "rolling over" the loan, a borrower can pay more in fees than the original loan amount.

A copy of the court's ruling is available at www.banking.state.pa.us.