The "Nasty Nine"

Nine High-Cost Practices That Strip Cash from Hard-Working Rural Families

Check Cashing	• Check cashing operations serve the almost one in four low-income families who do not have or cannot qualify for a bank account *(The Urban Institute 2008)*. • They typically charge a fee of between 3% and 7% for cashing a check. It can cost over $1000 per year to cash weekly $500 paychecks. For tax refund checks alone, check cashers cost low-income families $205 million in 2004 (*Consumer Federation of America, CFA)*. • Check cashing operations often offer other costly financial transactions such as payday lending. In states that authorize them, two-thirds of check cashers also make payday loans (*CFA)*. They can act as a "gateway" to other high-cost products by building trust and a customer relationship.
Buy Here/ Pay Here Auto Dealers	• No credit/poor credit auto dealers take advantage of a family's desperate need for an automobile to get to a job, get kids to school, and handle other daily tasks. These dealers buy the cheapest cars available at auto auctions and sell them for 50% to 100% more than they are worth with high interest/long-term financing. • In most cases, the down payment a customer makes covers the dealer's entire cost for the vehicle *(Aspen EOP)*. • Interest rates charged typically begin at 25% APR and may run much higher. Customers pay for the car several times over compared to the payments on a conventional automobile loan. • Loan payments are based on what the customer can pay rather than the value of the automobile, often with an amortization period that extends far beyond the remaining useful life of the car. • If the car dies before the loan is paid, some dealers will roll the balance into a loan for another car, increasing both the interest rate and the payment. • Dealers often include an undated voluntary repossession agreement in the paperwork the borrower signs. They keep a spare set of keys, and will repossess the car the night after a payment is missed. The average car is repossessed and resold five times per year *(Aspen Institute Economic Opportunities Program, EOP)*.
Overdraft Loans	• Nearly all large mainstream banks now include "courtesy overdraft loans" in their standard account terms. • These loans, offered at the discretion of the bank, charge an average fee of $34 per overdrawn check *(CRL)*. • Because they are treated as loans, they are not subject to the consumer protections that limit overdraft fees. • Many banks have also adopted a practice of processing checks presented for payment from the largest to the smallest, and crediting deposits last, thus maximizing the number of fees charged in an overdraft situation. • If these loans are not repaid within a few days, most banks charge an additional sustained overdraft surcharge. • No APR can be computed on these transactions because the loan fee is a standard amount regardless of the overdraft amount involved. But it typically equates to several hundred to several thousand percent APR. • Banks charged at least $17.5 billion in 2007 to issue $15.8 billion in overdraft loans *(Center for Responsible Lending, CRL)*.
Payday Loans	• Payday lending, where lenders make a loan secured by a post-dated check, is a quickly growing form of high-cost lending in America. • Interest rates and fees typically run between 650% and 780% APR *(Consumer Federation of America - CFA 2004)*. A $500 two-week loan will typically cost the borrower $650 to repay. • Payday lenders make it easy to roll over a loan and discourage borrowers from paying off the principal, maximizing the interest and fees collected. The average customer rolls their loan over eight times and pays twice the original loan in interest *(Center for Responsible Lending, CRL 2005)*. • At these rates, if a $500 two-week payday loan is rolled over for just three months, it will cost the borrower over $900 in fees and interest – for an entire year it would cost up to $3,900. • A proliferation of Internet- and telephone-based services that claim the protection of interstate banking laws or are located offshore means that even communities without payday loan stores, or in states with protective laws, are vulnerable to this practice.
Refund Anticipation Loans	• Refund Anticipation Loans (RALs) are short-term loans made by tax preparation chains which provide their customers with the chance to receive the expected refund within 24 to 48 hours. • The customers typically pay interest and loan fees averaging 235% APR in order to access their funds five to seven days earlier than with direct deposit *(CFA 2004)* – and this is in addition to very expensive tax preparation fees – averaging $146 for a simple return. • In 2006, RALs cost working poor families in America at least $900 million in loan fees and interest alone, plus $90 million in "document processing fees" *(Consumer Federation of America - CFA 2008)*. • Most families do not recognize that these "Instant Refunds" are actually loans, which they must repay if for some reason the IRS does not issue the refund. • Poor rural communities are frequent targets of these tax preparation chains, especially minority communities, Indian reservations, and towns near military bases.

Rent-to-Own	• Rent-to-own stores capitalize on the credit problems of poor families by renting furniture, electronics, appliances and other goods to families at an interest rate that would typically be considered usurious (illegally high) if expressed as principal and interest in a financing agreement – rather than as a fee in a rental contract. • Customers make small weekly payments for an extended period of time. The total of these payments greatly exceeds the value of the item and any reasonable interest charges. • For instance, a rent-to-own contract for a $200 television could run about $8.50 per week for 78 weeks (1.5 years) with a one time $37 "buy out fee." Payments for this typical contract would total $700. • Interest rates and fees on rent-to-own contracts usually range from 100% to 300% APR *(Wisconsin Department. of Financial Institutions).* • In most states the laws governing merchants regaining possession of rental goods are much less stringent than for repossession of financed goods, increasing the potential for abusive practices.
Sub-prime *Predatory* Mortgage Lending	• Sub-prime predatory mortgage lending has probably stripped more wealth out of low-income rural families than all other practices combined. While sub-prime mortgage loans (loans offered at higher interest rates due to additional credit risk) have a useful role in making credit available to low-income families, these loans *can become* predatory when they use practices like these: ✓ Steering a borrower who qualifies for a conventional loan into a more costly sub-prime loan ✓ Loading the loan up with excessive points and fees, or single-premium life or credit insurance policies, which are rolled into the principal and financed at high cost ✓ Assessing high prepayment penalties, trapping the borrower into a high cost loan – rural borrowers are 20% more likely than urban borrowers to have a prepayment penalty term of 5 years or more *(Center for Responsible Lending – CRL 2004).* ✓ Flipping – the practice of encouraging frequent refinancing designed to extract equity through additional fees ✓ Including a payment called a "yield spread premium" to a mortgage broker for steering the borrower to a higher cost loan ✓ Setting a high minimum mortgage size for a lender's conventional loans, and steering low-income and rural borrowers who typically seek smaller loans to sub-prime lending subsidiaries regardless of their credit history • Estimates of the amounts extracted from low-income families by practices like these run into the billions of dollars per year, and these practices significantly increase the likelihood of default.
Title Loans	• Car title loans are one of the fastest growing and least regulated forms of high-cost lending, particularly in rural areas where most low-income families own automobiles. • Car title loans are short-term (30 day) loans secured by a car title which is held by the lender. • Car title lenders typically charge consumers 25% per month (300% APR) plus additional fees for small cash loans secured by the title to cars owned free and clear *(Consumer Federation of America - CFA 2005).* • Loans are for a small fraction of the car's value, but failure to pay in full at the end of the month can lead to late-night repossession by lenders holding a duplicate set of keys. • Title loans typically cost consumers 10 times more than it would cost to get a loan to finance purchase of the same car.
Credit Cards	• Common practices in the credit card industry sink millions of Americans into an ever-growing mountain of debt. • Frequently targeting low-income families and youth with no credit history, credit card companies make most of their profits through high interest rates, late fees and penalties paid by families who cannot afford or choose not to pay off the balances on their cards each month. • In 2005, late fees and penalties equaled 75% of industry's profit for the year. • Many lenders manipulate terms of their cards to increase these fees and penalties. "Universal default" is one particularly costly practice that traps millions into high rates. Universal default kicks in when a borrower falls behind on some other debt, or the borrower's credit score declines. When this happens, the card issuer raises the borrower's rate on existing and future balances by an average of 22 percent *(Consumer Federation of America - CFA 2005),* making it impossible for many families to repay their debt.[1] • Another costly practice is "two-cycle" or "double-cycle" billing, which averages out the balance for two previous bills and causes customers to get hit with retroactive interest on their previous bill if they carry a balance from one billing cycle to the next.[1] • Credit card companies often manipulate the payment order, applying customer payments to low interest balances first[1] • "Fee harvester Cards" are sub-prime cards that carry little credit and very high fees – fees that often take up most of an already low credit limit.[1] • In assessing penalties on past balances, the credit card industry is the only industry in America allowed to impose retroactive penalties on completed financial transactions *(CFA 2007).*[1] [1] *Partially or totally banned by Federal Reserve effective 7/1/2010*