

STRENGTHENING RURAL FAMILIES

The Nasty Nine

Helping rural families avoid predatory lending products in tough economic times

RuFES ReFresher Webinar

Thursday, March 26th, 2009
2:00-3:30 EDT



Brought to you by: Aspen Institute Community Strategies Group

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Built on Three Family-Focused Goals

The RuFES Framework

Earn It

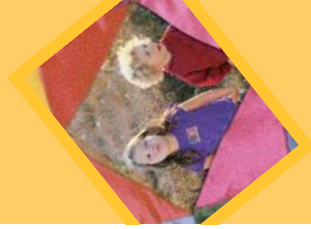
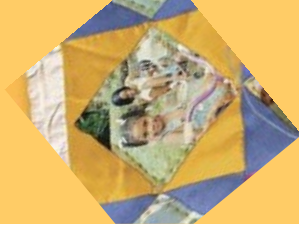
- Working families earn a living that allows them to survive, thrive and raise their children in their community.

Keep It

- Working families have access to and make good choices that safeguard their family income and lower their cost of living, forging stable and predictable financial lives.

Grow It

- Working families accumulate and maintain assets that gain value and advance family and community prosperity over time.



Today's Framework Focus



Keep It

- *Working families have access to and make good choices that safeguard their family income and lower their cost of living, forging stable and predictable financial lives.*

Today's Framework Focus



Keep It

Working families have access to and make good choices that safeguard their family income and lower their cost of living, forging stable and predictable financial lives.

FAMILY-FOCUSED GOALS: Establishing Financial Health

- K1:** Families set short-term and long-term financial goals, and attain them.
- K2:** Families use reasonably priced services, accounts, and products for their savings, checking and other financial transactions.
- K3:** **Families get loans they need without using predatory lenders.**
- K4:** Families reduce their debt burdens and improve their credit ratings over time.

Today's Presenters



John Molinaro
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Director
Aspen Institute Community Strategies Group

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The *Nasty* Nine

A Fistful of Predatory Lending Traps
That Strip Cash from
Hard-Working Rural Families

John Molinaro, Associate Director

Aspen Institute Community Strategies Group

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#1 Check Cashing

- Serving those without bank accounts
 - One in four low-income families
- Charge 3% to 7% of check's face value
 - Over \$1000 per year to cash weekly \$500 paychecks
- Stripped \$205 million from low-income families for tax-refund checks *alone* (2004)
- “Gateway” to other predatory transactions such as title loans and payday lending
 - Two thirds also make payday loans (where allowed)!

#2 Buy Here / Pay Here Car Dealers

- Sell bad cars to desperate customers for 50% to 100% more than they are worth
- True price obscured
 - Sold based on payment amount, not on actual cost
- Extended amortization soaks cash from buyer
 - Often longer than remaining life of car
- High interest (25% APR & up)
- Payments set up for every payday
- Instant midnight repo if a payment is missed
 - Average car repossessed & resold five times per year

#3 “Courtesy” Overdraft Loans

- Automatic “loans” to honor checks, ATM withdrawals and cash-card transactions
- Loan charge may exceed state limits on overdraft fees
- Additional fees and charges if not immediately repaid
- Treated as a loan, so not subject to consumer protection laws governing overdrafts
- Bank processes courtesy-loan customers’ deposits *last*, and checks in *largest-to-smallest* order to maximize customer fees
- Banks charged at least \$17.5 billion in 2007 to issue \$15.8 billion in overdraft loans

#4 Payday Loans

- Loans secured by a post-dated check
- Typical cost = 650% to 780% APR
- \$500 for *two weeks* typically costs \$625 to repay
- Average Customer rolls loan over eight times and pays *twice the original loan in interest*
- \$500 rolled over for *one year* costs up to \$3,900
- *No storefront needed*: Internet and telephone operations avoid state laws and limits – and are accessible in rural areas without retail loan stores

#5 Refund Anticipation Loans

- Short-term loans by tax preparation chains
- **235% APR** to get refunds only 5-7 days earlier
- Often coupled with exorbitant tax preparation fees (\$146 for a simple return)
- Marketed as instant refunds, not loans that must be repaid if the return is rejected
- Cost poor families \$900 million in 2006 plus \$90 million in “document processing fees”
- Target poor rural communities near, towns near military bases, Indian reservations and minority communities

#6 Rent-to-Own

- Rent consumer goods at an interest rate that would be usurious (illegally high) if financed instead
- Small weekly payments for a long-term
- A \$200 TV would typically cost about \$700 paid over 1.5 years (*\$8.50 per week for 78 weeks + \$37 “buy-out fee”*)
- Interest rates/fees = 100% to 300% APR
- Easier repossession than financed goods in most states

#7 Sub-Prime Mortgage Loans

- Useful, but can become predatory when they:
 - Steer qualifying borrowers away from a conventional loan
 - Load up with excessive points, fees, or insurance
 - Assess high prepayment penalties (an especially big problem in rural areas)
 - Involve flipping (frequent refinancing to extract fees)
 - Include “yield spread premium” kickbacks to brokers
 - Steer smaller loans of rural and low-income families to sub-prime subsidiaries

#8 Title Loans

- Fastest growing and least regulated predatory practice – especially in rural areas
- Short-term (30 day) loans secured by car title held by lender
- Typically charge 25% per month (300% APR)
- *Ten times the cost* of even a high-risk car purchase loan
- Lenders hold keys and repossess immediately upon a missed payment

#9 Credit Cards

- Target families/youth with no credit history and minorities
- Make the most money from troubled borrowers
 - Late fees & penalties = 75% of 2005 industry profit
 - Only industry in America allowed to impose retroactive penalties¹
- Manipulate terms to increase default – avg. rate bump 22%
- “Universal default” – traps millions into high rates¹
- Two cycle billing – interest charged on paid-off balances¹
- Manipulate payment order - low interest balances first¹
- “Fee harvester Cards” – high-fee secured cards¹

¹ *Partially or totally banned by Federal Reserve effective 7/1/2010*

The Result?

21st Century Credit Slavery

- More than one in four (25%+) low-income families pay more than 40% of income to service debt
- New bankruptcy laws make it impossible to escape some debt

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Questions?



Making YOUR Money Work For YOU

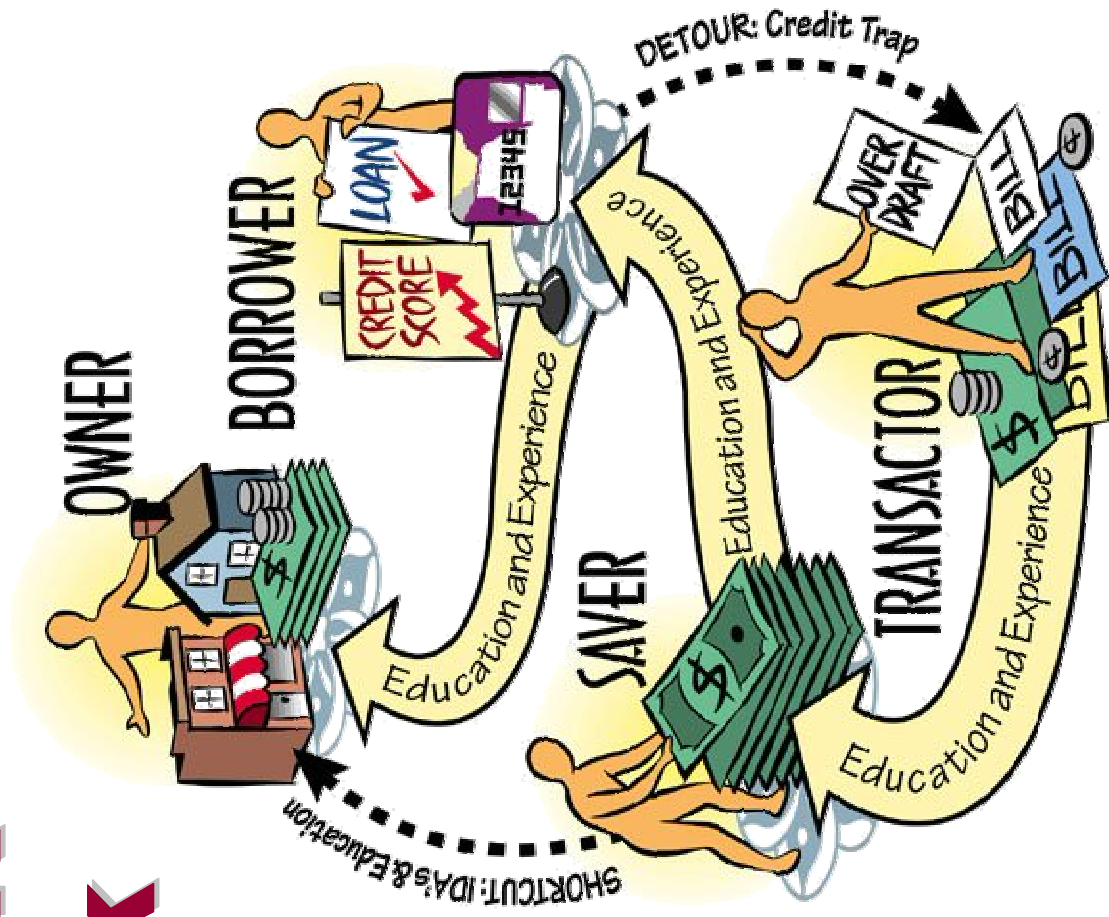
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Credit Path®

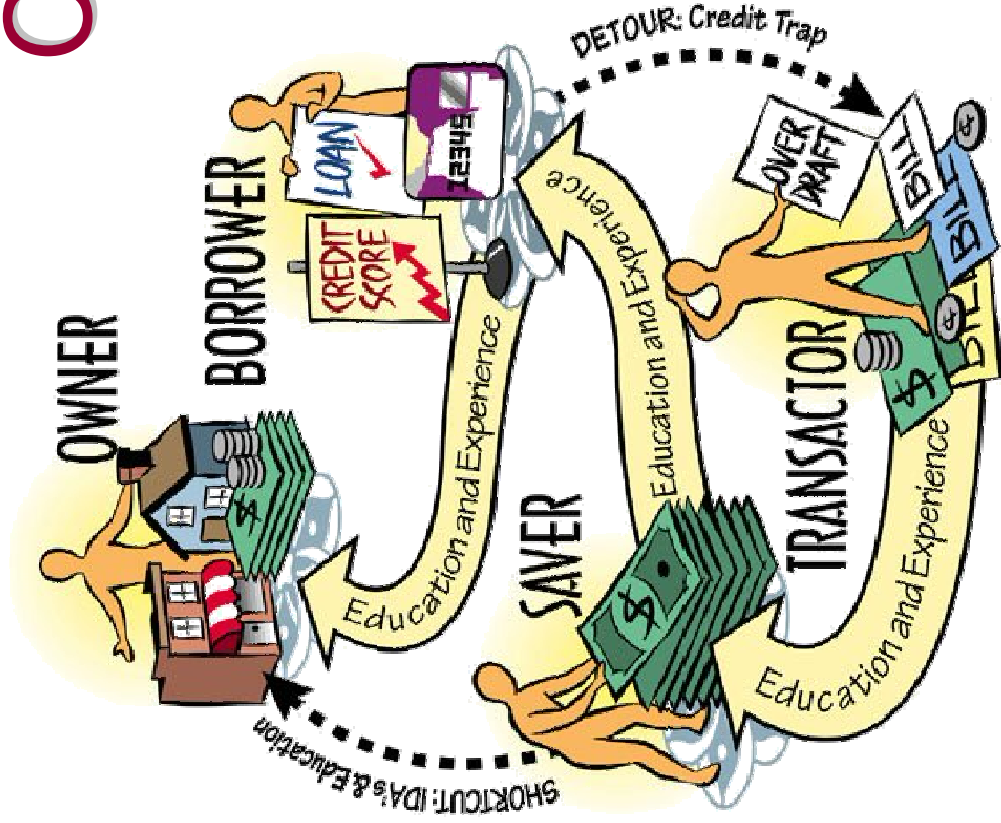
Continuum between poverty and self sufficiency

Owners - acquiring assets

Borrowers - building a positive credit history

Savers – making regular deposits

Transactors – living day to day



Education keeps it moving!



Share-Secured Loans

- The person borrows a certain amount.
- We place an equal amount to the amount borrowed in a Share Certificate¹ for the customer.
- We charge an interest rate on the customer's loan that is 2.00% above what the shares are earning.
- When the loan is paid off, the customer has saved the amount of the loan – plus interest – and has a positive entry on their credit record.
- In essence - a forced savings habit.
- Easy and safe way to build credit.

¹ "Share" is the Credit Union term for an account – in this case a Share Certificate is the equivalent of Savings Account at a Bank



Share-Secured Credit Cards

- The customer purchases a Certificate of Deposit (CD) equal to the desired credit limit for a Credit Card.
- The CD is pledged as collateral for the Credit Card.
- The customer can charge only up to the amount of the CD.
- The result: A safe way for individuals to build credit and learn to use a Credit Card without getting into trouble.



RAL's through VITA² Sites

- We offer RAL's (Refund Anticipation Loans) for a small fee – much less than the commercial outfits would charge.
- The loan is guaranteed through their tax return.
- Enables individuals who need a fast refund to use the VITA site.



² “Volunteer Income Tax Assistance”

Payday Credit Plan

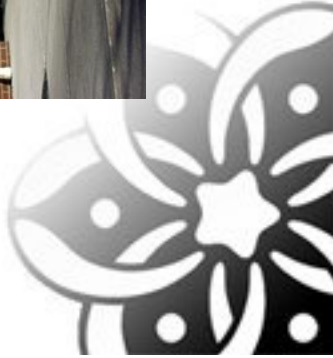
- A loan product designed to meet immediate cash needs in emergency situations.
- Structured like a Line of Credit and carries a \$40 annual fee and an 18% APR.
- 5% of every loan is deposited into a savings account for the borrower to build funds for future emergency financial needs.
- Must be paid off with the next pay or benefit check, but can be renewed with no additional fee.



Alternatives Federal Credit Union



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Questions?



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Contact Information

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