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Contact: Lauren Saunders, 617-542-8010, lsaunders@nclcdc.org

BOSTON – Some loans offered by banks and credit unions as "alternatives" to high-cost, short-term payday loans may instead plunge consumers into a costly and nearly inescapable debt cycle – just like payday loans!

That's the warning contained in "Stopping the Payday Loan Trap: Alternatives That Work, Ones That Don't," a report issued today by the National Consumer Law Center.

"Too many providers of so-called payday loan alternatives hit consumers with some of the same onerous provisions that predatory lenders use to saddle unwary and vulnerable borrowers with loans they can't afford to repay," said Lauren Saunders, managing attorney of NCLC's Washington office and principal author of the report.

Affordable small loans are available for those who seek them out, especially at credit unions, the report found.

NCLC researchers reviewed hundreds of small loans. "Many genuine payday alternatives are in the market, but some products are nearly as bad as or even worse than payday loans," said Leah Plunkett, the report's co-author. "Cash advances offered to checking account holders by Wells Fargo Bank, U.S. Bank and Fifth Third Bank are payday loans, plain and simple – triple digit loans repaid on the next payday."

Even some federal credit unions are exploiting loopholes to offer payday loans at triple-digit interest rates, including California-based Kinecta Federal Credit Union's 14-day loan with an annual percentage rate, or APR, that the report estimates at 362 percent. Other federal credit unions offer expensive loans from E-AccessLoan.com.

Genuine alternatives include the Credit Builder loan from Alternatives Federal Credit Union in New York; affordable, interest-based overdraft lines of credit from some major banks; and affordable small loans offered by Progreso Financiero, a community development financial institution in California.

Genuine and safe payday loan alternatives must have annual percentage rates, including fees, no higher than 36 percent; terms of at least 90 days, repayments in installments and no check-holding or electronic access to the consumer's bank account.

www.NCLC.org

Boston Headquarters:
7 Winthrop Square
Boston, MA 02110-1245
Phone: 617/542-8010
Fax: 617/542-8028

Washington Office:
1001 Connecticut Ave. NW
Ste. 510
Washington, DC 20036-5528
Phone: 202/452-6252
Fax: 202/463-9462

Such loans can help consumers escape the “debt traps” operated by payday lenders, who rely on high costs (annual percentage rates up to 390 percent or more), short terms, balloon payments and coercive security provisions to force victims to roll over loans and pay astronomical fees.

“Payday loan alternatives that help consumers must be repayable affordably and over time, so that hard-pressed borrowers who need short-term help can climb out of debt rather than get trapped in it,” Saunders said.

The report is posted on-line at:
http://www.nclc.org/issues/payday_loans/content/report-stopping-payday-trap.pdf

The National Consumer Law Center is a non-profit organization with 39 years of experience working on issues that affect low-income consumers. NCLC publishes legal manuals and consumer guides and works with and trains legal services, government and private attorneys, community groups and organizations representing low-income and elderly consumers.