

## ALTERNATIVE TO PAYDAY VENDORS

# Banks pressed for loan options

FDIC wants lower-interest,  
consumer-friendly lending

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THE COLUMBUS DISPATCH

Federal regulators are pushing banks to offer cash-strapped Americans an alternative to high-interest payday loans.

The Federal Deposit Insurance Corp. recently issued guidelines to help banks develop small loans that are significantly less expensive and have more consumer-friendly terms than payday loans.

Payday loans are cash advances, usually for less than \$500, that must be repaid within two weeks and carry an average annual interest rate of about 400 percent.

The bank version would have a maximum annual interest rate of 36 percent and have low or no fees.

The FDIC also is asking banks to divert a portion of the revenue they make from each loan into a savings account for the borrower, and to offer financial counseling to repeat borrowers who might require help learning to manage their day-to-day finances.

In return, banks would receive positive marks under the Community Reinvestment Act, which requires banks to offer banking services to low- and moderate-income neighborhoods. Regulators use this data when deciding whether to approve bank mergers and acquisitions.

But banks are not rushing to offer the loans, saying they just aren't profitable.

"Low-dollar-denomination loans are very expensive to make and because they are uncollateralized, they are very risky," said Mike Van Buskirk, president of the Ohio Bankers League. "Banks will be cautious."

Of the major Ohio banks, only Key Bank has introduced such a small loan. As part of a test program in several low-income Cleveland neighborhoods, Key provides a cash reserve line of credit of about \$250. Customers can use it as "overdraft protection, which could be paid off over time, just like a credit card," spokesman Mike Sherman said.

Ohio credit unions have been faster to draft low-dollar loans.

The Ohio Credit Union League introduced an alternative to payday loans, called StretchPay, in June 2006.

StretchPay loans have an annual percentage rate of 18 percent and must be repaid within 30 days. Borrowers also pay an annual fee of \$35 for a \$250 loan limit or \$70 for a \$500 loan limit. The annual fee goes into a fund to help credit unions that suffer excessive losses on the loans.

Kemba Financial Credit Union and Mid-State Educators Credit Union in Columbus are two of about 30 Ohio credit unions offering the loan.

"We don't want to be in the payday-loan business, but we have an obligation to consumers to offer an alternative to 400 percent interest rates," said Becky Hart, spokeswoman for the Ohio Credit Union League.

Payday lenders charge about \$15 for every \$100 borrowed. The annual percentage rate on the average payday loan is 391 percent, according to the Community Financial Services Association of America.

Payday lenders earned \$6 billion in fee revenue from \$40 billion in loans in 2003, according to Stephens Inc., a Little Rock, Ark.-based investment bank.

StretchPay loans have been very popular, Hart said, "but they are absolutely not profitable. We aren't making money on them."

Credit unions are nonprofits, and as part

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of their tax-exempt status, are "obligated to come up with products like this that serve the greater good" but aren't necessarily profit centers, she said.

Banks don't want to risk those kinds of losses.

Smaller community banks are also reluctant because these types of loans and borrowers often are considered subprime, said Robert G. Rowe, regulatory counsel to Independent Community Bankers of America, a trade group in Washington.

Subprime borrowers are typically those with low or no credit, a history of late payments on bills, or a high level of consumer debt.

Banks often avoid the subprime market because of "increased costs, close regulatory scrutiny, adverse publicity ... and reputation risk," Rowe said.

Critics say the exorbitant interest rates on payday loans

can trap some people on the economic fringe in a cycle of debt, and banks are in a unique position to help.

About 75 percent of people with payday loans cannot repay the loan after two weeks, often taking out a second payday loan to pay off the first, according to the Center for Responsible Lending.

Two-thirds of those who use alternative financial services such as payday lenders have a traditional bank account.

"Financial Institutions can provide the same service with more appropriate loan terms and at a lower cost," read an FDIC statement to the banking industry.

Payday lenders aren't convinced banks will step in.

Banks probably aren't willing to "forgo billions of dollars in profits from (bounced check fees) and overdraft protection to offer" low-cost loans, said Gerald Goldman, general counsel of Financial Service Centers of America, a trade group.

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