Beware of

Consumer Lending

Selections from *TheDebt Resistors' Operations Manual*

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CREDIT CARD DEBT: THE PLASTIC SAFETY NET

Although American workers continue to lead the world in productivity, we haven't had a raise since the early 1970s. Over the last four decades, we've been working longer and longer, trying to keep up with the rising costs of living—housing, healthcare, education. Yet we haven't actually managed to keep up without plastic. In the early 1980s, U.S. household debt as a share of income was 60%. By the time of the 2008 financial crisis, that share had grown to exceed 100%. So, despite all our exertions over the last four decades, the 99% have only gone deeper into the red, in debt to the 1%. The reason is clear: we're in debt because we're not paid enough in the first place and there's barely any "welfare state" left to pick up the slack. This setup is called *financialization.*

Credit cardholders are one of the many categories of debtors being asked to pay for Wall Street's disaster. Although fewer Americans continue to hold credit cards than before the crisis, most still do—and some hold lots of them. One in seven Americans had ten or more, according to one recent survey. With nearly 700 million credit cards in circulation, it's fair to say that having a wallet full of plastic has now become one of the defining features of American life—our plastic safety net. Another defining feature is debt, almost $1 trillion of it being credit card debt. The average American household with at least one credit card owes nearly $16,000 in credit card debt.

This doesn't mean we should be grateful to the credit card industry for throwing us "lifelines." These lines of credit aren't designed to save us, but to reel us in. The stan- dard practices of today's credit card industry come closer to pimping or drug dealing than old-fashioned prudential lending. Credit card companies make most of their money from people who are "disconnected"—socially, emotionally, residentially, etc.—and lack social support. In a financial system characterized by lack of transparency, credit cards are the most complicated and perhaps the most hazardous product of all. Whereas auto loans, student loans, closed-end bank loans and most mortgages have one or two price terms (fixed or tied to an index), credit cards feature a multiplicity of complicated fees. Adam Levitin, a legal scholar and leading expert on bankruptcy, warns that in addition to these explicit price points there are many hidden fees in the form of credit card billings. Added up, these "gotcha" fees cost American families over $12 billion a year.

Think about it. That's $12 billion stolen from struggling American families through trickery. And where does that money go? To banks, to the financial sector. Money that could have been used to improve the quality of people's lives, to purchase goods and services in local, real economies is going instead to service debt, which means it's going to Wall Street, to the 1%.

Although total national credit card debt is small in comparison with mortgage debt, effective APRs (annual percentage rates) are at least five times as high. The moment consumers get into trouble, the card companies pounce, imposing penalties, even retroactively. These practices are clearly unfair and abusive. And there's considerable doubt that the regulations specified in the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009 will be able to stop them.

HISTORY IN REVERSE

The credit card industry used to make its money on interest rates, but that never amounted to much. When they were first introduced in the 1960s, universal credit cards such as Visa and MasterCard were offered as loyalty rewards only to banks' best customers. This group was limited to upper-middle-class and upper-class white men, who typically paid off their monthly balances. The appeal of the cards was convenience and prestige, not a need for credit. Banks lost money on the product, but the idea was to build loyalty in order to do even bigger business down the road. The banks got something in return as well: the wealthiest, most powerful men served as walking advertisements for the cards every time they used one.

A series of legal changes (effectively eliminating usury laws by allowing all lenders to register in South Dakota, where no such laws existed) and the growth of computer networks that could trace credit ratings led to an explosion of credit card use in the 1980s. Interest-rate deregulation helped transform credit cards from banks' loss leaders into profit engines. New programs made it possible to unearth the most lucrative "revolvers," those who often carry high balances but are unlikely to default. Card companies figured out how to use so-called "risk-based pricing" to charge women and people of color more to use their cards.

In the 1970s, it was difficult for a woman to get a credit card without her husband's signature—even harder if she were single or divorced. According to the National Council of La Raza, Latino/as are more likely to have higher interest credit cards. Card companies claim that interest rate charges are based on "risk." But there is an abundance of evidence that risk ratings are largely determined by where you live. This is just a continuation of "redlining" (assigning risk on the basis of location). In the past, redlining was used to deny residents and businesses in predominantly Black neighborhoods access to credit, without using explicitly racial/ethnic criteria. Today, high risk ratings are no longer used to deny credit but to charge more for it, which

sets up a self-fulfilling prophecy: being designated financially “risky” actually further exposes one to unfair and abusive financial practices.

As more people acquired credit cards throughout the 1980s and ’90s, the “free” credit used by the wealthiest households was subsidized by the high rates and fees paid by the most financially distressed households. This is sometimes called “risk pooling,” although typically pooling involves those with more subsidizing those with less; here, it’s exactly the reverse. According to Robert D. Manning, founder of the Responsible Debt Relief Institute and author of Credit Card Nation, “A carefully guarded secret of the industry is that about a quarter of cardholders have accounted for almost two-thirds of interest and penalty-fee revenues. Nearly half of all credit card accounts do not generate finance and fee revenues.”

Today there are more than five thousand credit card issuers, but a majority of these (and the debt they manage) are owned by—you guessed it—the big banks. The top three—Citigroup, Bank of America and JPMorgan Chase—control more than 60% of outstanding credit card debt. We’re talking about the same giant “too-big-to-fail” institutions that ruined the economy through their own irresponsible financial machinations. In the years before the financial crash, the industry grew exponentially, starting in the ’90s when credit card companies first figured out that they made more money lending to people who carried monthly balances on their cards than to customers who promptly paid them off. From 1993 to 2007, the amount charged to U.S. credit cards went from $475 billion to more than $1.9 trillion. Late fees have risen an average of 160%, and over-limit fees have risen an average of 115% over a similar period (1990–2005). American households have been swimming in debt and losing a significant portion of their total income to penalties and fees. Adam Levitin calculates that a single repricing due to a billing trick can cost a family between an eighth and a quarter of its discretionary income.

After the crash, families scrambled to get out of debt. Some were helped by the useful, if limited, regulatory reforms prescribed by the CARD Act of 2009. Credit card debt is down by perhaps 15% overall and cardholders are on to the industry’s old tricks. The problem is, card companies are busy devising new tricks. The total amount of credit card debt remains staggeringly high, and card issuers are still free to charge whatever rates of interest they like (only nonprofit credit unions are required by Congress to abide by an interest rate ceiling of 15%). In the nine months between the passage and implementation of the CARD Act, credit card issuers did their best to jack up interest rates, reduce lines of credit, increase fees and water down rewards programs. For millions of unemployed and underemployed Americans it may be too late. Their credit scores are already shot and their borrowing costs are through the roof. And now that credit scores are widely used as a screening tool for job applicants, these workers face even greater challenges in finding employment.

The Tricks of the Trade

From risk rating to pricing to credit limit determination, industry policies are extremely opaque and seem designed to keep cardholders in the dark. Analysts at the website Credit Karma, however, were able to analyze a sample of over 200,000 credit cards. An examination of the relationship between
credit scores, income and credit limits indicated that higher credit scores get you higher credit limits, regardless of income. Low credit scores, no matter your income, keep credit limits low. A history of compliance with minimum payments is more important to issuers than current ability to repay.

Credit card companies don't mind if you're late paying your bill or if you maintain a balance, as long as you go on paying your monthly minimum. Cardholders who never carry balances on their cards have long been known inside the industry as "deadbeats," money-losers. Since almost all of the industry's profits come from late fees and interest rate penalties, it depends on your slipping up. This is why monthly statements are intentionally designed to be confusing. If they change the design of your statement—say, by moving a box to the left, or making the print a little smaller—in such a way as to cause even one cardholder out of a thousand to misunderstand and miss a payment, that's millions of dollars in additional profit for them. In the past they would trip up consumers by intentionally making the due date fall on a Sunday or a holiday. This enabled them to extract even more from late fees, the whole time insisting it was all your fault.

The CARD Act outlawed several predatory practices that companies used to trick you into paying more. For instance, in the past, companies needed to give you only fifteen days notice before upping rates or making other changes to your contract, leaving little time to negotiate. Now companies are required to notify you forty-five days in advance. However, this notification will most likely be mailed to you, so make sure you read everything your credit card company sends you.

Since the 1990s, credit card pricing has been a "game of three-card monte," according to Adam Levitin. "Pricing has been shifted away from the upfront, attention grabbing price points, like annual fees and base interest rates, and shifted to back-end fees that consumers are likely to ignore or underestimate." If consumers are unable to gauge the true price of products, how can we be expected to use them efficiently and responsibly?

For a credit card company, the perfect customer is one who charges up a very large amount of debt impulsively, sits on it for a year or two so as to build up maximum high-rate interest charges, finally feels guilty and pays it all back without asking any questions. That's why they used to besiege high school and college students with free card offers: credit card companies calculated that students were likely to spend impulsively, attempt to avoid the problem and eventually call their parents to foot the bill. The CARD Act restricts extensions of credit to those under twenty-one unless they have a cosigner or a proven means of income. Credit card companies are no longer allowed to hand out free gifts at or near colleges or college-sponsored

events. Since credit card companies make so much of their profits from binge behavior, for them to lecture consumers on the moral duty to repay is a bit like drug dealers chiding their customers for becoming addicted to heroin. Goading you to sin while trying to make you feel guilty for giving in is the industry's modus operandi.

Of course, the overwhelming bulk of credit card debt isn't driven by impulse spending at all, but by the predicaments of people trying to make ends meet. That's why the average carded household owes nearly $16,000 on their card(s). For example, one survey found that 86% of people who lose their jobs report having to live, to at least some degree, off of their credit cards until they find new jobs. Similarly, nearly half of American households owed money on out-of-pocket medical expenses on their credit cards. According to a recent survey, medical bills are a leading contributor to credit card debt, affecting nearly half of low- to middle-income households; the average amount of medical debt on credit cards is $1,678 per household. The examples are endless, and they reveal textbook predatory behavior. Banks, card issuers and collectors exploit our precarity. They take our money any way they can, often using unethical, illegal and extra-legal means—mafia-style.

Added: Remember that credit card interest in the US is between 7% and 36% compounded DAILY. At 24% if $1000 balance is left unpaid interest alone will raise the balance to $1271 after one year, to $1616 after the second and $2054 after the third, you now owe more on interest than on your original balance. And of course, as mentioned above, there may be other fees as
well added on.

STUDENT DEBT: FORECLOSING ON THE FUTURE

These days, everyone is telling you that a college degree is the only way to get a decent job. Fear of an uncertain financial future drives many of us toward higher education, especially into exploitative for-profit colleges. Lenders are making profits off of that fear, and so education has become one of the biggest debt traps in our society. Not only have college costs continued to skyrocket, but increasingly you are told that a bachelor's degree is just not good enough; now you need a master's degree too, and these are often the most expensive of all with few grants available to those who are scrambling to enroll.

Two-thirds of students leave college with an average of $27,000 in debt. With too few jobs on the horizon, it's no surprise that default levels are rising like floodwaters; 41% of the class of 2008 is already delinquent or in default. This gives rise to a different kind of fear—that our futures have been foreclosed—leading many into depression and even suicide.

In 2012, total student debt in the United States surpassed the $1 trillion mark. This is higher than credit card debt or any other kind of consumer debt with the exception of mortgage debt. Some analysts think there is a student debt bubble about to burst. This might not be a bad thing for debtors. After all, they can't repossess your degree or your brain. Or at least not yet. But while hedge funds might bet on the outcome, you probably shouldn't.

This section explains how student debt was created, who profits from it and how you can survive as a debtor. Above all, you should know that you are not alone if you are facing default. There are ways of resisting, especially by acting together. In the long term, we need to put the United States back on the sizable list of countries (many of them less affluent) that manage to fund free higher education.

HOW IT GO SO BAD

Going to public college used to be pretty affordable, especially for those on the GI Bill, or those who went to public colleges like CUNY or the University of California. Starting in the early 1980s, state funding began to erode—public college costs have risen by 500% since 1985.2 Neoliberal policy-making has transferred the financial burden onto individual students. This means your future salary will be used to pay back the debts you got stuck with to prepare yourself for employability in the first place. Having to pay for education through debt is a form of indenture. And unlike traditional forms of indenture, it can take a lifetime to regain your freedom.

Wall Street has made a killing on this system, especially the queen of student lending, Sallie Mae. How did this happen? Bear with us—it gets complicated. Created in 1972 as a government agency, Sallie Mae has since been fully privatized. Sallie Mae has a hand in both types of student loans: federal and private. They also profit by originating, servicing and collecting student loans.

Between 1972 and 2010, loans were considered federal when originated by financial institutions (including Wall Street banks), but guaranteed and subsidized by the government. In 2010, the Obama administration cut out the middlemen so that any federal loan taken out is now originated directly by the federal government.

But don't be fooled, these "federal" loans are still serviced by a group of select private institutions, including Sallie Mae. In addition, federal loans have unjustifiably high rates of interest (6.8%). Is the government profiting? Yes, and the proceeds are used to pay the bill for wars and Wall Street bailouts.

Furthermore, federal loans rarely meet the full cost of education, leaving most students with no choice but to take out private loans to make up the difference. Even though only 20% of all current student loans are private, in ten to fifteen years they will have surpassed federal loans. These private student loans

are subject to different terms and have much higher interest rates.

Chances are your university financial aid officials are in cahoots with private lenders. A 2006 investigation by the New York State Attorney General's Office concluded that the business relationship between lenders and university officials amounted to an "unholy alliance." Lenders paid kickbacks to universities based on the loan volume that financial aid offices steered their way; lenders also gave all-expenses-paid Caribbean vacations to financial aid administrators, and even put them on their payroll. In addition, lenders set up funds and credit lines for schools in exchange for being placed on preferred-lender lists.

In spite of these scandals, and despite the NYS Attorney General's recommendation that bankruptcy protections be restored to student lenders, nothing happened. The student loan racket was just too profitable to be reined in by a few regulators. In 1998, federally-backed loans were declared ineligible for bankruptcy, and after prolonged pressure from Wall Street, private loans became ineligible in 2005. As if that's not enough, the government also granted enormous collection powers to lenders. They can garnish your wages and seize tax returns without even requesting a legal hearing first. Even Social Security and disability wages are subject to garnishment.

This lack of protection has made default wildly profitable for lenders. On average, 120% of a defaulted loan is ultimately collected. In fact, in 2003 Sallie Mae disclosed that its record-breaking profits were due in significant part to collections on defaulted loans. In 2001, Sallie Mae was caught defaulting loans without even trying to collect the debt. This rapacious conduct is the norm in some corners of the industry.

As in the subprime mortgage market, many private loans are securitized—packaged and sold to the highest bidder as Student Loan Asset-Backed Securities (SLABS). These SLABS account for almost a quarter—$234.2 billion—of the aggregate $1 trillion debt. Since SLABS are often bundled with other kinds of loans and traded on secondary debt markets, investors are not only speculating on the risk status of student loans, but also profiting from resale of the loans though collateralized derivatives.

The Social Impact

The human toll of all this is becoming increasingly visible. For a host of disturbing accounts of student debt, it's well worth reading Alan Collinge's book *Student Loan Scam: The Most Oppressive Debt in U.S. History—and How We Can Fight Back*. And it's certainly not hard to find student debt horror stories on the internet.

A military veteran reports that he has paid $18,000 on a $2,500 loan and Sallie Mae claims the man still owes $5,000. The bankrupt husband of a social worker, bedridden after a botched surgery, tells of a $13,000 college loan balance from the 1980s that ballooned to $70,000. A grandmother subsisting on Social Security has had her payments garnished to pay off a $20,000 loan

balance resulting from a $3,500 loan she took out ten years ago, before she underwent brain surgery. These loans increase so rapidly due to compounding interest in combination with deferment and forbearance programs. In fact, only 37% of student loans are in repayment at any given time. The other 63% are accruing interest, adding fees and becoming more and more likely to add to the 5 million student loans already in default.

During the Great Recession, African Americans lost almost all of the economic gains they made after the civil rights movement. As a result, African American students have borrowed more for education than whites, and they are twice as likely to be unemployed on graduation. Worse still, students of color are much more likely to enroll in for-profit schools, which have high non-completion rates and account for nearly half of student loan defaults. It's no surprise that the default rate for African Americans is four times that of whites.

FRINGE FINANCE CREDIT PRODUCTS AND SERVICES: CREDIT FOR THE PRECARIAT

Added: In sociology and economics, *precariat* refers to people suffering from precarity, which is a condition of existence without predictability or security, affecting material or psychological welfare as well as being a member of a Proletariat class of industrial workers who lack their own means of production and hence sell their labor to live . Specifically, it is applied to the condition of lack of job security, in other words intermittent or underemployment and the resultant precarious existence. --Wikipedia

Wall Street bankers have always tried to distance themselves from the taint of loan-sharking and other fringe financial services. For most, non-bank lending still conjures up images of dilapidated storefronts on the edge of town, surrounded by vice and petty criminality. But if you're one of the 12 million Americans who took out a payday loan in the past year, it's more likely that you did it in a suburban strip mall or cyberspace. It's even possible that you got it from a bank—five large banks, including Wells Fargo, have begun to offer payday loans.1 Although they seem to be worlds apart, in reality these markets are interconnected and overlapping; the biggest players in all segments of fringe finance are publicly traded, national corporations. Today, around 20% of all users of "alternative" financial services (AFS) also use traditional banks. Whether sourced in prime credit or subprime, student loans or pawn loans, the profits of our indebtedness flow to the 1%.

But the 99% is waking up to the bait-and-switch.

This chapter covers the debt traps encountered outside of the federally insured financial institutions: AFS credit products and services such as payday loans, pawn loans, auto-title loans, "rent-to-own" agreements and refund anticipation loans (RALs). Like traditional banks, these businesses provide ready access to cash and/or credit. However, their services are substantially more costly than those typically offered by major banks, and they frequently involve even more unfair, abusive and deceptive practices. Enabled by government at all levels, the poverty industry preys on the poor. For a long time the working poor have been its main target, but the Great Recession has supplied millions of new marks: people with busted credit, people who are desperate for cash and people who have fallen from the ranks of America's disappearing middle class. At a time of unprecedented inequality, poverty and precarity, unprincipled money lenders are poised to make a killing; stealing from people who have nothing means indebting them, possibly for life.

During the 1990s, deregulation tore through every segment of the U.S. financial system. Lending standards were loosened, increasing the availability of credit on Main Street as well as Malcolm X Boulevard. The resulting proliferation of high-cost subprime loans was celebrated as the "democratization of credit." The rolling back of core financial consumer protections created an unprecedented opportunity for financial extraction—the prospect of making money off of people who have no money. On the fringes of finance, money comes easy, but debts are built to last.

Given the state of household finances, rising demand for "Quick Cash, Few Questions Asked!" should come as no surprise. Having maxed out their credit cards and bank credit lines, people increasingly rely on AFS providers. Most AFS borrowers are unbanked, which includes about 20% of African Americans and 20% of Latino/as. But now 21 million borrowers are "underbanked," meaning they use AFS in combination with traditional banking services.

About half of AFS users have incomes below the poverty line. This means that a large percentage of the customer base of the so-called "poverty industry" is not poor. In fact, it's quite possible that many of the underbanked not too long ago qualified for prime mortgages and boasted incomes considerably higher than the national median. These are sure signs of precarity: insecure and unpredictable living conditions, which harm material or psychological welfare.

Compared to traditional bank loans, fringe lending has its own peculiar set of tricks and traps. But like any extension of credit, it involves a set of expectations about the future. When we sign on the dotted line, we're assuming that things will get better, that our financial situation will improve enough to make repayment possible. Lenders exploit borrowers' dreams. In fringe finance, the aspirations are simpler and more immediate, like having a way to

get to work, buying groceries for your kids, bailing your cousin out of jail or treating your aging mother to lunch on her birthday.

Nearly half of workers in the United States report living "paycheck-to-paycheck." In other words, at least 60 million of us are one setback away from economic ruin. After years of insufficient income, we've drained our savings just to cover necessary expenses. Those of us who've never been able to accumulate savings already depend on short-term credit to get by. In other words, we've gone into debt in order to live.

In the early 1990s, there were fewer than two hundred payday lending stores in America. Today there are 23,000—more than McDonald's—making payday lending a $50 billion industry. The deregulation of interest rates at the end of the 1970s, which removed all caps and limits on interest, set the stage for the "rise of payday." Today, fifteen large corporations, which together operate roughly half of all loan stores, dominate the industry. Of these fifteen, six are publicly-traded companies: Advance America, Cash America, Dollar Financial, EZ Corp, First Cash Financial, and QC Holdings.

Having witnessed the rapid and socially destructive effects of these loans, fifteen states have renewed consumer protections and rolled back authorizations of payday loans, eliminating payday loan storefronts. Another eight states have limited the number of high-cost loans or renewals that lenders may offer. The reforms' effectiveness, however, has been limited by the advent of unlicensed online payday lending, which now comprises 35% of the market and allows for even more egregious practices.

The appeal of payday loans is the flip side of the barriers to traditional banking: convenience, ease of transaction and few questions asked. Payday loans are small-credit loans marketed as a quick and easy way to tide borrowers over until the next payday. However, the typical storefront payday loan leaves borrowers indebted for more than half of the year with an average of nine payday loan transactions at annual interest rates over 400%. And if you think that's bad, try 800–1,000% APR in the case of online payday loans.

Make no mistake: payday lending is legal loan-sharking. The aim is to prolong the duration of debt in order to extract as many fees as possible; this is known as "churning," and doing this every two weeks makes up 75% of all payday loan volume. Typically, payday loan debt lasts for 212 days. Repeated payday loans result in $3.5 billion in fees each year.

Payday loans are carefully structured to bring about this result. The catch is the "balloon payment," a well-known predatory practice. When you take out a payday loan (normally $100 to $500), you put down collateral (e.g., a postdated check or electronic access to your bank account) equal to the loan amount plus a fee ($15 to $35 per $100 borrowed). At the end of the typical two-week loan period, you either repay the total owed or renew the loan for another two weeks. Few borrowers (only 2%) are able

to make the balloon payment, so instead they pay only the fee and renew the loan, which grows in size due to compound interest. With every renewal, the "balloon" grows bigger, making repayment ever more difficult. In the meantime, the lender goes on extracting fees every two weeks, and pretty soon, you've repaid the amount of the original loan (the principal), yet you are forced to continually renew the loan until you can repay the hugely inflated balance in one lump sum. According to the Federal Trade Commission, a number of online lenders obtain borrowers' bank account information in order to deposit funds and later withdraw the repayment, with a supposed one-time fee. In actuality, withdrawals occur on multiple occasions, with fees each time. The FTC cites a typical example where someone borrowed $300 and, after the lender withdrew many times, the borrower was ultimately expected to pay $975. As you can see, with payday loans, the term "debt trap" takes on a whole new meaning.

The payday industry lobby group, which misleadingly calls itself the Community Financial Services Association (CFSA), tries to get some cover for its predatory behavior by warning, "Payday advances should be used for short-term financial needs only, not as a long-term financial solution." In actuality, the vast majority of borrowers (69%) use payday loans for everyday expenses, just to get by. A recent Pew survey shows that only 16% of borrowers actually used them in emergencies. All of the evidence consistently shows that borrowers do not use this hazardous product as prescribed and thus endanger their financial lives. This amounts to financial malpractice.

Still, 12 million Americans have used payday loans over the past year. And who can blame them? If you have lousy credit and need cash fast, a short-term, no-credit check loan seems like a lifeline, just like the ads promise. No doubt, the loans offer short-term relief, but in exchange for long-term financial harm. According to the CFSA, "payday advance customers represent the heart of America's middle class." This particular industry talking point has truth to it. The core market for payday loans are people with regular incomes and/or bank accounts who are expected to "secure" their loans with pay stubs, benefit stubs, or personal checks—that is, the growing class of the underbanked.

A recent survey of payday loan users conducted by the Pew Center finds that most borrowers are white, female and from twenty-five to forty-four years old. However, certain groups disproportionately use payday loans: those without a four-year college degree, home renters, African Americans, those earning below $40,000 annually and those who are separated or divorced.

People of color are targeted for exploitation by payday lenders and fringe finance more broadly. Like other forms of AFS, the immense expansion of payday lending has overwhelmingly taken place in communities of color. In California for example, Black people are more than twice as likely as whites to live within one mile of at least one payday lender. The CFSA and leading payday lenders have for years cultivated relationships with Black leaders and organizations—lawmakers, celebrities, elders of the civil rights struggle—

as part of their lobbying and marketing campaigns."Just like they target minority groups to sell their products, they target minority groups to make their products look legitimate," says critic Keith Corbett, executive vice president of the Center for Responsible Lending. Contrary to claims that payday lending represents the "democratization" of credit, the kind of credit payday lenders are selling leads only to cycles of ever-growing debt.

PAWNSHOP AND AUTO TITLE LOANS

Unlike payday loans, a pawnshop loan is when a borrower gives property to a pawnbroker to secure a small loan. The loan is generally for one-half of the item's value. If the borrower is able to repay the loan with interest by the due date—typically between one and three months—then the item can be retrieved. The average pawnshop loan is for $70, and approximately one out of every five pawned items are not redeemed. According to a survey by Think Finance, approximately one-quarter of eighteen- to thirty-four-year olds who are un- or underbanked use pawnshops. Because U.S. citizenship and regular income are not required for pawn loans, they are particularly appealing to undocumented immigrants and others who might have difficulty obtaining loans through traditional financial services. Ten states do not require any cap on monthly interest rates and forty states do not require the return of pawned items.

A car-title loan is a similar product to a pawnshop loan, but even more egregious—so much so that it is prohibited in thirty-one states. A borrower in this case exchanges the title to their automobile for cash. The vehicle can still be driven, however. Typically the loan is for about one-quarter of the vehicle's value. If it is not repaid with interest within thirty days, the lender could repossess the car or extend the loan for thirty more days and add further interest. When annualized, the rate of interest for title loans is in the triple digits, and often exceeds 900%. LoanMax, an auto-title lender for which Reverend Al Sharpton of all people did a television commercial, says its average loan is $400. Suppose you take a $400 title loan from them. Thirty days pass and you can't pay the $520 you now owe. Instead of repossessing your car, the gracious lender decides to renew the loan. And then again. And again. Title loans are renewed on average eight times per customer. Therefore, within a typical timeframe, you may end up owing nearly three-and-a-half times what you originally borrowed!

Having property repossessed and incurring further debt are the tragic yet predictable consequences of obtaining a loan through pawning. Payday loans and other examples laid out in this chapter are no better. The information provided above offers a glimpse of how these loans dig people into deeper desperation. Despite state regulations such as APR caps, these alternative financial services are inherently predatory and cannot be modified to be substantially less harmful to borrowers. Pawnshop loans and car-title loans should be avoided at all costs.

However, so long as viable alternatives remain inaccessible to those typically targeted by such institutions—traditionally low-income communities

of color, but increasingly Millennials of all backgrounds—the problem will remain and intensify. At the conclusion of this chapter, we contemplate a handful of suggestions for obtaining cash without having to be on the receiving end of predatory lending practices.

RENT-TO-OWN STORES

Rent-to-own (RTO) lenders offer appliances, electronics and other items which, as the name suggests, people can eventually own. This is different from credit purchases where the customer immediately gains the title to the product. Aaron's and Rent-A-Center are two of the biggest such companies; their mascots are a self-proclaimed "lucky" dog and Hulk Hogan respectively. On both company websites, product prices are not listed; you must provide some personal information, such as the last four digits of your Social Security number, in order to even receive a quote. Aaron's explicitly states that their stores are "strategically located in established working class neighborhoods and communities," which is a euphemism for exploiting poor people and people of color. This predation is also unabashedly reflected in RTO companies' own annual reports. Despite having fewer than half the number of customers as payday lenders, the RTO industry generates a similar revenue. What accounts for high sales?

Unsurprisingly, there's a whole host of fees when using RTOs. Charges often include "security deposits, administrative fees, delivery charges, 'pick-up payment' charges, late fees, insurance charges, and liability damage waiver fees." These costs are generally not revealed to customers. Less than a third of U.S. states require disclosure of the total cost to own, and even then, many of these aforementioned charges are underestimated. With all of that on top of an average APR around 100%, consumers typically pay between two and five times more than if they had purchased the same item at a retail store. On average, RTO customers spend an extra $700 a year. Failure to pay in full, or defaulting, results in the repossession of the product and loss of any money previously put toward the item. Only eleven states require any cap whatsoever on the price of products or APR at RTO lenders.

Items available at rent-to-own stores are readily available elsewhere, in some instances for one-fifth of the price; however, this may require saving up until one can afford the retail value rather than resorting to paid installments. If you need a computer, for example, consider borrowing one or using one at the library until you can pay for it at a not-so-predatory store. It also might mean being willing to relinquish a bit of luxury and buy items secondhand. Either way, it ultimately beats the pitfalls of RTO lenders.

[Added: Recently chains such as "Rent-a-Wheel", "Rimco", "Rent-N-Roll" rent car tires. Drivers who need tires but do not have cash or credit available are sucked in by offers such as a new set of tires for only $15 a week. But the total cost is two to three times the purchase price at a standard tire store. Renters may be required to appear in person monthly to pay in cash and failure to do so will result in repossession of the tires without credit for money already paid.]

REFUND ANTICIPATION LOANS (RALS)

Refund Anticipation Loans (RALs) are yet another type of loan to exploit the unbanked and underbanked. For the lender, the profits are high and the risks are low. Many tax preparation companies offer this service. For

those expecting much-needed cash from a tax refund but who cannot wait several weeks for it, an RAL is an appealing quick solution. A taxpayer can receive the full amount of their anticipated tax refund sometime between two minutes and two days. Like other fringe finance loans, RALs have a triple digit APR.

Suppose you're expecting a tax refund that approximates the average in the United States in 2011, which was $2,193.31 Rather than wait to receive the refund, you take out an RAL at a tax preparation company. In six weeks, you receive your refund and at this point, assuming the APR is "only" 200%, you'll need $728.25 in addition to your refund in order to pay back your loan. With a bank account, your tax refund could be deposited directly in less than two weeks, but of course that's not an option for the unbanked. Filing taxes online, if possible, expedites the receipt of one's refund. This approach may meet the needs of those requiring cash in the immediate present without having to lose so much money in the long run; however, receiving a refund check presents its own problems if you don't have a checking account.

RESOURCES, Websites

Financial justice research and advocacy for low-income and underrepresented communities:
Center for Responsible Lending (responsiblelending.org)
Consumer Action (consumer-action.org)
The Consumerist (consumerist.com)
Consumers Union – Defend Your Dollars (defendyourdollars.org)
LawHelp.org
National Consumer Law Center (nclc.org)
Neighborhood Economic Development Advocacy Project (NYC) (nedap.org)

The following material is added:

Installment Loans

An installment loan is a loan that you pay over time with a set number of payments. It can be anything from a mortgage, a car loan, to a short term loan from a retailer. These loans all have collateral which gives the lender some recourse if you fail to pay, also with regular payments the lender can keep tabs on you so their risk is less and hence the interest rate is much lower, sometimes as low as 4% or even less. In addition retailers may discount the loan as incentive for you to buy from them. But, like loans described above, there may be hidden fees and severe penalties if you fail to make payments on time. READ THE SMALL PRINT on any installment contract!