

Major Banks Aid in Payday Loans Banned by States

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Major banks have quickly become behind-the-scenes allies of Internet-based payday lenders that offer short-term loans with interest rates sometimes exceeding 500 percent. With 15 states banning payday loans, a growing number of the lenders have set up online operations in more hospitable states or far-flung locales like Belize, Malta and the West Indies to more easily evade statewide caps on interest rates. While the banks, which include giants like JPMorgan Chase, Bank of America and Wells Fargo, do not make the loans, they are a critical link for the lenders, enabling the lenders to withdraw payments automatically from borrowers' bank accounts, even in states where the loans are banned entirely. In some cases, the banks allow lenders to tap checking accounts even after the customers have begged them to stop the withdrawals.



For the banks, it can be a lucrative partnership. At first blush, processing automatic withdrawals hardly seems like a source of profit. But many customers are already on shaky financial footing. The withdrawals often set off a cascade of fees from problems like overdrafts. Roughly 27 percent of payday loan borrowers say that the loans caused them to overdraw their accounts, according to a report released this month by the Pew Charitable Trusts. That fee income is coveted, given that financial regulations limiting fees on debit and credit cards have cost banks billions of dollars. Some state and federal authorities say the banks' role in enabling the lenders has frustrated government efforts to shield people from predatory loans — an issue that gained urgency after reckless mortgage lending helped precipitate the 2008 financial crisis. While the loans are simple to obtain — some online lenders promise approval in minutes with no credit check — they are tough to get rid of. Customers who want to repay their loan in full typically must contact the online lender at least three days before the next withdrawal. Otherwise, the lender automatically renews the loans at least monthly and withdraws only the interest owed. Under federal law, customers are allowed to stop authorized withdrawals from their account. Still, some borrowers say their banks do not heed requests to stop the loans.

Payday lenders have been dogged by controversy almost from their inception two decades ago from storefront check-cashing stores. In 2007, federal lawmakers restricted the lenders from focusing on military members. Across the country, states have steadily imposed caps on interest rates and fees that effectively ban the high-rate loans. Facing increasingly inhospitable states, the lenders have also set up shop offshore. A former used-car dealership owner, who runs a series of online lenders through a shell corporation in Grenada, outlined the benefits of operating remotely in a 2005 deposition. Put simply, it was "lawsuit protection and tax reduction," he said. Other lenders are based in Belize, Malta, the Isle of Man and the West Indies, according to federal court records.

1. In appropriate paragraph form, compare and contrast the pros and cons synonymous with one blatantly electing to participate in payday loans. Do you personally believe this highly controversial lending practice merely enables fiscally irresponsible Americans thereby weakening our ultimately national economy? Thoroughly explain your reasoning and provide specific artifacts and evidence limited solely to passage above to support your response. Create and illustrate Venn Diagrams to effectively explore relationships and patterns and to make arguments about relationships between sets. **(LA.910.3.2.2; LA.910.1.6.2; MA.912.D.7.2; MA.912.A.10.1)**
2. In light of a recent series of unforeseeable events, Joe Lunchmeat has desperately resorted to an infamous payday loan in the principal amount of \$350 simply to retain water and power services in his domain. Multiple agencies are available; however, two reputable financial organizations have presented somewhat appealing offers. Guido Financial Services charges fees equivalent to 515% whereas their major competitor, Tony Soprano & Associates charges \$475% coupled with \$50 in processing fees. Define a variable. Write and solve an equation for each situation. Create a table and determine specifically from which organization would you recommend contracting security services? Graph the results. Explain your reasoning. **(MA.912.G.8.2; MA.912.G.8.3)**
3. Provided the information outlined in the previous inquiry, determine the difference amongst the specific amounts Guido and Soprano would collect. Joe is presently gainfully employed in the used automotive sales industry, which has recently countered challenges during the national economic recession. He earns 3.25% commission plus \$150 for each vehicle he sells. Determine his earning after he sold a 2006 HUMMER for \$15,500. Will his earnings suffice in covering his previous payday loan? Explain. **(MA.912.A.10.1; MA.912.A.5.4; MA.912.A.2.13; MA.912.A.5.1)**
4. Using contextual clues only, define the following italicized terms: *inception*, *deposition*, *inhospitable*, *precipitate*, *predatory*, *imposed*, and *lucrative* as obtained from the passage above. Additionally, use each word in a complete sentence to demonstrate further comprehension. **(LA.910.1.6.3; LA.910.1.6.1)**
5. **SARASOTA MILITARY ACADEMY WORD-OF-THE-WEEK** Create a concluding paragraph aligned with the passage above using the following italicized word: *Pious* (PI us) (adj.) Devout or virtuous. Holy. **(LA.910.1.6.1; LA.910.1.6.5)**

Next Generation Sunshine State Standards adapted from floridastandards.org. Standards specifically addressed in this edition are strategically aligned with state standards and annotated adjacent to the respective inquiry.

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