

CONSUMER ALERT

Providing consumers with knowledge to make informed decisions

A Publication of the South Carolina Department of Consumer Affairs

Philip S. Porter, Administrator/Consumer Advocate

Payday Loans Cost More In Long Run

Have you ever heard of payday loans...or cash advance loans, check advance loans, post-dated check loans, and deferred deposit check loans?

Regardless of the loan's title, check cashers, finance companies and others are making small, short-term, high rate loans that go by this variety of names.

Generally, this is how it works, a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed - say, for every \$50 or \$100 loaned. And, if you extend or "roll-over" the loan - say for another two weeks - you will pay the fees for each extension. Such cash advance loans can be very expensive credit.

Yet, thousands of Americans are losing money by utilizing payday loan services. For example, let's say you write a personal check for \$115 to borrow \$100 for up to 14 days. The check casher or payday lender agrees to hold the check until your next payday. At that time, depending on the particular plan, the lender deposits the check, you redeem the check by paying the \$115 in cash, or you roll-over the check by paying a fee to extend the loan

for another two weeks. In this example, the cost of the initial loan is a \$15 finance charge and 391 percent APR. If you roll-over three times, the finance charge would climb to \$60 to borrow \$100.

The South Carolina Department of Consumer Affairs wants to warn consumers about such excessively expensive loans.

Consider the following possibilities before choosing a payday loan

** When you need credit, shop carefully. Compare offers. Look for the credit offers with the lowest APR - consider a small loan from your credit union or small loan company, an advance on pay from your employer, or a loan from family or friends. A cash advance on a credit card also may be a possibility, but may have a higher interest rate than your other source of funds: find out the terms before you decide.*

** Compare the APR and the finance charge of credit offers to get the lowest cost.*

** Ask your creditors for more time to pay your bills. Find out what they will charge for that service - as a late charge, an additional finance charge or a higher interest rate.*

** Make a realistic budget, and figure your monthly and daily expenditures.*

** If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.*

CONSUMER CRUSADER SAYS:



Payday Loans = Costly Cash

'If you just need enough money to tide you over until payday there are other options as opposed to payday loans. Payday loans can come at costly prices.'

For additional information on payday loans contact the SCDCA.

Source: Federal Trade Commission

CONTENTS:

Payday Loans.....	1
Consumer Crusader.....	1
Lawsuit Filed by SCDCA.....	2
SCDCA Makes T.V. History.....	2
State Consumer Advocate Disappointed With Decision.....	2

CONSUMER WATCH

Lawsuit Filed by SCDCA

The South Carolina Department of Consumer Affairs filed suit against First Freedom Financial Corporation on January 24, 2001. The Department has alleged that First Freedom is acting as a loan broker by offering or soliciting up front fees to provide the customer with a credit card. The Department has alleged that the solicitations are false and misleading because they promise free gifts to the consumer with an approval of a "Freedom Gold Card". The gifts it turns out are not free as they require purchase of service contracts and/or other products to receive the free merchandise. **Most importantly the "Freedom Gold Card" is not a credit card at all. It merely allows the consumer to buy scant and overpriced items exclusively from Freedom's own catalogue.**

The Department has also alleged that First Freedom has engaged in unconscionable conduct by inducing consumers into these transactions, as well as unconscionable debt collection because they have threatened the consumers with civil or criminal action when the consumers advance fee check is returned for insufficient funds. We have asked for a preliminary injunction, which motion is set for later next week.

The Department has learned that there are over 78,000 "customers" of First Freedom. While we have had well over a hundred complaints against this company these are just the ones we know about. The majority of complaints are from out of state and consumers from those states may not know where to complain about an out of state company.

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SCDCA Makes Television History on February 13th

The Department of Consumer Affairs and the 2001 National Consumer Protection Week Steering Committee hosted a telecast on **predatory lending making it the state's first.**

The two-hour program entitled **PREDATORY LENDING: PROMISING DREAMS - DELIVERING NIGHTMARES** called attention to problems in South Carolina and nationwide. The topics were designed to spot predatory transactions that could occur in the following areas: pay day loans, check cashing, title loans, and mortgage loans. Panelist included **Philip S. Porter**, State Consumer Advocate; **James Carr**, Fannie Mae Foundation; **Stella Adams**, North Carolina Fair Housing Center; **Jim Pilkington**, FDIC; **Tom Curlee**, Attorney; **Dave Alford**, Attorney; **Sue Berkowitz**, Appleseed Legal Justice; **Nancy Webb**, ReMax/Foothills Realty, Anderson County Housing Resources Board; **Fran Mullaney**, Consumer Credit Counseling.

This educational program proved to be highly successful as it aroused awareness of predatory lending, it educated consumers on the realistic dangers of predatory lending, and it focused on steps a consumer can take if they are already a victim of predatory lending.

The state of South Carolina currently has no legislation to protect consumers against predatory lending. Inquiries regarding the taped broadcast should be made to:

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State Consumer Advocate Disappointed With Decision

"The Public Service Commission has set the wheels in motion to allow telephone companies to collect funds from the Universal Service Fund without regard to whether they need the

money or not," stated Phil Porter, Consumer Advocate for the State of South Carolina. The Universal Service Fund will be funded by telephone customers to the tune of as much as \$340 million per year.

Philip S. Porter announced that he is extremely disappointed with a recent decision by the Public Service Commission (PSC) which dismissed 24 separate complaints filed against local telephone companies in South Carolina.

Last July, prior to hearings on the proposed state Universal Service Fund (USF), the Consumer Advocate filed the requests seeking a PSC investigation of the financial condition of every local telephone company that was subject to rate of return regulation by the PSC. In the USF case, the local telephone companies have proposed the establishment of a USF that would require telephone subscribers to pay as much as \$340 million per year into a fund from which the companies could draw to cover their costs of providing service. Customers would pay for the USF through surcharges on their local telephone bill. The PSC has yet to make a decision on the USF.

The Consumer Advocate's complaint filings were intended to assist the Commission in making its decision on the USF by showing what each company was currently earning. South Carolina law requires the size of the USF to be determined by comparing each company's cost of providing basic services with the maximum rate it can charge for those services. While each company has had its local rates set by the PSC, the majority of those were set as long ago as the early 1970s. Since that time, even the smallest rural companies have experienced declining costs, and have diversified their business into other unregulated telecommunications businesses. Given those circumstances, as well as other factors, the Consumer Advocate believes that an updated study of each company's earnings and rates is necessary to establish an appropriate maximum allowable rate for each company.

