"Challenging People to Shape a Better Future Now"

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New Efforts to Curb the 'Debt Trap'

Responsible Lending

Charlene Crowell

The small-dollar loans that generate long-lasting debt for consumers and cost them billions of dollars each year are drawing the active attention of legislators and regulators alike. On April 24, the Consumer Financial Protection Bureau (CFPB) released a white paper on payday loans made by storefronts and by banks. Despite years of bank efforts to portray themselves as anything but payday lenders, the CFPB strips them of that cover.

According to CFPB Director Richard Cordray, "What we found is there is not much difference from the consumer's perspective, between payday loans and deposit advance loans. They have similar purposes and, as it turns out, similar usage by consumers."

At the same time, three members of Congress – Congressional Black Caucus Members Elijah Cummings D-(MD) and John Conyers (D-Mich.) were joined by Oregon's Rep. Suzanne Bonamici in urging federal regulators to take actions on bank payday loans.

"We urge you to take meaningful joint regulatory action to ensure that no bank, regardless of its prudential regulator, traps borrowers in high-cost payday loans," the members said in a statement. "Our constituents, and consumers everywhere, deserve better from our nation's financial institutions."

The following day, two regulators, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation announced new regulatory actions to address potential consumer risks associated with the products as well as the safety and soundness of operations. The two regulators' actions are very similar, focusing on a borrower's ability to repay while meeting ongoing expenses, safe and sound underwriting, and limiting the numbers of loans.

According to Thomas J. Curry, OCC Comptroller, "We have significant concerns regarding the misuse of deposit advance products."

> Our constituents, and consumers everywhere, deserve better from our nation's financial institutions

OCC supervises all national banks and federal savings associations with combined assets of $10.1 trillion, representing 71 percent of total U.S. commercial banking assets, according to its most recent annual report.

Similarly, FDIC Chairman Martin J. Gruenberg said, "The proposed supervisory guidance released today reflects the serious risks that certain deposit advance products may pose to financial institutions and their customers."

FDIC insures deposits in more than 7,000 banks and savings associations.

According to CFPB's findings these actions could benefit about 12 million households that borrow payday loans each year, a potential reduction in the $7 billion in annual fees that are generated by more than 18,200 payday storefronts across the country.

CFPB's report examined 15 million payday loans made during a 12-month period, covering more than 90 percent of the market. Both storefront and bank versions exposed consumers to the risk of being caught in a revolving door of debt. What was sold as a short-term bridge became an expensive, long-term loan. Risky loan structure, loose lending standards, sustained usage and accompanying high costs were cited as characteristics of both products.

According to the report, 75 percent of storefront payday lending revenue is derived from borrowers taking out 10 or more loans a year. For 68 percent of these borrowers, their annual income is $30,000 or less.

Among the findings:

-- Nearly one-in-four borrowers received government assistance or benefits such as Social Security, disability, unemployment or welfare benefits;

-- The average borrower took 11 loans in the 12-month period, paying $574 in fees for $392 in credit; and

-- Despite lender attempts to reject the use of an annual percentage rate, a two-week loan with a $15 fee per $100 borrowed is actually a 391 percent APR.

On banks' deposit advance loans, CFPB also found that:

-- Borrowers usually had much lower average balances than other bank customers, suggesting a smaller financial cushion to cover unexpected shortfalls;

-- Nearly two-thirds of consumers also incurred additional fees such as overdraft or non-sufficient funds;

-- The annual percentage rate of interest was 304 percent; and

-- Most borrowers remained in debt for at least 149 days.

Also this month, CRL and National People's Action delivered to regulators more than 150,000 petitions urging the officials to crack down on high-cost payday lending. Also part of the petition drive were CREDO and Green America and Americans for Financial Reform.

Commenting on CFPB's findings, Uriah King, CRL's vice-president of state policy, said, "This white paper affirms our long-standing critique of payday lending. The debt trap of payday loans is now official."

Charlene Crowell is a communications manager with the Center for Responsible Lending.

Learning to Teach Students How to Learn

Bennett College

Julianne Malveaux

African American students achieve at a different level than White students. Test scores are lower, as are high school and college completion rates, and the number of African Americans attending four-year institutions is falling. The rate of African American suspensions and expulsions from K-12 schools is higher than that of other groups. By almost any metric there are gaps between African American students and White or Asian students (Latinos achieve at about the same rate as African Americans).

Why does this happen? The late sociologist John Ogbu hypothesized that the gap was the result of young African Americans thinking that learning was "acting White." His theory was batted around as if it were fact, even after Duke economist William Darity refuted the Ogbu theory. Why? Because it fits somebody's stereotype to describe African American youngsters as culturally alienated from the mainstream, so much that they eschew the very institution that could be a bridge for them into the middle class.

Given the history of African Americans and education, it is hard to swallow these stereotypes. Some states had laws on the books to prevent African Americans from learning to read and write in the pre-Civil War period. Both White and Black people risked flogging, fines and other penalties for "teaching a slave to read." Millions of African Americans sacrificed for the right to be literate, and ensured that their children would also have opportunities by baking cakes, frying chicken, and raising a few dollars to get to college by whatever means necessary. At the beginning of the 20th century, the only colleges open to African Americans were historically Black colleges and universities, and we went despite the obstacles.

> Where does the achievement gap come from, then? It comes from the opportunity gap

Where does the achievement gap come from, then? It comes from the opportunity gap. The average African American household earns $31,000 a year, compared to $51,000 for Whites. Fifty-one thousand dollars can buy a lot more opportunity than $31,000 can. If income determines housing clusters, neighborhoods with a $51,000 mean income have better schools and more involved parents than the $31,000 neighborhood does.

Closing income gaps closes opportunity gaps, according to a Ford Foundation-sponsored book written by Dr. Linda Darling-Hammond, an Obama education adviser. She says poverty and segregation means that some students attend schools that have fewer resources than others. Indeed, inner city high schools are less likely to offer Advanced Placement or International Baccalaureate classes. Sometimes when these courses are available in suburban high schools, African American students are discouraged from taking them.

Ivory Toldson, a professor at Howard University and a contributor to the Root also refutes the notion that African American students think learning is "acting White." Most African American students, he says, are interested in attending college but may not because of cost factors. He also says that academic support should be provided to all students, and that the way to close achievement gaps is to "reduce racial disparities in income and to increase equity and inclusion in education."

For a great deal of students the issue is not "acting White," but being connected to educational options and outcomes. One of the more important factors in student achievement is parental involvement, yet many parents find themselves "too busy" or too uninformed to interact with teachers. One study says that parents don't necessarily have to help with homework, but simply to reinforce that homework should be done, and to be inquisitive about it. Unfortunately, many parents, frustrated with the school system, write it off. Further, too many of our community organizations don't sufficiently emphasize education, or if they do, don't get into the "down and dirty" of it, preferring to raise much-needed scholarship funds than to take a young person by the hand and guide them through next steps to education.

The majority of African American students are still first-generation college students. They aren't always sure what next steps are, and they often need help maneuvering through a system with which their parents have familiarity.