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DIRECT DEPOSIT PUSH EXPOSES SOCIAL SECURITY RECIPIENTS TO BANK PAYDAY LOANS

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BOSTON – The federal government's push to require all recipients of Social Security and other benefits to receive payments by direct deposit will expose many seniors to predatory payday loans made by banks.

That's the conclusion of "Runaway Bandwagon: How the Federal Government's Push for Direct Deposit of Social Security Benefits Has Exposed Seniors to Predatory Bank Loans," a new report issued by the National Consumer Law Center.

"Treasury must stop banks from making these high-cost, short-term loans to Social Security recipients," said Margot Saunders, an attorney with NCLC and an author of the report. "These loans are only made because they are fully secured by a borrower's next direct deposit of federal funds."

"While federal law protects Social Security and other benefits from seizure by creditors, banks regularly take those benefits as repayment for what are essentially payday loans that they have made without even assessing borrowers' ability to afford those loans," Saunders added.

"Runaway Bandwagon" spotlights account advance loan products – some with Annual Percentage Rates as high as 1,800% – that some banks offer to customers with checking accounts or prepaid debit cards. Banks help themselves to funds from customers' accounts to repay loan principal and fees, so that these loans closely resemble both fee-based overdraft programs and payday loans.

"With these loans, banks profit from vulnerable and hard-pressed recipients of federal benefits, trapping them in a cycle of mounting debt and high borrowing costs." said Leah Plunkett, an attorney with NCLC and an author of the report. "In effect, these high-cost loans are used to hijack benefits federal law intends to provide for the basic needs of elderly and disabled citizens."

More seniors and vulnerable benefits recipients will become the targets for such loans as the Treasury Department moves forward with its plan to require electronic payments to all federal benefit recipients by 2013. New protections are needed to prevent the victimization of seniors and other vulnerable consumers and preserve income from Social Security and other social insurance programs that many seniors depend upon for survival.

Treasury must ensure that when accounts used for benefit deposits are used to secure loans, those loans are made only after an evaluation of the borrower's ability to afford repayment, carry APRs including fees of no more than 36%, have a term of at least 90 days or one month per $100 borrowed and allow

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repayment in multiple installments. Treasury must also prohibit banks and other lenders from requiring borrowers to provide as security electronic access to a bank account. Borrowers who do allow lenders such access must be permitted to end that access at any time and at no cost.

The report is posted on-line at
www.nclc.org/images/pdf/pr-reports/runaway-bandwagon.pdf.

The National Consumer Law Center is a non-profit organization that seeks marketplace justice on behalf of vulnerable Americans. NCLC works with, and offers training to, thousands of legal-service, government and private attorneys, as well as community groups and organizations representing low-income families. Our legal manuals and consumer guides are standards of the field. Learn more and find a link to the new report on our Web site: http://www.consumerlaw.org.

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