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Bank Payday Loans … They're Baaaaaaaack

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650% APR Loans on Prepaid Cards and Bank Payday Advance Loans Flout State Interest Caps and Protections

In recent years, many states have reinstated interest rate caps to attack predatory lending. Many states limit the rates on small loans, including payday loans, typically to 17% to 36%.

Banks are not subject to interest caps. In the 1990s and early 2000s, payday lenders exploited banks' ability to preempt state laws through "rent-a-bank" partnerships. After a national outcry, regulators eventually shut down these arrangements.

But bank payday loans are quietly creeping back. *MetaBank*, a federally chartered savings association, offers the iAdvance line of credit on various prepaid Visa and Mastercards nationwide:

- The loans cost $25 per $200 and are automatically repaid by the next deposit.
- The disclosed APR is 150%, but the rate is closer to 650% because the loans are likely taken out late in the month when money runs out, not a full 30 days before payday.
- Because MetaBank's home state has no interest rate caps, the bank can and does ignore state laws limiting payday loan interest rates in other states where the card is offered.
- The loans are only available to those who sign up to have their paycheck or public benefit check directly deposited onto the prepaid card.
- The loans are automatically deducted from income before food or other necessities and escape laws against garnishing Social Security and other benefits and laws that protect a minimum amount of income.

What is A Payday Loan?

Payday loans are small loans until the next paycheck. They typically cost $15 to $20 per $100 for a 2-week loan, which translates to 390% to 520% APR. The borrower gives the lender a post-dated check or electronic access to the bank account for the loan amount plus the fee.

The loans trap borrowers in a cycle of debt. A borrower who does not have $100 today likely will not have $120 in 2 weeks, forcing a new loan for an additional fee. The initial debt of a few hundred dollars can explode into thousands of dollars of debt they cannot escape.

What is Prepaid Card?

Prepaid cards are debit cards that hold consumer funds but are not tied to an individual bank account. Often Visa- or MasterCard-branded, they work like bank debit cards but may not have the same consumer protections.

- Prepaid cards that offer the iAdvance line of credit include those offered by *InFusion*, *Jackson Hewitt*, *AccountNow*, *MoneyGram*, and payroll cards offered by *Paychek Plus* and *Primary Paycard*.

- An iAdvance official boasts that demand for the line of credit is "insatiable and not price sensitive."

How can you have credit on a "prepaid" card? A line of credit on a prepaid card might seem to be an oxymoron. As the name implies, prepaid cards are marketed as safer alternatives to credit cards because payments are made up front, before the purchase, rather than after the fact. AccountNow, one of the cards that offers the line of credit, Claims:

> "Prepaid Visa & Prepaid MasterCard cards do not extend credit like credit cards, meaning you can't spend money you don't have…. Because you're not borrowing money, you will never have to worry about finance charges, late charges, or over-the-limit fees…There are never any late fees, finance charges or overdraft fees."

… unless you add on the iAdvance feature.

Other prepaid credit products. *H&R Block's prepaid Emerald Card* also offers a line of credit, which is primarily used by Block customers prior to tax season and repaid by tax refunds. H&R Block charges a 36% APR during tax season, on top of a $45 annual fee, but after that the APR is reduced to 9% if the customers direct deposit their paycheck or open a savings account with H&R Block's thrift unit. The loan is still expensive if used only as a one-month advance of the tax refund -- 158% annual interest if the fee is included – but the year-round product is much more affordable than MetaBank's product.

Other ways banks avoid payday loan laws. Some banks, including *Wells Fargo* and *U.S. Bank*, offer similar payday loan products without complying with state laws, though ones that access a bank account instead of a prepaid card. The newest is *Fifth Third Bank's* Early Access loan, which the bank developed in response to pressure against abusive overdraft fees. The fee structure is similar to payday loans and the MetaBank line of credit: $2 per $20 advanced, automatically repaid with the next deposit. The bank claims an APR of 120%, but the true APR is 520% if the advance is taken a week before payday. Payday lenders have complained that Ohio-based Fifth Third is ignoring Ohio's 28 % payday loan cap.

Nearly all banks also put hidden overdraft lines of credit on their ATM and debit cards, in order to generate overdraft fees, while ignoring state laws. Overdraft loans operate much like payday loans, except that they are involuntary and can be even more expensive.

Credit union payday lending. Though credit unions were not involved in rent-a-bank payday lending, and many have been at the forefront in developing affordable small loans, a few credit unions and their subsidiaries have started getting into the direct payday loan business. Even some federal credit unions, including *Kinecta Federal Credit Union* and *Nevada Federal Credit Union*, have offered 400 to 650% payday loans, despite federal law capping their interest rates at 18%.