The New York Times
nytimes.com

PRINTER-FRIENDLY FORMAT SPONSORED BY

August 28, 2007

Nonprofit Payday Loans? Yes, to Mixed Reviews

By JOHN LELAND

APPLETON, Wis. — This city of 70,000 has five McDonald's franchises, three Pizza Huts, four Starbucks shops — and 19 payday loan stores, brightly lighted storefronts with names like EZ Money and Check Into Cash that offer two-week loans without credit checks.

Peggy Truckey, 53, knows the allure. Last year she owed nearly $1,300 to four of those stores, and was paying about $600 a month in finance fees alone. "I thought I was going to have to take a second job just to pay off the interest," Ms. Truckey said.

Then she heard about a new nonprofit program operated out of a Goodwill thrift store, one of several hundred lower-cost payday loan products that are now being tried by credit unions around the country. She got a payday loan, at half the finance charge, but also something more: help converting all her two-week payday debts, which charged the equivalent of more than 500 percent annual interest, to a one-year loan at 18.9 percent, bringing her monthly payments down to a manageable $129. A few dollars from each payment go into a savings account, the first she has had in years.

"I have almost $100 in savings," said Ms. Truckey, who earns $9.50 an hour as a supermarket meat clerk. "I'm in a comfortable position for the first time in many years."

The program, GoodMoney, a collaboration between Goodwill and Prospera Credit Union, is a response to an industry that has been criticized by lawmakers and consumer advocates as predatory but that has reached as many as one in 20 Americans.

"Our goal is to change behavior, to interrupt the cycle of debt," said Ken Eiden, president of Prospera, who is also a director at Goodwill.

For Ms. Truckey, as for most payday borrowers, the loans began as a stopgap. After losing her job in 2002 she borrowed $500 from a payday store, which charged $22 per two weeks for every $100 borrowed, or the equivalent of 572 percent annual interest. When the loan came due in two weeks, she could repay only the $110 finance charge, so she rolled the loan over, adding another finance charge.

Soon she took a second loan, from another store, and eventually two more, which she rolled over every two weeks, multiplying the cost of the loans. Even after she found a full-time job, she said, "I wasn't able to pay my electric bill on time or my other bills on time, because half my paycheck was going to finance charges."

At GoodMoney, tellers encourage borrowers to consolidate their debt in lower-interest term loans, and to use other credit union services like automatic savings. If borrowers cannot repay a loan after rolling it over twice, they can get the loan interest-free by attending a free credit counseling session with a nonprofit service.

But alternative payday loans have also drawn criticism from some consumer advocates, who say the programs are too similar to for-profit payday loans, especially when they call for the principal to be repaid in two weeks. At GoodMoney, for example, borrowers pay $9.90 for every $100 they borrow, which translates to an annual rate of 252 percent.

That may be roughly half the rate offered by commercial payday lenders, but "it's still the same debt trap," said Uriah King, a policy associate at the Center for Responsible Lending, a nonprofit advocacy group that is critical of payday lending. Even with the lower finance fees, Mr. King said, most borrowers have to roll the loans over.

According to Prospera, 62 percent of GoodMoney users took fewer than the industry average of seven loans for the 12-month period ended July.

The median user at GoodMoney took four loans.

Payday loan stores, which barely existed 15 years ago, now outnumber most fast-food franchises. Typically a customer borrows a few hundred dollars in exchange for a check, postdated to the next payday, made out in the amount of the principal plus a fee of $15 to $22 per $100 borrowed.

Usury laws in 12 states, including New York, prohibit or severely regulate payday lending. But while critics, including some lawmakers, call the stores predatory lenders that trap borrowers in ever-deeper cycles of debt, consumers flock to their easy, short-term loans, offered with no credit checks.

Wisconsin, with a population of 5.6 million, has about 450 payday loan stores. In 2005, they made 1.7 million loans, state regulators say, for a total of more than $625 million. Borrowers paid $138 million in fees, making the annual interest rate 521 percent, according to an analysis by the Center for Responsible Lending.

GoodMoney arose out of cases like Ms. Truckey's, said Bob Pedersen, president of Goodwill Industries of North Central Wisconsin, which provides services to low-income people. A few years ago, Mr. Pedersen said, the organization noticed that both its clients and its employees were struggling with payday loans.

"It wasn't uncommon to find them a good job, then see them upside down on credit, with debt they wouldn't be able to pay off in their lifetime," he said.

Some of Goodwill's directors, Mr. Pedersen said, initially opposed offering payday loans, even at lower interest. But Mr. Eiden, Prospera's president, said that "a lot of consumers felt they were a savior."

Of the $9.90 that GoodMoney charges per $100 borrowed, nearly half goes to writing off bad loans, Mr. Eiden said, and the rest to database service and administrative costs.

Since June 2005, the program has made more than 5,600 payday loans, a negligible dent in Wisconsin's payday loan business.

Dan and Julie McGrath cannot say whether the program would have helped them. Three years ago they took a $150 payday loan to follow Mrs. McGrath's daughter to an out-of-area basketball game. Before long they had loans at five payday stores, and some $2,000 a month, about two-thirds of Mr. McGrath's income, was going to finance charges.

On a recent evening, the couple huddled outside a weathered 22-foot trailer on property owned by Mrs. McGrath's parents 90 minutes away near the Michigan border. Since the couple lost their house, this has been their home. It has no hot water or working toilet. In moving, they gave up custody of Mrs. McGrath's teenage children.

Recalling the way the loans had piled up, Mr. McGrath, a 41-year-old maintenance mechanic, said: "We thought, 'O.K., we can get this one over here and pay off these others.' But it never works out. I'd need a set of tires for the car: back you go."

"We sold things out of our home just to eat," he added.

The McGraths now have the assistance of a credit counselor, who has helped them consolidate their payday debt.

A payday alternative like GoodMoney might have helped, they say. Or it might have just been one more source of debt.

"People need to realize what it can do to you," Mrs. McGrath said. "This is what it can do to you."

Copyright 2007 The New York Times Company

Privacy Policy | Search | Corrections | RSS | First Look | Help | Contact Us | Work for Us | Site Map