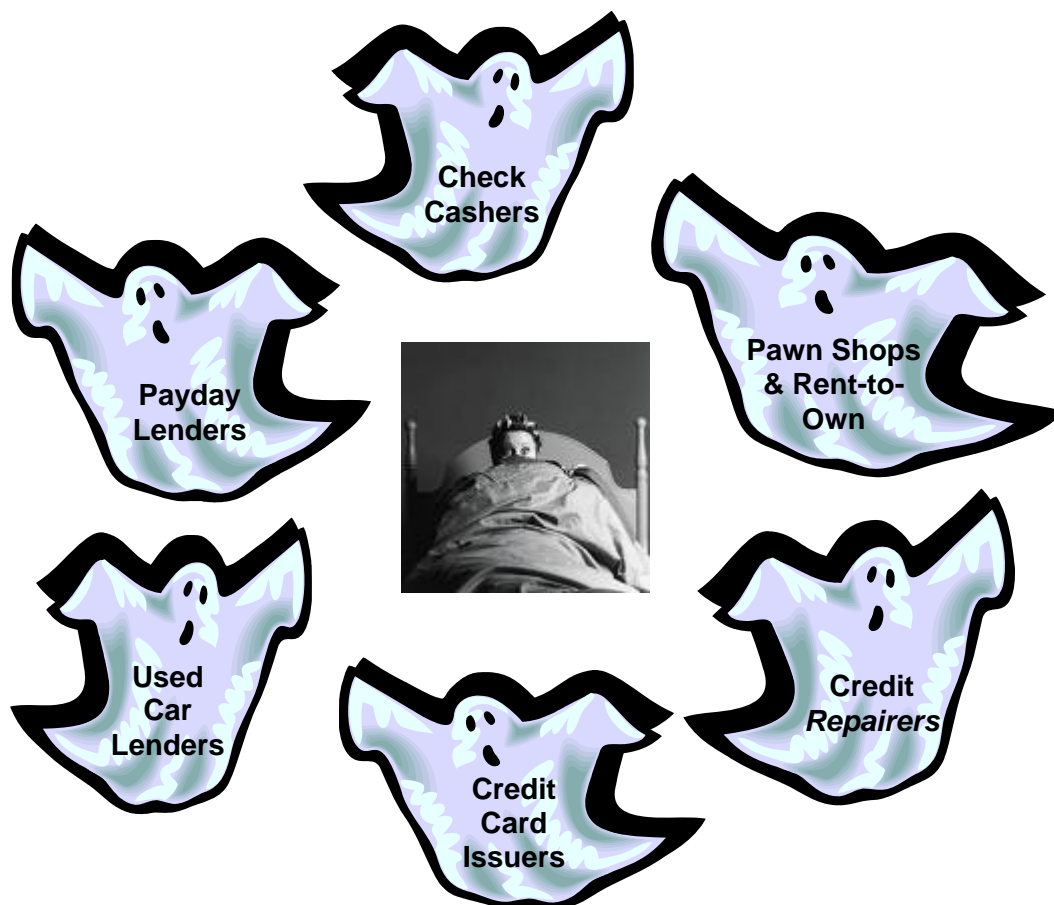




Are Your Clients Losing Sleep Over Money Problems?

Understanding High-Cost Financial Services Providers and Mainstream Banking Alternatives:

*A Quick Reference Guide for Community Organizations and
Practitioners*



Lower income families tend to pay higher than average prices for a wide array of basic household necessities...than higher income households.

For instance:

Check Cashing and Short-Term Loans

Car Prices and Car Loans

Furniture, Appliances and Electronics

Public and private leaders need to promote consumer responsibility and empower lower income consumers with better market information.

Source:

*"From Poverty, Opportunity; **Putting the Market to Work for Lower Income Families**"*
The Brookings Institution, Metropolitan Policy Program, 2006
http://www.brookings.edu/~ /media/Files/rc/reports/2006/07poverty_fellowes/20060718_PovOp.pdf

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The views expressed in this document are those of the authors and do not necessarily reflect the official positions of their organizations, and the content should not be construed as definitive guidance. Most of the information used in its preparation was obtained from publicly available sources that are considered reliable. However, the use of this information does not constitute an endorsement of its accuracy by the authors or their respective organizations.

February 2010

Statement of Purpose

This Guide was written for social service agencies and other intermediaries who regularly serve clients in their communities. The purpose is to enable them to more effectively respond to clients experiencing financial distress *in addition* to the issues being addressed by the organization's primary services, by helping to:

- Recognize some of the non-bank financial services providers whose high-cost or *predatory** products and services do not focus on building long-term financial stability for consumers, and
- Connect clients to appropriate resources for further information and assistance

This Guide is not intended to comprehensively describe any of the practices, products or services, or anticipate and answer all questions.

As a basic principle, the Boston Alliance for Economic Inclusion believes that a consumer's best interest is most often served by establishing a relationship with a regulated and insured financial institution – a mainstream bank or credit union.

The decision to do business with a particular financial service provider should not be taken lightly. Each person's self-interest matters and should be carefully considered to empower sound decision-making, including determinations about whether a particular provider is concerned about the individual's long-term interests. For example, high-cost or predatory providers who do not routinely report favorable payment activity to credit reporting agencies do little to expand consumer access to the financial mainstream and contribute to long-term financial stability.

When possible, this Guide provides realistic options and alternatives. Practitioners will certainly encounter clients for whom alternatives may not be available, at least in the short-term. In such cases, they can strongly encourage their clients to begin today to build a more secure financial future, by seeking financial education or legitimate debt counseling, learning practical budgeting techniques or the value of starting a savings plan, or using some of the resources provided, such as www.mymoney.gov.

The path to building greater self-sufficiency is not easy. Neither is continuing to rely on high-cost or predatory providers and their services.

* There is no single, universally-accepted **definition of predatory financial products and services**. It is commonly accepted that a particular product or service may be considered predatory when it features one or more of the following elements (for loans, transaction services, etc.):

- The loan approval is based on the debtor's assets, rather than ability to repay

- The borrower is encouraged to refinance rather than pay off a loan so that the lender can charge additional fees
- The lender engages in fraudulent or deceptive practices to conceal the true cost of the loan product from an unsuspecting or unsophisticated borrower
- Excessive fees and or interest rates are charged beyond those which would cover a lender's risk and profitable return
- The use of fraudulent, high-pressure, and misleading marketing and sales efforts
- Excessive fees or other costs relative to the product or service
- Abusive collection practices, including aggressive repossession
- Aggressive solicitation of residents of low-income or minority neighborhoods, or other vulnerable populations

Sources:

FDIC Financial Institution Letter, FIL-6-2007, January 22, 2007

*Testimony of Donna Tanoue, Chairman, Federal Deposit Insurance Corporation
Before the Committee on Banking and Financial Services, U.S. House Of
Representatives, May 24, 2000*

A Note for Readers:

The websites listed in this Guide were intended to be representative of resources available to people wanting to learn more about particular issues. The Internet links listed are the English-language sites, and some also provide content in Spanish and other languages, depending on the constituencies they serve.

Internet sites can be frequently updated and content as well as location of specific documents, appearance, etc., are subject to change.

Some content in this Guide reflects existing law and regulation. Such rules are subject to change and whenever necessary, readers are encouraged to contact the appropriate authorities for updated information.

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Check Cashing

Check cashers can be individual store-front providers or interstate chains. They cash personal and payroll checks by charging a significant flat rate or a percentage of the face value for each check presented. Additional services such as bill paying, money orders, and wire transfers may be offered, ordinarily for additional fees.

Why Use a Check Casher?

Most consumers have the basic choice of paying bills through a checking account at a bank or credit union or doing business with a check cashing service. Check cashers offer convenience through the scope of basic services provided as well as hours of operation (sometimes 24 hours a day, and seven days a week). No deposit account relationship between the consumer and the provider is required and therefore, a consumer has no account management responsibilities. Check cashers may require less documentation and also seem friendlier and less intimidating than the stereotypical bank or credit union. The combination of these features may be perceived by some consumers as advantages that outweigh the high costs.

What is the Problem?

These providers frequently charge fees that are disproportionate to (1) the amount of work they perform, (2) the costs of the actual services provided, or (3) the extent of legitimate risk that should be compensated. FDIC research suggests that most checks are cashed with low risk, and losses to the check cashing operations are also low. (See *For More Information* on the next page for a link to this research.)

What is the Result?

According to a 2006 study by the Consumer Federation of America, the average cost of cashing a paycheck at a check cashing service was 2.34% (of its face value), but ranging to as much as 6%. To cash a *pay check* of \$320, the average cost would be \$7.49 each week, and a whopping \$389.48 for the year. And the average cost of cashing *personal* checks is even higher -- 9.36% of face value.

By contrast, banks and credit unions frequently offer basic, no-frills checking accounts with little or no cost when managed correctly. The *Basic Banking for Massachusetts Program*, sponsored by the Massachusetts Community & Banking Council and offered at more than 100 financial institutions throughout the Bay State, has low-cost checking and/or savings accounts designed for consumers whose transaction needs are limited.

Check cashers charging exorbitant fees also impose an *opportunity cost* on consumers. The more money that is spent on basic financial services that could be obtained at lower cost elsewhere, the less money consumers have to spend or save. Checking accounts are also one of the best ways for consumers to establish and build long-term mainstream banking relationships that can lead to an increasingly broad array of

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more affordable deposit, credit, and investment products and services to meet the growing needs that often arise from growing financial stability and self-sufficiency.

What Are Some Alternatives?

In addition to the resources listed below, contacts for counseling and education are included in later sections of this Guide.

For More Information:

The **Massachusetts Division of Banks** licenses check cashers: www.mass.gov, search for “Check Cashers”

The **Massachusetts Community & Banking Council’s** *Basic Banking for Massachusetts Program*: http://mcbc.info/basic_banking

Consumer Federation of America: www.consumerfed.org/pdfs/ckcasherspr.pdf;
www.consumerfed.org/pdfs/CFA_2006_Check_Cashing_Study111506.pdf

The **Massachusetts Credit Union League**: <http://www.maleague.org/>

The **Massachusetts Bankers Association**: <http://www.massbankers.org/>

FDIC Quarterly Journal; “Alternative Financial Services: a Primer”; 2009, Vol. 3 #1:
http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html

Payday Loans

A payday loan (also called a paycheck- or payday- advance) is a small, short-term, high-cost loan that is payable on the borrower's next payday. These are typically made to consumers in financial distress who have checking accounts and verifiable employment. The consumer writes a post-dated check or debit authorization to cover the principal and interest due. Fees are ordinarily taken up-front from the loan proceeds.

Regulation of payday loans is largely a matter of state-law and varies widely throughout the United States. State usury laws ban payday lenders from physically operating in Massachusetts, but this prohibition does not completely protect Bay State residents from payday lenders operating on the Internet.

Why Use a Payday Lender?

A payday loan is often a last resort for a borrower in financial distress and without another way to get cash quickly. At first, the cost may seem relatively small and easy to repay. That is only true if it is actually repaid within the short initial time frame. If the borrower's money problems continue, repayment is likely to be extended by rolling-over the loan for additional periods.

What is the Problem?

The nature of this form of credit is illustrated by a simple example adapted from the National Consumer Law Center: a consumer takes out a 14-day payday loan by giving the lender a post-dated check for \$200 and is charged a 15% fee on the face amount. The consumer actually receives \$170 in cash and the lender pockets the \$30 up-front fee. This produces an Annual Percentage Rate of 458%, IF the loan is repaid in two weeks. However, if the borrower cannot repay, it is rolled over into a new payday loan, an additional fee of \$30 is tacked on, the loan amount increases to \$230, and the APR jumps to 917%.

What is the Result?

A consumer unable to repay within the initial loan term faces at least two potential problems: (1) getting trapped in an extended payment scenario where fees and interest pile up with each roll-over. The accumulating interest and fees can be substantial and, in too many cases, exceed the original amount borrowed. Or, (2) if the lender attempts to cash the check securing the loan when there are insufficient funds available, the consumer's check can bounce, incurring fees and adversely affecting how he or she may be listed by the various firms that report on how consumers manage their accounts. Poor performance can cause a financial institution to close a person's account and make it much more difficult to open one at another institution.

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What to Do

Seek out an alternative. If that is not possible, limit the dollar amount borrowed and repay it with the next paycheck, breaking the cycle of extensions. A realistic budget can control some spending and allow a paycheck to go further.

What Are Some Alternatives?

1. Some banks and credit unions may offer short-term loans for small amounts at more competitive rates. Consider a licensed small loan company. A local community development organization or non-profit service provider may offer small dollar financing for emergencies. A cash advance on a credit card also may be possible, and while the interest rate will probably be fairly high, it will likely be lower than the cost of a payday loan.
2. If the economic distress is related to problems meeting existing credit obligations, current creditors should be contacted as quickly as possible. Many may be willing to work with consumers who they believe are acting in good faith. They may offer a payment extension or other steps that will cost less than a payday loan.
3. A reputable credit counseling agency (see page 17) can help work out a debt repayment plan with creditors, as well as provide financial education including how to develop a budget. Employers, mainstream financial institutions, housing authorities, and other parties can help locate a reputable credit counseling service. Various community-based organizations offer financial education at no- or low-cost.
4. A committed effort to reduce spending may relieve some of the financial distress. Consumers should identify and avoid unnecessary purchases (the cost of small, everyday items like a cup of coffee accumulate into surprisingly large sums). They should also try to build some savings; like expenses, small deposits can also add up and even a modest savings plan can help avoid high-cost emergency borrowing.
5. Talk with a bank or credit union about checking account overdraft protection -- it can be costly, but less than repeatedly using payday loans.

Additional Guidance

The FDIC has issued guidance on Payday Lending Programs in Financial Institutions Letter 14-2005, which states, in part:

“...providing high-cost short term credit on a recurring basis to customers with long-term credit needs is not responsible lending.” It further states that “Institutions should ensure that payday loans are not provided to customers who have had payday loans outstanding from any lender for a total of three months in the previous 12 month period.”

For More information:

The **Massachusetts Division of Banks** licenses small loan companies:
www.mass.gov, search for “Small Loan Companies”

Massachusetts Association of Community Development Associations:
http://www.macdc.org/docs/membership_list.html

National Consumer Law Center:
http://www.consumerlaw.org/issues/payday_loans/index.shtml

Consumer Federation of America: <http://www.consumerfed.org/>

FDIC, Financial Institutions Letter 14-2005:
<http://www.fdic.gov/news/news/financial/2005/fil1405a.html>

Pawn Shops/Rent-to-Own

I. Pawn Shops

Pawn brokering dates back to ancient times, more than 3000 years ago. The pawnshop business of today uses a working model similar to what was used throughout history: an individual takes an item of value (such as jewelry, electronics, or a musical instrument) into a pawnshop to serve as collateral for a short-term, high-cost loan. The pawn broker must hold the item for a specified period of time to give the borrower the opportunity to repay the loan and redeem the item.

Why Use a Pawn Shop?

Consumers who use pawn shops are often unaware of other options available to them, such as bank or credit union loans. In other cases, the consumer may have little access to credit or be delinquent on repayment, making it difficult to borrow from traditional lenders. There is also the perceived ease of the transaction, including less stringent identification and documentation requirements, which some consumers prefer and may accept in return for paying higher costs.

What is the Result?

The pawn broker places a monetary value on the item (usually much less than the item's actual worth), determines an interest rate and term for repayment, and gives cash to the borrower while holding onto the collateral. If the borrower pays the loan according to the agreement, the item is redeemed. If the borrower defaults on the loan, the pawn broker reserves the right to keep the collateral and sell it to recover the unpaid balance. Interest rates at pawn shops are usually disclosed at moderate limits. However, since repayment periods are often short, Annual Percentage Rates tend to be very high, compared to credit at mainstream banks and credit unions.

II. Rent-to-Own

Rent-to-own (RTO) establishments permit individuals to purchase items such as furniture and electronics by extending credit and collecting weekly or monthly payments. The consumer may choose only from the merchandise offered by the RTO, at the price the operator sets.

Why Use Rent-to-Own?

RTO stores may be attractive to borrowers who have limited or negative credit histories. Rent-to-own customers may perceive their transaction to be easy, and may not even be aware that other options exist with lower costs and/or more selection.

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What is the Result?

An item is “rented” during the loan’s term and if repaid according to the contract, the borrower owns the merchandise. The RTO concept is generally more expensive than a direct purchase. The price of a given item available from rent-to-own may be higher than its cost at other retailers. The rent-to-own operation may inflate prices to increase the financing charges. If the borrower defaults on the payment, the RTO company can repossess the item, and money paid up to the time of repossession is not refunded.

What Are Some Alternatives?

Conventional installment loans or credit card purchases can represent less expensive financing for consumers who qualify and properly manage repayment. Obtaining more affordable financing on their own also empowers consumers to shop around for the best deal on the product they want, at a competitive price, from any retailer they choose.

For some people, there may be no short-term alternatives. But these consumers do not have to be trapped into doing business with high-cost providers forever. They can start today to develop long-term strategies (budgeting, regular savings, etc.) to escape the trap of dependence on high cost financial services.

Note that pawn brokers and rent-to-own stores ordinarily do not report positive repayment behavior to credit reporting agencies, so consumers do not help themselves to build good credit track records and long-term financial stability.

For More information:

Licenses for pawn brokers are mandated by state law but **issued at the municipal level** (mayor, city council, board of selectmen, city or town clerk, licensing board, chief of police, etc.).

Concerns or complaints about service providers not otherwise regulated by specific authorities should be directed to the **MA Attorney General’s Consumer Protection Division**: <http://www.mass.gov/>. First select Attorney General from the *Government Links* section, and then click on the link for *Consumer Protection*.

Subprime Used Car Financing

Used cars are the overwhelming choice for low-income consumers because they usually represent the best value for their limited dollars. However, getting a reasonable car for a fair purchase price, with financing at a fair interest rate, requires patience and knowledge. Used cars are a big profit opportunity for sellers and financiers. Profits can come at the expense of trusting consumers who may unknowingly be charged excessive fees based on high interest rates and inflated car prices.

What is the Problem?

Consumers should be wary of subprime auto finance companies that charge interest rates set at the state maximum (21% in MA). Depending on how interest is calculated and the fees are structured, the Annual Percentage Rate (APR) can be much higher than the statutory cap. An example is a loan with monthly “service fees” calculated by adding interest on the unpaid balance to the balance itself before posting any payments.

Care should be taken with used car dealers partnering with finance companies who markup interest rates, charge exorbitantly high markups on after-sale products such as insurance and warranty protection, or adjust vehicle prices to take advantage of large down payments.

Care should also be taken with so-called *Buy Here-Pay Here* businesses where the customer purchases, finances, and makes payments on a car all under the same roof. While they may be the only place for a person with poor credit and a limited income to get a car, care must be taken to get the best possible deal on both the car and the financing. Before buying, the value of the car should be checked against the value listed in any reputable car rating book. The condition of the car should be reflected in the price.

What is the Result?

Consumers can pay hundreds, and even thousands, of dollars more than they should because of hidden costs and inflated car prices. Some of these costs can be avoided with a basic understanding of consumer rights and options. The Federal Trade Commission requires dealers to post a *Buyers Guide* in every used car they offer. This disclosure document gives buyers crucial purchasing and warranty information, but only provides protection if consumers take the time to read it.

Even generally savvy borrowers can pay far more in interest than their credit score dictates if they lack an understanding of the used car sales field. Hidden markups tend to affect African-American, Latino, and female buyers more frequently than other buyers. For example, the Consumer Federation of America, African-Americans pay

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2% higher interest rates than do other Americans to finance used cars, and the difference is 1.5% higher for Hispanic-Americans.

What to Do

As with many predatory practices, the consumer's greatest weapons are information and options. A consumer should:

- Know how much he or she can afford each month for car payment, insurance, gas and maintenance
- Get *pre-qualified* at a bank or credit union for an amount representing those expenses. This will help the buyer understand the cost of owning and running the car, rather than just the cost of purchase and financing
- Check out cars at no fewer than two dealerships
- Understand a car's actual value and overall condition before making a deal
- Make sure a loan is obtained from a licensed lender

For More information:

The MA Division of Banks licenses *Motor Vehicle Sales Finance Companies*: www.mass.gov/, search for "Motor Vehicle Finance"

Helpful tips on evaluating and buying a used car: www.waystowork.org .

A Federal Trade Commission *Consumer Alert* on how to buy a used car: <http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt035.shtm>

An introduction to "**Buy Here Pay Here**" Financing: <http://www.autotrader.com/research/article/car-finance-advice/26068/buy-here-pay-here-car-financing-basics.jsp>

Used Car values, pricing, and buying information is provided by a number of online services. Use any search engine to search for "automobile value estimator" or a similar phrase.

Budgeting techniques and other consumer finance information: www.mymoney.gov

Subprime Credit Cards

Subprime credit cards are issued to customers with bad credit, or no credit history at all. Subprime credit is generally offered at comparatively high cost because subprime borrowers, by definition, present a higher level of repayment risk. Subprime cards are commonly issued with low credit limits, typically as little as \$250 to \$500.

These products were once referred to as *fee harvester cards* in the credit card industry because of the practice of collecting significant up-front fees. Limits on these fees were among the protections for consumers, and restrictions for card issuers, implemented under the Credit Card Reform Act of 2009. However, the law did not cap interest rates, which can be a significant cost factor for consumers who carry-over balances from month-to-month.

Why Use a Credit Card?

A credit card gives consumers considerable convenience and flexibility to make purchases, cover unanticipated or emergency expenses, conduct business via the Internet, etc. Renting a car, among some areas of consumer commerce, almost always requires a credit card. Also, various *rewards* programs offer premiums such as cash-back, air miles, etc. A credit card, responsibly used and carefully managed, can also help a consumer build *good credit* when the card issuer shares that positive performance with credit reporting agencies.

What is the Problem?

Since interest rates are not capped under the 2009 Reform Act, consumers with high-rate subprime credit cards can still be at risk if they are unable to pay off the entire balance each month. This situation is illustrated by a December 2009 Associated Press (AP) story entitled “Subprime credit card firm’s 79.9% interest rate targets riskiest customers”. The AP focused on the redesigned subprime card the nation’s 10th largest credit card issuer planned to offer under the new rules that went into effect on February 22, 2010.

Under the previous credit card rules, this issuer had charged “a minimum of \$256 in fees in the first year for a credit line of \$250”, AP reported. The new law limited the card issuer to upfront fees of no more than 25% of the credit line. However, the permissible interest rate (Annual Percentage Rate) is not capped. The article illustrated the retooled subprime card, with a **79.9%** rate, to be offered to pre-approved prospects:

Credit Limit: **\$300**

First Year Fee: **\$75** (25% of the credit limit)

Annual Percentage Rate: **79.9%**

Monthly Interest Payment (on a \$300 balance at 79.9%): **\$20**

PRODUCTS & SERVICES; *PARTS OF THE PROBLEM***What is the Result?**

In the scenario AP reported, and despite the new credit card reforms in place, the consumer would still start off with a \$75 up-front fee and reduced available credit (not the full \$300, but \$225 after the 25% up-front fee is deducted). Even with that modest credit line, interest payments could run over \$200 a year for a consumer carrying-over significant balances each month. For cash-strapped consumers already in financial distress, a subprime credit card with a less jaw-dropping APR than 79.9% could still represent a serious repayment challenge.

What Are Some Alternatives?

Secured credit cards are available at some banks and credit unions. A secured card requires the deposit of a stated amount of money to serve as collateral to off-set the legitimate risk associated with a *subprime* consumer's credit history. Secured cards are usually issued at terms reasonably similar to unsecured cards. A secured card may give a person some purchasing power and the chance to build a positive credit history, at a cost that reflects actual repayment risk. An obstacle may be a consumer's ability to save the amount needed for the required initial deposit.

Consumers trying to improve their credit standing should seek out financial education and counseling to learn other ways to improve personal money management skills that will help control spending, increase saving, rehabilitate a poor credit history, and build a good track record for long-term financial stability.

For More information:

FDIC Consumer News, article on the Credit Card Act of 2009, *Summer 2009*:
<http://www.fdic.gov/consumers/consumer/news/csum09/newlaw.html>

Federal Reserve Bank of Boston, article on subprime credit cards in
Communities & Banking, Vol. 19, Number 4:
http://www.bos.frb.org/commdev/c&b/2008/fall/Anderson_subprime_credit_cards.pdf

Federal Reserve Board, interactive online *Consumer Guide to Credit Cards*:
<http://www.federalreserve.gov/creditcard/>

Summary of the federal Credit Card Act of 2009:
<http://www.federalreserve.gov/consumerinfo/bcreg20081218a1.pdf>

Information on a wide-range of credit card products, by category of card types, personal credit quality, or by a specific card issuer:
www.creditcards.com

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Credit Repair

Many people seek credit counseling in search of debt relief, but *credit counseling* is a loosely defined term. Understanding the options can help avoid costly mistakes. Getting help in times of financial trouble is a responsible thing to do; consumers just need to know where to look.

Credit Counseling: Advises consumers on managing money and debts, helps develop a budget, and offers free educational materials and workshops. Counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting. They confidentially discuss the entire financial situation with their clients, and help develop a personalized plan to solve the problems. These companies may help "manage" debt by taking one monthly payment from the client and distributing the money among several creditors with whom they've often worked out lower payments and lower interest.

Debt Consolidation: Rolls up one or more existing debts into a new loan product. The monthly cost of credit is lowered by extending the length of the loan. Collateral, such as the debtor's home, is typically required to *secure* a debt consolidation loan. Failure to make payments on a secured loan can put the collateral at risk. Remember: consumers can't borrow their way out of debt.

Credit Repair: Offers to *repair* credit, for a fee, by disputing inaccurate or incomplete information on the client's credit report. (A consumer can do this for free--no agent or intermediary is required to dispute something with a credit reporting agency.) However, a credit reporting agency has no obligation to change or remove information that is negative-but-accurate, and credit repair claims to the contrary are deceptive. Consumers can improve their credit report legitimately, but it takes time, a conscious effort, and sticking to a personal debt repayment plan. Remember: there is no quick fix for reestablishing creditworthiness.

Debt Settlement/Negotiation: Claims that unsecured debt (usually credit card debt) can be paid off for just 10 to 50 percent of the balance owed. Most debt negotiators charge consumers substantial fees for their services, including an up-front fee to establish the account, a monthly service fee, and a final fee representing a percentage of the money supposedly saved. There are no guarantees of success. Also, under current tax laws, the amount of debt that may actually be written off can be added to the debtor's taxable income.

What is the Problem?

Any provider whose claims are *too good to be true*. The Federal Trade Commission urges consumers to steer clear of companies that:

- Guarantee they can remove unsecured debt

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- Promise that unsecured debts can be paid off with pennies on the dollar
- Require substantial up-front and/or monthly service fees
- Demand payment of a percentage of money saved
- Tell consumers to stop making payments to or communicating with creditors
- Claim that creditors never sue consumers for non-payment of unsecured debt
- Promise that using their system will have no negative impact on one's credit report
- Claim that they can remove negative-but-accurate information from one's credit report

What is the Result?

Money problems are challenging and take a financial and emotional toll on debtors and their families. People in distress are ripe targets for predators happy to make money from the misery of others. Problems range from exorbitant fees for too little actual services, to payments not being sent to creditors at all. Consumers' credit standing can be further destroyed, and it can be difficult to recover money paid for services not performed.

What to Do

A number of resources listed in the *For More Information* box on the next page can help locate a reputable counseling agency. Consumers can take the additional step of checking the credentials of any organization with whom they will be placing their trust (and money), by checking for information about complaints or outstanding lawsuits, with the Attorney General, local consumer protection organization, or the Better Business Bureau.

Require that the provider give the real dollar savings, the extent of interest reduction, and the true financial benefit, before enrolling in any program. Consider the impact of all fees charged, including up-front or enrollment fees, monthly fees, and any other expenses the company may charge. Money that goes to fees will not be applied to the debts, and excessive fees can outweigh any *savings* that might otherwise be gained.

Be sure that free financial education and learning resources are provided to help improve knowledge, money management skills, and make positive and lasting behavioral changes. Education should be provided even to consumers who decide not to enter into a formal debt management program.

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For More information:

Massachusetts Attorney General's Office – search online for registration reports to determine if a particular provider is a registered non-profit:

<http://www.charities.ago.state.ma.us/>

If a report does not appear in the database, one further check with the Attorney General's *Non-Profit Organizations/Public Charities Division*:

charities@state.ma.us, or (617) 727-2200x2101, is recommended.

See also: Complaints & Mediation Services; and Local Consumer Programs

Federal Trade Commission –

Credit Repair: How to Help Yourself:

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre13.shtm> , and

Fiscal Fitness: Choosing a Credit Counselor:

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>

Better Business Bureau - office locator: <http://boston.bbb.org/find-a-bbb/>

Federal Reserve - *Handbook to Credit Protection Laws*:

<http://www.federalreserve.gov/pubs/consumerhdbk/>

U.S. Department of Justice, Trustee Program; approved credit counselors:

http://www.justice.gov/ust/eo/bapcpa/ccde/CC_Files/CC_Approved_Agencies_HTML/cc_machusetts/cc_machusetts.htm.

(The U.S. Trustee Program is the component of the Department of Justice responsible for overseeing the administration of bankruptcy cases.)

U.S. Department of Housing and Urban Development; approved housing counselors:

http://portal.hud.gov/portal/page/portal/HUD/i_want_to/talk_to_a_housing_counselor

Personal Identification

Reliance on alternative service providers may be based on the belief that mainstream banks and credit unions have overly stringent and inflexible personal identification requirements that many consumers are unable to satisfy. Financial institutions have sometimes operated under similar beliefs.

The Boston Alliance for Economic Inclusion has addressed many of these misperceptions through the following **Five Things you should know about... Customer Identification Programs**. These *Five Things* are based significantly on the viewpoint of the federal regulators who enforce the applicable law and regulations.

1. What is a Customer Identification Program (CIP)?

The USA Patriot Act has several provisions “intended to facilitate the prevention, detection, and prosecution of international money laundering and the financing of terrorism.”¹ A CIP prescribes “the minimum standards for financial institutions and their customers regarding the identity of the customer that shall apply in connection with the opening of an account at a financial institution.”²

An institution’s CIP should be “appropriate for its size and type of business”³ and enable a bank or credit union to determine whether the depositor is who he or she claims to be (“form a **reasonable belief**”⁴) [emphasis added].

2. What are the general requirements for financial institutions?

The CIP Final Rule has six general requirements:

- An internal written program
- Four pieces of identifying information -- customer name, date of birth, address, and identification number
- Identity verification procedures
- Recordkeeping
- Comparison with government lists
- Customer notice

Although some elements of a bank or credit union’s CIP are not public information, members of the public should feel free to discuss account-opening issues as they would any consumer banking product or service.

3. What kind of Identification Number is required?

For a “U.S. Person”⁵ that means a tax identification number

For a “Non-U.S. Person”⁶ it means **any** of the following:

- Tax ID number
- Passport number and country of issuance
- Alien ID card number
- Number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard

The CIP regulation gives each

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institution reasonable discretion to determine which specific forms of identification it will accept.

Financial institutions may use one or more of the available options, including:

4. What are a “U.S. Person” and a “non-U.S. Person”?

- A U.S. Person is “a U.S. Citizen, or an entity established or organized under the laws of a State or the United States.”
- A non-U.S. Person is “a person who did not satisfy either of these criteria.”

- Contacting the customer
- Comparing information received from the customer to information obtained from a consumer reporting agency, public data base, or other source
- Checking references with other financial institutions
- Obtaining a financial statement

5. What options are available if documentary verification is not possible?

Consumers can ask financial institutions if any of these, or other, identification alternatives are used.

All cited references are from the CIP Final Rule, published in the Federal Register, Vol. 68, No. 90; May 9, 2003

¹ & ² Section I – Background; page 25090

³ Section 103.121(b) (1); page 25109

⁴ Section 103.121(b) (2); page 25109

⁵ & ⁶ Section II -- Section-by-Section Analysis of Final Rule; 103.121 (a) (7), and (8); page 25095

For More information:

Federal Register, May 9, 2003:

<http://www.fdic.gov/regulations/laws/federal/03joint326.html>

Inter-Agency FAQ’s relating to Customer Information Programs:

<http://www.fdic.gov/news/news/financial/2005/fil3405a.html>

FDIC Consumer News, CIP article, Winter 2003/2004:

<http://www.fdic.gov/consumers/consumer/news/cnwin0304/proof.html>

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Financial Education

Predators succeed when they are able to keep consumers uninformed, unaware, and powerless. Knowledge empowers individuals to understand that they can make better choices, and arms them with the information to do so. Financial education is one path to giving people the knowledge and the confidence they need to make more informed decisions and resist too-good-to-be-true come-ons.

Consumers don't always recognize the need to be better educated until it is too late. While the benefits may seem obvious, there are lots of reasons why consumers don't eagerly invest time and effort to improve their knowledge. This is basic human nature, and familiar to anyone who has found it difficult to lose weight, exercise more,

stop smoking, etc. This challenge can be overcome, but does need to be understood throughout the processes of education program design, outreach, execution, etc.

Financial education can come in many forms, including group classes, tutorials for individual study, and one-on-one counseling. Fundamental objectives should be clearly conceived (basic skills such as budgeting and bill paying, opening mainstream banking accounts rather than using high-cost service providers, homeownership preparation, etc.). Defining and measuring success should be realistic. A commitment to patient program refinement and growth will give organizations a sound basis to establish and sustain the effort.

For More information:

U.S. Financial Literacy and Education Commission; *Direct Links to 20 Federal Agencies and their Financial Education Resources:* www.MyMoney.gov

FDIC Money Smart; *Curriculums for Adults and Teenagers:* www.fdic.gov/consumers/consumer/MONEYSMART/

U.S. Treasury Office of Financial Education; *Financial Education Resources:* www.treas.gov/offices/domestic-finance/financial-institution/fin-education/council/OFE-CFAP-Resources.pdf

Jump\$tart Coalition for Personal Financial Literacy; *Online Clearinghouse of curriculums and other materials:* www.jumpstart.org/search.cfm

National Endowment for Financial Education; *Financial Education Clearinghouse:* www.nefe.org/tabid/89/Default.aspx

United Way of Massachusetts Bay & Merrimack Valley; *Financial Education Community Toolkit:* www.financialedtoolkit.org/

The MIDAS Collaborative; *Financial Education Resources:* <http://www.massassets.org/masssaves/home.php>

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Partnerships

Individual non-profits, financial institutions, public agencies, and others seldom have all the resources they need to address serious problems on their own. Even under the best of circumstances, problem-solving requires problem-solvers to join forces. By leveraging their individual resources, they can create a far-stronger action plan greater than the sum of their individual parts.

Partnerships can be built from a combination of individual and mutual self-interest. Both types of benefits should be actively explored so that each party understands exactly why combining forces will serve their organizational purposes as well as the needs of their own clients and the community at-large.

Specific sectors may have incentives intended to promote the creation of such synergies. For example, banks, state-chartered credit unions, and certain mortgage lenders in Massachusetts are subject to the Community Reinvestment Act (CRA). Using the Federal Deposit Insurance

Corporation's *Money Smart* financial education program as a case in point:

The FDIC encourages banks to work with others in their communities to deliver financial education and appropriate financial services to individuals who may be unfamiliar with the benefits of having a relationship with an insured depository institution.

The Money Smart program can help banks fulfill part of their Community Reinvestment Act obligations. The Community Reinvestment Act of 1977 (CRA) encourages federally insured banks and thrifts to help meet the credit needs of their entire community, including areas of low-and moderate-income. When a bank's CRA performance is reviewed, the institution's efforts to provide financial education and other retail services are a positive consideration.

(Source:

www.fdic.gov/consumers/consumer/moneysmart/overview.html)

For More information:

Public-Private Partnerships for the Financial Services Sector; FDIC *Financial Institutions Letter* 82-2008 (August 21, 2008) describes the benefits of establishing public-private partnerships:
www.fdic.gov/news/news/financial/2008/fil08082.html.

Office of Thrift Supervision version: <http://files.ots.treas.gov/481131.pdf>

Faith-Based Community Economic Development: Principles & Practices; a 68 page paper from the Federal Reserve Bank of Boston detailing practices that can be adapted to any community-based setting:
www.bos.frb.org/commdev/faith/ced.pdf.

About the:

Boston Alliance for Economic Inclusion (BAEI)

The **Boston Alliance for Economic Inclusion (BAEI)** is a public-private collaborative. The BAEI's Mission is to enhance the economic well-being of the unbanked/underserved in metropolitan Boston by improving their access to the U.S. banking system, developing and marketing more responsive and affordable financial products and services, promoting financial education, and addressing technical or regulatory issues surrounding these developments.

The BAEI's effort includes offering banks, credit unions, and other financial institutions opportunities to work with the non-profit and public sectors to:

- better understand, and develop the means to tap into, the significant business potential of the unbanked/underserved market, and
- remain in compliance with all current banking laws

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The Worcester Alliance for Economic Inclusion, a companion initiative, is focusing on the same issues in that city. Contact:

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