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CASHED OUT

### Trapped by Web loan with the 842% interest rate

By Stephen Franklin

Tribune Reporter

May 11, 2008

Rochelle Parker needed money for Christmas gifts and medicine, so she went online and found a Web site promising easy money. After a few key punches she was zapped a \$300 loan, but one that charged an astonishing 842 percent annual interest.

The recently retired fingerprint technician for the Chicago Police Department had several other online loans that drained her financially and forced her to move in with her daughter. But getting another loan was so easy on the Internet.

"As my mother said, I'm robbing Peter to pay Paul," Parker said with a shake of her head and a sigh of regret.



People like Parker are falling through one of the newest trapdoors in the cash-strapped economy—online payday loans. Such loans typically were the province of payday loan storefronts that cater mostly to the working poor and low-middle-income workers, short on cash until payday. Now online loans are spreading to the middle class as a result of rising gasoline and food prices, tightening credit, the subprime mortgage fallout and the ease of home computer access to the Web.

"It's insane. It is growing like wildfire," said Henry Coffey, a Baltimore-based stock analyst who tracks the payday loan industry. One factor in the growth of online loans, which charge as much as 2,000 percent interest, is that they effectively hook borrowers into cycles of debt, often forcing people to take second and third loans to cover ballooning debts. "If you are paying over 1,800 percent interest, you will never get out of that debt," said Elizabeth Schomburg, an official with Family Credit Managing Services, a Rockford-based credit counseling agency. Nonetheless, she said she has seen borrowers try to beat the odds and take out "three, five, six or eight loans."

With the sinking economy pinching consumers' wallets, analysts like Coffey consider the Internet loans a bright spot for investors, and he points to a company like Ft. Worth-based Cash America International Inc. It began offering online loans only two years ago, and last year those transactions accounted for nearly 60 percent of its loan revenues of \$322.7 million. The company has an online operation in Illinois as well as 18 storefronts.

## Hard to track

Even in states that have gone after questionable online lenders, investigators have had difficulty tracking them down. That's because many of the Web sites are shell companies that make their money selling names and information about people seeking loans to the lenders, which can be based anywhere, including outside the U.S.

And it's especially hard for a consumer to tell a legitimate online lender from a shady company operating from an offshore location, where they are beyond state and federal laws.

"There are bandits, cowboys and legitimate operators," Coffey said. Chaos will prevail, he predicted, until online lending is regulated.

Even the Community Financial Services Association of America, the voice of most of the nation's payday loan operators, acknowledges that the online payday loan situation is a mess. "Regulated Internet loans," is a solution, said Steve Schlein, a spokesman for the organization.

## Access to bank accounts

Once a person receives an online loan it's nearly impossible to shake loose from the lender's tentacles, said Jean Fox, a loan industry expert for the Consumer Federation of America and a critic of the payday loan industry.

When people borrow online they authorize the lender to electronically tap into their checking account, Fox said. Moreover, the borrower usually agrees to allow the lender to draw funds to pay down the loan even if the bank account has been closed or the account doesn't have enough money to make payments.

That means borrowers can be hit with additional fees from the lender and the borrower's bank for overdrafts, Fox said. If the loan is not paid on time, most Internet lenders will automatically renew loans at even higher interest rates.

John Van Alst, an attorney for the National Consumer Law Center in Washington, D.C., said lenders gain access to accounts by requesting from the bank a "remotely created check." That allows them draw money, even on closed accounts, he said.

Internet loans often cost \$30 for each \$100 borrowed, Fox said, and the high numbers quickly add up, even without additional fees. To cite one example, a payday loan for \$182.68 at 573.57 percent will cost someone \$557.58 a month later. The money is promptly electronically drafted from the customer's checking account.

## Restrictions apply

Internet loans are allowed in Illinois as long as the companies are licensed in the state, said Brent Adams, director of policy for the Illinois Department of Financial and Professional Regulation.

Illinois caps interest rates at 400 percent on payday loans, which are taken out for no longer than 120 days. But on longer-term loans, the sky's the limit. And the state depends on consumers to alert them to questionable Internet lenders.

Last year state officials leveled a \$234,000 fine on a short-term lender that had charged an Illinois consumer 2,190 percent annual interest, which is five times the allowed rate. The state has yet to collect the fine.

The Internet boom in loans comes as the industry feels circled by unfriendly state and federal lawmakers.

Payday industry officials partly credit the explosion in online lending on the growing drive to limit interest rates or to shut down payday loan storefronts. They say this has sent their customers online, where, as they point out, the interest rates are higher and regulation is minimal.

In West Virginia, where payday loans are illegal, state officials have aggressively gone after Internet loan operators that try to do business in their state. But it has not been easy. "We can't even get an address to sue them," said Norman Googel, an assistant attorney general.

Some Internet firms have hired collection agencies that "operate like mobsters," Googel said.

"They'll say, 'If you don't pay by 5 p.m. We'll have you arrested,' " he said. "Consumers get so scared they send them the money."

Googel said he has repeatedly called these collection agencies, warning them it is against West Virginia law to threaten consumers.

Internet lenders sometimes will list a mail address in a state, but it usually is nothing more than a virtual office. Googel suspects many are located outside the U.S.

"It is simply a way of putting layers of obstacles and barriers so consumers cannot find out where the company is located or how to contact them," said Jerry Jaramillo, an official with the Utah Department of Financial Institutions.

## States try to crack down

Prompted by consumers' complaints, Colorado officials recently went after several Internet loan firms. But the firms rebuffed the state's probes, saying they are tribal operations not covered under U.S. laws, and that has led to a legal battle, said Laura Udis, a Colorado state prosecutor.

Oregon, Pennsylvania and North Carolina have recently clamped down on payday loan rates, which has led to an exodus of lenders.

New Hampshire's legislature last week reduced the lending cap to 36 percent for small loans, and in Ohio a political battle is being waged over capping interest rates at 28 percent. A similar battle to lower California's 459 percent payday loan rate recently faltered, however.

Driven by complaints that payday lenders are targeting the military, Congress two years ago capped such loans at 36 percent for members of the armed services and their families.

The loan industry's trade group says it urges its members to follow states' laws. But industry experts say some Internet lenders prefer to do business from one state online and preferably one with no limits on interest rates. However, it's not unusual to find payday loan companies online that don't post the interest rates they charge.

## Urgency drives borrowers

Rochelle Parker said she rarely notices the loan's interest rates even when they are posted.

What matters, she said, is getting the money when she needs it and finding out how long it take to pay it off. And with bad credit, and no savings, she has turned more often to the loans in the last year.

Now she has at least five loans to pay off but not enough money to cover them, putting her in a fix. She hopes to resolve the problem when her pension checks start arriving soon.

A co-worker introduced her to Internet loans, showing her how to do it online. She tried and got a loan within minutes. In fact, it didn't seem so odd to her borrow online because she knew co-workers had taken out the same kind of loans.

Her daughter Angelina Parker, 43, who works as a Chicago Police Department fingerprint technician, has been down the same route as her mother with loans. They helped push her into bankruptcy a few years ago, she said.

Though she is tough on her mother for letting herself get so deep in debt, she understands, she said, why people prefer applying for the loans online instead of walking into a payday storefront. She also understands how the burden of payday loans can affect home life.

"If you are worried that they are going to turn off the lights, or you don't have enough to feed your children, you are going to do it," Parker said.

"You take the loan. And then pretty soon you look and five, six companies are taking money out of your checking account and you have no money."

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