

The Florida Times-Union
Jacksonville, FL,
October 8, 2006

Payday Loan Alternative Comes Credit Union Says It Wants to Fill a Void for Military

By: David Bauerlein

VyStar Credit Union has begun offering six-month loans to people facing a cash crunch between paychecks, marking the first time a traditional lender in Northeast Florida has competed with the storefront businesses that make payday loans.

VyStar's new program comes at a time when payday companies say they will stop lending to the military in light of a federal clampdown on such loans to service members. Advance America, one of the nation's biggest payday lenders, announced it will stop making loans to active-duty military members on Oct. 15.

"Our military people will now be without one of their most valuable consumer options," said Jamie Fulmer, director of investor relations for Advance America.

Payday loans are a popular source of money for people who need a few hundred dollars fast. In Jacksonville, dozens of businesses provide the loans, which typically are due on the borrower's next payday. But they have come under attack by military and consumer groups that say the loans trap people in debt. Credit unions like VyStar are venturing into the market, saying they offer borrowers a better deal.

"It's huge," said Dave Faraldo, director of the Jacksonville area Navy-Marine Corps Relief Society, who has long criticized payday loans.

VyStar Credit Union recently started a Pay & Save Loan program to give its customers an alternative to payday loans. Here is a comparison of a \$500 loan from VyStar with a payday loan from Advance America. The finance charge is the cost of interest payments or loan fees.

Faraldo said the biggest problem with payday loans is they typically are due within just two weeks. In Florida, it's illegal for payday lenders to "roll over" the loans with higher fees if a borrower can't repay in that time frame. But laws vary by state.

Congress heard horror stories of loans that ballooned from a few hundred dollars into thousands of dollars in fees when borrowers repeatedly missed payment deadlines.

Under Florida law, a payday loan is limited to \$500. The repayment period can range from one week to one month. The business can charge 10 percent of the loan amount, plus a \$5 fee, as the finance charge. For instance, a \$300 payday loan would have a \$35 finance charge.

Pay & Save Loan

VyStar's Pay & Save Loan gives borrowers six months to repay the loan in installments. VyStar charges 14 percent interest rate on the loans, so a \$300 loan would trigger \$42 in interest payments. VyStar rolled out the loan program at 21 Northeast Florida locations in August.

Other credit unions across the nation have begun offering similar loans in recent years, motivated by reports of customers being burned by payday loans, according to the Florida Credit Union League, a statewide trade association.

Last week, Congress approved legislation that puts a nationwide cap on how much payday lenders can charge for loans to service members and their dependents, such as spouses and children. U.S. Sen. Bill Nelson, D-Fla., pushed for the restriction because the "nation is at war right now" and he had heard from groups representing the military that payday loans were hurting troop morale and readiness, said Mike Sozan, an aide to Nelson.

"I think it sends a strong signal that payday loans are dangerous, and the interest rates are far too high and unconscionable," said Lynn Drysdale, a Jacksonville Area Legal Aid attorney who testified before a Senate committee about payday loans.

If President Bush signs the bill into law, the Pentagon would draw up administrative rules and the cap would take effect by Oct. 1, 2007.

Advance America has already said it will stop making loans to the military. The company said it disputes a Pentagon report criticizing payday loans but decided it will stop lending to active-duty military members in light of contentions the loans hurt troop readiness. Advance America operates about 2,400 locations nationwide, 24 in the Jacksonville area.

Limiting APR

The federal legislation would limit payday loans to an annual percentage rate of 36 percent. At those terms, a \$300 payday loan payable in two weeks would have a finance charge of \$4.14. The charge would not be enough to cover the company's cost of doing business, according to the Community Financial Services Association of America, which represents payday lenders. The organization expects the entire payday loan industry will eventually end loans to military personnel.

Fullmer of Advance America said payday loans give people a way to pay bills on time and avoid late fees. He noted that banks assess overdraft charges that can be around \$30 if someone writes a check with insufficient funds to cover the amount.

"I think that's why consumers understand that the payday advance option is a good one for them," Fulmer said.

The fees associated with bounced checks have caused people to turn to payday loans for quick cash, said Mark Ivester, a vice president with the Florida Credit Union League.

He said another trend affecting payday lenders has been the growth in credit card usage. Credit unions used to provide short-term loans to their members, but credit cards have taken over that role, he said.

The challenge for credit union is to develop short-term loan programs for people without access to credit cards, he said.

Rich Alfirevic, executive vice president and chief operating officer at VyStar, said it's "outrageous" that payday loan businesses would stop making loans to military members. He said the credit union decided on a 14 percent interest rate for its Pay & Save Loans because that will make it a break-even program. He said VyStar, which was originally founded in 1952 to serve military members, doesn't view the loans as a profit-making venture, but as a way to provide a service.

VyStar no longer is limited to the military. To join VyStar, a customer must live or work in the credit union's service area of 15 Florida counties.

VyStar loans vs. payday loans

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	VyStar	Advance America
Loan	\$500	\$500
Finance charge	\$70	\$55
Repayment period	6 months	2 weeks

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