



Maumelle MONITOR

8:30 pm
 Currently: 86
 RealFeel® High: 93
 Humidity: 65.59391784
 Winds: NNW at 5 mph
[Click here for a 15-day forecast!](#)

- BREAKING NEWS
- LOCAL NEWS
- POLICE REPORTS
- SPORTS
- CLASSIFIEDS
- ANNOUNCEMENTS
- OBITUARIES
- ENTERTAINMENT
- BUSINESS
- LIVING
- OPINION

Search Site: ARCHIVES

- PUBLICATIONS
- The Times
 - Sherwood Voice
 - Maumelle MONITOR
 - JACKSONVILLE PATRIOT
- ONLINE SECTIONS
- Travel
 - Consumer Technology
 - Food & Recipes
 - Automotive
 - Education & Careers
 - Family Matters
 - Money
 - Weddings & Style
 - Health
 - Horoscopes
 - Entertainment News
 - Financial News
 - Weather

Local News

Print this story | Email this story | [+] Text Size [-]

"In by Noon - Out by 5"

Click HERE to See and Buy Photos

Group says bank overdraft fees as predatory as payday loans

By Jason Wiest / Arkansas News Bureau / jwiest@arkansasnews.com
 Thursday, July 24, 2008 3:12 PM CDT

As co-founder of Arkansans Against Abusive Payday Lending, Hank Klein was one of the first in the state to cry foul about the industry's use of the term "fee" to describe its charges for short-term loans.

What those lenders were charging was actually interest that, when calculated as such, grossly exceeded Arkansas' 17 percent usury limit, the group said. After years of legal battles, the state Supreme Court and the attorney general made the same interpretation, and the industry is being ushered out of the state.

A similar debate is taking place nationally about the use of the word "fee" by financial institutions regarding charges they assess for paying a check that normally would bounce, commonly marketed as "bounce protection."

Klein is not advocating for either side in Arkansas like he did for the payday lending discussion, but when asked, the former credit union executive said he interpreted the bank policy differently from that of payday lenders.

"I think it is a fee. That's what the Federal Reserve calls it today," said Klein, a former chief executive officer of the Arkansas Federal Credit Union. "Now, if the Federal Reserve changes that and calls it interest, then it will be interest."

ADVERTISEMENT



A national consumer advocates group is lobbying the Fed to do just that.

"Some of our largest financial institutions are hiding behind a smokescreen of misleading terms and murky practices that encourage costly overdrafts," Eric Halperin, director of the Center for Responsible Lending's Washington office, said recently.

Nationwide, consumers pay \$17.5 billion in overdraft fees every year, according to a study the center conducted — more than the amount of money that banks "loan" — a term the center considers key.

Any number of scenarios can set up such a situation, but at its simplest, a bank covers a check or debit card transaction even when there is not enough money in a customer's account to cover it. Doing so allows the consumer to avoid fees from the merchant for a returned check. But the bank charges the consumer for the service.

Banks recoup the amount of the transaction plus a charge averaging \$34 from the account holder's next deposit, a practice Halperin's group considers as predatory as payday lending.





Stocks
Sponsored By
Stephens Inc.

Enter symbol

Symbol Lookup

NSDQ	NYSE	S&P 500
25 Jul 2008	■ NSDQ	
2325		
2310		
2295		
2280		

FinancialContent.com

NSDQ	2310.53	+30.42	(+1.33%)
NYSE	8395.58	+25.67	(+0.31%)
S&P 500	1257.76	+5.22	(+0.42%)
AMEX	2152.01	+27.63	(+1.30%)
RUS 2K	710.34	+7.95	(+1.13%)
Crude Oil	123.25	-2.24	(-1.79%)
30YR Yield	4.68	+0.00	(+0.00%)

Quotes delayed at least 20 mins.

[Market Summary](#)
[Market Movers](#)
[My Watchlist](#)

FREE
Subscriptions to
Business
Publications

ONLINE POLL

Will gas prices go down with a new President?

- No
- Yes
- We will go green before then

[View Results](#)

Such a parallel is not even considered in banking circles, according to Luther Guinn, deputy commissioner at the Arkansas State Bank Department.

"We consider it a fee that a bank can legally charge," Guinn said.

His statement mirrors assertions by payday lending officials that they, too, charge fees, not interest, and therefore are not subject to the state's usury law.

But the state Supreme Court has ruled that payday lenders charge interest on short-term loans, often running into triple digits when converted into an annual percentage rate, well above the state's usury limit.

One difference in the practices is that consumers seek out payday loans, said Kathleen Day, spokeswoman for the Center for Responsible Lending.

"We think banks ought to, before automatically doing this for people, at least ask them if they want this service, which amounts to a higher-interest, short-term loan," she said.

Among the center's other complains are that banks bolster the charges using practices such as clearing high-dollar debits before subtracting smaller debit amounts, holding deposits longer than necessary and failing to decline overdrafts or warn customers at the checkout or automated teller machine that they have insufficient funds.

Banks gave those warnings in the past, and most customers would decline transactions they didn't have money for, given proper warning, according to a survey the center conducted.

Several bank officials did not return calls seeking comment by press time, including a spokesman for Regions Financial Corp. in Little Rock, and state Sen. Ed Wilkinson, D-Greenwood, president of Farmers Bank in his hometown.

Others declined comment, including Robert Stevins, a senior vice president at Metropolitan National Bank in Little Rock and Bank of the Ozarks Vice President Gary Miller.

Arkansas Attorney General Dustin McDaniel, whose crackdown on payday lending has whittled the number of operations in the state from 237 in March to 136 this month, has acknowledged similarities in the way payday lenders and banks operate.

"I don't like overdraft fees the way that they are often used, and I've even spoken with some bankers who tell me that banking consultants encourage them to structure overdraft fees in such a way to essentially constitute short-term loans with high interest on them," McDaniel said Friday.

But he said he has no jurisdiction to challenge practices governed by federal law.

Federal lawmakers have proposed legislation that would amend the Truth in Lending Act to clarify that overdraft fees are finance charges so that annual interest rates are reported, allowing consumers to compare the cost of overdraft charges with the cost of other options.

House Resolution 946 also would require written consent before enrollment in such programs, require financial institutions to warn the customer when an ATM withdrawal will trigger a fee and allow the customer to cancel the transaction at that time, and prohibit financial institutions from manipulating the order of check clearing to increase customers' overdraft fees.

Rep. Carolyn B. Maloney, D-N.Y., chairman of the Financial Institutions Subcommittee, is a sponsor of the legislation.

"I've always said that banks have the right to make money for what can be a valuable service, but consumers also have a right to information they need to make an informed decision," she said.

Banks also should not allow consumers to abuse the costly service, McDaniel said.

"It really should be simply a fee to both deter people from overdrafting their checking accounts and to compensate the bank for any cost or inconvenience for returned checks," he said. "It should not be used as a consistent tool by which people write checks they know they can't cover."

[Return to Previous Page](#)

Comment Blog - Note: All Comments Subject To Approval

Comments are limited to 200 words or less.

Name:

COMMENT RULES

Comment posters are responsible for the opinions they express and the accuracy of the information they provide. We urge



YOUR LOCAL CREDIT UNION

JOIN TODAY!

501.340.2300
6929 JFK Blvd.
(Located in the Indian Hills Shopping Center)

Local, Convenient & Friendly!



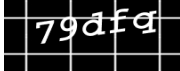
your unique choice to assure comfort for your loved one

Nursing & Rehab and Retirement facilities

Email:
(optional)

Comments:

Current Word Count:

Image Verification:


comment writers to treat this as a public forum where manners matter. We encourage a collegial, non-insulting tone. Be aware, in accordance with the Communications Decency Act and provisions upheld in judicial appeal, that you are responsible for comments posted on this Web site.

Do not post:

Potentially libelous statements or damaging innuendo.
Obscene, explicit, or racist language.
Personal attacks, insults or threats.
The use of another person's real name to disguise your identity.
Comments unrelated to the story.

If you believe that a commenter has not followed these guidelines, please use our online complaint form.

Thank you for your comments!

 Find out about our RSS feeds and what they are.

[Email The Webmaster](#)

Copyright © 2008 Stephens Media, LLC. - www.pulaskinews.net
Last published on Thursday, July 24, 2008
Visit our sister site, www.lonokenews.net
All rights reserved.
Unauthorized reproduction is prohibited.