MARTIN & JONES PLLC
Attorneys at Law

Concerns have been raised about large banks beginning to make short-term loans similar to those found in the oft-criticized and problem-plagued payday lending arena. Banks have faced lower revenue as a result of limits on debit card and overdraft fees. Those lenders are now offering high-cost loans that are meant for consumers who cannot access other forms of bank credit. In that regard, the loans are similar to storefront or online payday loans.

Scrutiny of these short-term loans was increased when the North Carolina Attorney General, on September 21, requested that Regions Financial Corp. provide data showing why its loans do not violate the North Carolina interest rate cap. In May, the Federal Deposit Insurance Corp. decided to investigate payday-like products, offered by banks, joining an inquiry underway by the Consumer Financial Protection Bureau. The banks do not use the term "payday" for the short-term loans they make. The Regions loan is called "Ready Advance" and Wells Fargo is marketing its short-term loans as "Direct Deposit Advance."

Responding to criticism, the banks maintain they are offering lower interest rates than traditional payday loans and, unlike non-bank lenders, they do not allow customers to renew the loans indefinitely. The banks' protestations stand in stark contrast to a recent report from the Center for Responsible Lending. The Durham-based non-profit analyzed how 55 customers used the loans and concluded that they paid an average annual interest rate of 365 percent, took out an average of 16 loans annually, and spent more than half the year in debt.

Given the aggressive stance regulators took to protect consumers with overdraft fees, restrictions on short-term loans by banks may be in the offing. The Consumer Financial Protection Bureau has been particularly vigilant in ensuring that consumers are treated fairly with respect to consumer finance transactions.

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