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NEWS RELEASE

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Wells Fargo Bank Backs Off Plan to Introduce Usurious Loans in New York

Groups Vow to Keep Payday Lenders Out of New York

Community and civil rights groups celebrated an important victory last week, when Wells Fargo Bank backed off its plan to roll out a usurious loan product in New York and Connecticut. Wells Fargo had planned to expand its payday loan-like product to the two states in March 2011, through its Wachovia branches, soon to be rebranded as Wells.

New York State has long prohibited payday lending through a criminal usury cap of 25%. Wells Fargo, which charges 120%-1,200% APR on its "direct deposit advance" loans, intended to use its status as a national bank to circumvent New York's usury law. Vehement opposition by local groups, as well as by national fair lending advocates, apparently led the bank to reconsider.

"This should serve as a warning to other lenders that would try to evade New York's strong consumer protections," said Sarah Ludwig, co-director of NEDAP, a financial justice advocacy group. "Times are tough enough without predatory payday lenders taking advantage of New Yorkers who are struggling to get by."

In states where Wells Fargo makes its advance loans, checking account customers can borrow up to \$500, by signing over their next direct deposit of payroll, Social Security or other public benefits to repay the loan, plus fees. A worker seeking to borrow \$200 for two months, for example, would typically end up taking out four back-to-back advances, paying \$80 in fees.

Critics have blasted Wells for using the high-cost loans to exploit people who are living paycheck to paycheck, or from one Social Security check to the next.

"A responsible lender would never make loans on these terms," said Linda Levy, CEO of the Lower East Side People's Federal Credit Union. "Payday loans are designed to be unaffordable, so that lenders can continually flip the loans and charge hefty new fees each time."

“Older people, even those whose only income is Social Security, have been the unfortunate targets for unconscionably high-cost loans made by banks and payday lenders,” said Lois Wagh Aronstein, AARP New York State Director. “These lenders take advantage of people who are desperate to pay for necessities, and invariably entrap those who can least afford it in a downward spiral of indebtedness.”

Notwithstanding Wells Fargo’s decision, the bank reportedly plans to introduce a modified loan product in New York and other states. Local and national groups have vowed to fight any future loans that violate state usury or other laws.

“No matter what the guise, predatory, wealth-stripping loans such as these should not be allowed – in any part of the country,” said Liz Ryan Murray, Policy Director of National People’s Action.

“Payday loans have had a devastating impact on communities throughout the country,” said Robert Martin, Associate Director of DC 37 Municipal Employees Legal Services. “We are holding the line in New York. Predatory payday lenders are not welcome here.”

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