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High-cost Payday Lending Spreading Rapidly

Fed by cash-strapped consumers seeking quick loans, and aided by state adoption of weak laws, high-cost payday lending is spreading rapidly across the nation, according to a report released in November by CFA.

The report urges states to enforce existing laws and to adopt new laws to address industry abuses.

"Consumers who have maxed out their credit cards are turning to payday loans for quick cash," said CFA Director of Consumer Protection Jean Ann Fox.

Calling payday lending "the modern day equivalent of 'loan-sharking,'" Fox estimated that the fast-growing industry is bringing in at least $1 billion per year nationwide.

In 19 states and the District of Columbia, payday lenders have won state laws exempting them from usury laws or small loan interest rate caps.

Another 13 states either set no limits on small loan interest rates or set a minimum fee that permits payday lending to operate legally. (Three of those states prohibit check cashers from making payday loans.)

Even in the 19 states where these loans are now illegal, problems exist, either in violation of existing small loan rate caps and usury laws or through the use of out-of-state national banks to evade state laws banning payday lending.

Survey Uncovers Abuses

When CFA and member organizations in eight states surveyed payday lenders, they found a variety of law violations, evasions, abusive practices, and misinformation. For example:

• Although Virginia prohibits payday lending, payday loans are being marketed there by a national bank located in Pennsylvania. The bank offers the loans through check-cashing outlets in the Tidewater area, despite the fact that Virginia prohibits check cashers from making loans. Furthermore, although Virginia imposes a 36 percent APR cap on small loans by licensed lenders, the loans cost $17.50 per $100 for up to 14 days, for an APR of 456 percent.

• The survey found several lenders in western Pennsylvania offering loans for $15 per $100 loaned, or 391 percent APR, in violation of Pennsylvania's prohibition on payday lending.

• In Illinois and Oregon, where no interest limits are set on small loans, the survey found rates ranging from $10 to $22 per $100 loaned in Illinois and from $15 to $20 in Oregon. The highest APR in Illinois was 573 percent, while in Oregon the highest APR was 521 percent.

• In states with payday loan laws, a number of lenders were found in violation. For example, ten of 19 lenders surveyed in Florida quoted fees higher than the legal limit of 10 percent of the check's face value.

• When asked to quote the annual percentage rate for their loans, most payday loan personnel either quoted the percentage of the check's face value charged, denied the transaction was a loan, or said they did not know the APR.

• Lenders agreed to roll over or renew payday loans more than half the time. In Tennessee, where roll-overs are prohibited by law, lenders stated that consumers could pay off the first loan and immediately take out another one.

• Although state payday loan laws set maximum terms of 30 to 31 days, only one California outlet quoted a 30-day loan term. All the rest quoted shorter terms, generally either 14 days or "until your next payday." A few lenders gave consumers only seven days to repay loans, further increasing the likelihood that consumers would pay the fee again to roll over the loan.

Check-based Loans Hurt Consumers, Benefit Lenders

"Making small loans based on personal checks is a gimmick that benefits lenders and harms consumers," Fox said.

In fact, since a written agreement is necessary to make payday loan disclosures, and since the checks are often redeemed for cash, the check is superfluous to the transaction, Fox explained.

"Lenders use the ploy of loans based on checks to foster the advantageous cost comparison between bank bounced check charges and the payday loan fee," she said. "In reality, other forms of short-term credit, such as credit card cash advances and small loan rates, offer the proper benchmark for payday loan costs."

Furthermore, holding the borrower's personal check makes collection easier and less expensive for lenders, Fox noted. In some cases, lenders threaten or actually file criminal bad check charges or sue for triple damages for check fraud when consumers default on loans.

Policymakers Urged To Act

As a first step toward reigning in abuses, CFA urged states to beef up their enforcement of usury laws and small loan rate caps and to reinstate interest rate caps for small loans in those states that repealed usury limits.

Where states elect to permit high-rate micro loans, CFA and the National Consumer Law Center have proposed model legislation to curb abuses associated with excessive fees, roll-overs of loans, and punitive collection practices.

Fox also called on the federal government to close the loopholes that permit national banks to make payday loans in states that prohibit state check cashers or state chartered financial institutions from making such loans.

Finally, Fox noted that problems with payday lending highlight the need for the Treasury Department to adopt consumer protection rules for bank accounts that federal benefits recipients are opening to comply with EFT '99.

"Check cashers want the ten million unbanked federal check recipients to come to them for their monthly checks," she said. "Treasury's silence on consumer protections for these accounts invites the marketing of abusive payday loans secured by future federal benefit deposits to vulnerable consumers."

The report is available for $10, paid in advance, by writing to CFA Payday Loan Report, 1424 16th Street, N.W., Washington, D.C. 20036.

A TYPICAL PAYDAY LOAN

The consumer writes a personal check for $115 to borrow $100 for up to 14 days; the check casher or payday lender agrees to hold the check until the next payday.

When the loan comes due, the borrower can allow the check to be sent to the bank, redeem it by bringing in the full $115 in cash, or "roll it over" by paying an additional $15 fee to extend the loan for another two weeks.

The $15 finance charge that the borrower pays for the loan translates to a 391% annual percentage rate. If the consumer rolls over the loan just three times, the finance charge quickly rises to $60 to borrow $100.

Consumers Score Insurance Victories

Consumers scored two major victories on insurance issues in recent months.

In October, a Richmond, Virginia circuit court jury handed down a $100.5 million verdict against Nationwide Insurance Group for redlining.

In November, Metropolitan Life Insurance Company announced that it will distribute $14 billion in retained earnings to policyholders when it reorganizes as a stock company.

"While these victories are great, much more must be done to end redlining and to assure proper policyholder recognition when demutualizations occur," said CFA Insurance Director J. Robert Hunter.

Met Life's decision to distribute its surplus to policyholders as part of its conversion from a mutual company, in which policyholders own the company, to a stock company means those policyholders will receive an average of $1,166 each.

This is an important victory, Hunter said, "because it shows that mutual companies can convert and, in the process, policyholders can receive their rightful share of the corporation."

Met Life had spent two years – and reportedly millions of dollars – trying to convince the New York State legislature to pass a mutual holding company law, which would have allowed mutual insurance companies to convert to stock companies without making any payout to policyholders. CFA and other consumer groups opposed this effort.

When it failed, Met Life turned its attention to the U.S. Congress, where it sought legislation that would have allowed mutual companies to change states to take advantage of existing mutual holding company laws. Although the legislation was attached to last year's House financial modernization bill, it died along with that bill at the end of the session.

Minority Communities "Purposely Underserved"

In the Nationwide case – which was brought by Housing Opportunities Made Equal, a private fair-housing agency based in Ohio – the jury found that the insurance company had systematically devised marketing and underwriting plans that purposely underserved minority communities in Richmond.

Nationwide had previously settled similar allegations brought by the U.S. Department of Housing and Urban Development, agreeing to change its underwriting practices and paying over $13 million to settle the complaint. In the wake of that decision, State Farm and other major insurers also changed their underwriting practices.

"Nationwide's marketing approach was a classic example of geographic targeting,"

(Continued on Page 3)

Levitt, Tobias Stress Importance of Savings

Both keynote speakers at CFA's financial services conference in December focused on the need to encourage consumers to make better financial decisions.

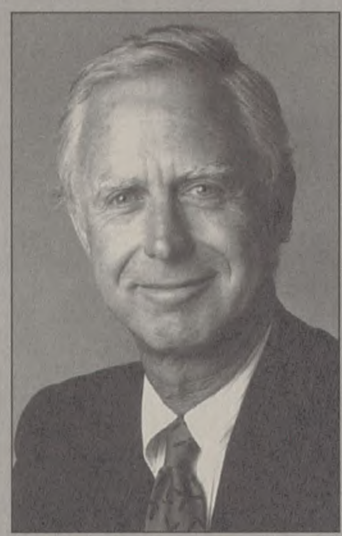
Securities and Exchange Commission Chairman Arthur Levitt invited consumer advocates to join the agency in a campaign to increase consumer savings and to improve the ability of consumers to make sound investment decisions.

Author Andrew Tobias emphasized the need to encourage consumers to reduce their debt and increase their savings.

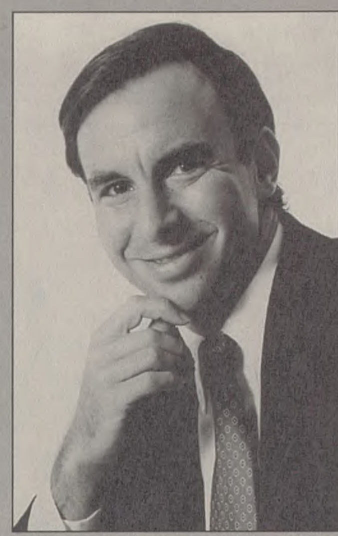
Noting that more Americans now invest in the stock market than ever before, Levitt said, "there is an unacceptably wide gap between financial knowledge and financial responsibilities."

"Tens of millions of Americans lack the basic saving and investing information they need to prepare for retirement or to meet other financial goals," he said. He described the situation as "a financial literacy crisis."

The situation is particularly pressing for "the tens of millions of Americans who aren't investing in the stock market . . . who could contribute to an IRA, but don't . . . who could participate in a retirement plan, but fail to do so," he said.



SEC Chairman Arthur Levitt



Author Andrew Tobias

All Americans Need To Hear Savings Message

"Shouldn't it be incumbent upon every one of us to get across to all Americans – from every income level – that saving early and investing over the long term is not only smart and sound, but increasingly necessary?"

Levitt called on consumer groups to get more involved in "spreading the message about saving and investing," and he invited them to join in the Facts on Saving and Investing Campaign being coordinated by the SEC and state securities regulators.

"Together, we need to give people the tools to ask the right questions and get the right answers," he said.

Levitt outlined a three-part plan for improving investor knowledge:

• getting a basic message about the importance of saving on television and radio through public service announcements;

• encouraging companies to take a greater role in teaching their workers about money; and

• expanding financial literacy instruction in the schools.

"Today, we stand at what may be a defining moment in American economic history," Levitt said. "This may someday be described as the era of democratization of American finance.

"But, if the vast majority of investors are not informed and not educated, opportunity will lose out to ignorance," he warned.

Debt Reduction Must Be A Priority

Tobias also issued a warning – that consumers are "borrowing too much, saving too little, and not shopping as wisely as [they] ought."

"The first thing any consumer should do is try to get off the credit card treadmill," Tobias said. For the 70 percent of credit card holders who run a balance, "life is 20 percent more expensive than it needs to be," he said.

Like Levitt, Tobias emphasized the importance of encouraging people to start saving young for retirement, and he advocated a simple message that emphasizes the importance of minimizing costs. "In the investment horse race, the fund with the lightest jockey invariably wins the race," he said.

One reason people don't make better investment decisions, he added, is that they allow themselves to be sold instead of making informed purchase decisions. "I would urge people to be buyers, not shoppers," he said.

The conference also included sessions on the debate over auto choice, the consumer impacts of bank mergers, subprime home equity loans, how the least affluent can build wealth, social security privatization, life insurer self-regulation, mortgage reform, and meeting investor education needs.

Consumers Get Mixed Grades On Literacy Quiz

Although Americans received a passing score on a recent quiz of basic consumer literacy, they revealed a considerable lack of knowledge about key purchases that could cost them a great deal of money, according to quiz results released last fall by the Consumer Literacy Consortium.

American consumers amassed an average score of 75 percent on the quiz, which was drawn from the consortium's pamphlet, "66 Ways to Save Money."

Despite these overall passing results, consumers demonstrated a disturbing lack of knowledge about a number of major purchases. For example:

• Nearly three in five (57 percent) respondents incorrectly believed that new car buyers have three days to change their mind about the purchase.

• More than half (52 percent) erroneously thought that all real estate brokers working for home buyers are legally obligated to represent their interests. In reality, only those brokers who serve as buyer agents are solely responsible to the buyer.

• Almost half (44 percent) incorrectly believed it is always wise to buy rental car insurance. In fact, this typically expensive coverage is often redundant.

• A significant majority (56 percent) was unaware that local memorial societies are nonprofit associations that can arrange relatively inexpensive funerals.

• Nearly one third (32 percent) still believed that all savings and investment products sold by banks are federally insured.

"Consumers who shop knowledgeably could easily save an average of more than $1,000 per household," said CFA Executive Director Stephen Brobeck, who also serves as chairman of the consortium.

On the more positive side, the quiz also revealed that large majorities are aware of a number of important money-saving strategies. For example:

• 87 percent knew they could lower the price of some airline fares by up to two-thirds by purchasing their ticket well in advance and staying over Saturday night.

• 83 percent realized that the purchase price is not the most important factor in the lifetime cost of a car. Especially for new cars, financing, insurance, gasoline, maintenance, and repair costs can greatly exceed the purchase price.

• 91 percent knew that leasing a car is not always cheaper than buying one. Even though the monthly leasing payments may be lower, there may be other fees that increase the overall cost of leasing the car, and the consumer does not own the car at the end of the lease.

• 87 percent knew that they should not pay in full for home improvements before the work is completed, even if the contractor is trustworthy.

• 89 percent realized that there is a charge for using an operator to make a long-distance call.

The quiz was developed by the Consumer Literacy Consortium, a working group of leading educators from consumer groups, government, and business who have been engaged for the past five years in efforts to improve the nation's consumer literacy.

The quiz was administered by land grant university educators to approximately 1,700 individuals in 31 states. Respondents in the non-scientific, convenience sample were disproportionately middle-income and middle-aged.

The quiz was conducted by the consortium as part of a nationwide effort to monitor and improve consumer literacy. In addition to informing consumers about potentially costly lack of knowledge, the results will be used by the consortium and other consumer educators to target their efforts more effectively.

A major focus of the consortium's education efforts has been distribution of the pamphlet, "66 Ways to Save Money." More than a million copies have been distributed.

Consumers can obtain a free copy of the pamphlet by sending a self-addressed, stamped envelope to: "66 Ways to Save Money," P.O. Box 12099, Washington, D.C. 20005-0999. The pamphlet can also be accessed at: http: // www . pueblo . gsa . gov /cic_test/ money/66ways/66ways.htm.

The consortium has also developed a brochure for community educators called "33 Ways to Use 66 Ways to Save Money."

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CPSC Announces Weak ATV Action Plan

In December, the Consumer Product Safety Commission announced the all-terrain vehicle safety programs that five ATV manufacturers have agreed to undertake in the wake of the ATV consent decree's expiration last year.

"The ATV action plan does not do enough to protect children from being killed and injured on these vehicles," said CFA General Counsel Mary Ellen Fise. For the most part, it simply extends the key provisions of the consent decree negotiated between the agency and the ATV industry in 1988, she noted.

In the plans of Yamaha, Kawasaki, Suzuki, Polaris, and Arctic Cat announced by the agency in December, these companies agreed not to market, sell, or offer to sell adult-size ATVs to or for use by children younger than 16, and they agreed to retain the services of an independent organization to conduct undercover inspections to assure dealer compliance with the minimum age requirements.

"Unfortunately, the consent decree did not adequately reduce ATV-related risks," Fise said. Under its provisions, approximately 240 people have died each year and an additional 54,000 have been injured riding ATVs, she noted.

Risks To Children Not Adequately Addressed

The risks are particularly acute for children. Although only 14 percent of ATV drivers are children under the age of 16, 47 percent of the ATV-related injuries and 35 percent of the ATV-related deaths involve children under 16.

"Yet, rather than implementing a tougher response to the mounting ATV deaths and injuries to children, the commission has commended the ATV industry for undertaking an action plan that simply maintains the status quo," Fise said.

The companies did agree to two new provisions that have the potential to improve ATV safety beyond what the consent decree offered: they agreed to implement a new, multi-year information and education campaign emphasizing the risks that result when children younger than 16 operate or ride on adult-size ATVs; and they agreed to promote ATV training through enhanced cash incentives to first-time ATV purchasers, or, in the case of Polaris, through requiring that previously untrained purchasers take training in order to receive a warranty on the vehicle.

While supporting these new steps, Fise noted that it is not clear that the new education and information campaign will be any more effective than the consent decree in getting the safety message to parents, and she expressed concern that the training program might not reach purchasers of used ATVs.

Further Action Urged

"The tragic toll of childhood deaths and injuries will continue until more is done to get these hazardous vehicles out of the hands of children," Fise said.

In October, CFA, Public Citizen, and U.S. Public Interest Research Group wrote to the CPSC urging expanded action by the commission.

"The commission should not consider the ATV problem solved," the groups wrote. Instead, the groups urged the commission to "continue to work to reduce ATV-related deaths and injuries, particularly to children" and not to rely on state efforts to solve the problem.

The groups urged the commission to require the ATV companies that produced three-wheel ATVs to provide incentives to consumers – not tied to a future ATV purchase – to take these vehicles out of use. They noted that, ten years after the consent decree banned the sale of three-wheel ATVs, approximately 22 percent of the ATVs in use are highly risky three-wheel models.

The groups also reiterated their recommendation that the commission ban the sale of ATVS for use by children and order a recall of ATVs sold for use by children. "We believe these measures send a very powerful message to parents that children under 16 should not ride these vehicles," the groups wrote.

They also called on the commission itself to "do more to ensure that the public knows about the hazards posed by ATVs." If these efforts fail to further reduce childhood deaths and injuries caused by ATVs, they wrote, "the commission should once again consider regulatory actions to address the hazard."

EPA Drafts Guidance Documents for Drinking Water Reports

The Environmental Protection Agency is currently drafting the guidance documents that water utilities will rely on in drafting, and that state agencies will use in implementing, the consumer confidence reports required by the Safe Drinking Water Act of 1996.

That law set an October 1999 deadline for drinking water systems to begin providing their customers with annual reports on the contaminants found in the tap water and the potential health effects of those contaminants.

"These reports offer the first opportunity for consumers to receive the drinking water information they need to make key health decisions for themselves and their families," said CFA Public Policy Associate Diana Neidle.

"The EPA guidance documents will strongly influence how well the consumer confidence reports meet consumers' need for forthright and high quality information about their tap water," she added.

In addition to a listing of contaminants detected in amounts above EPA standards, the reports must include: the ideal health goal for each detected contaminant; information on unregulated contaminants detected in the water; health information on nitrate, arsenic, and lead, even when detected at a level that is half the current EPA standard; and, most important, a warning that certain vulnerable populations may be at special risk from microbial contaminants.

Documents Need Strengthening

In CFA comments on the agency's initial draft, submitted in December, Neidle outlined several changes that should be made to strengthen the guidance documents and thus improve the quality of the resulting reports to consumers.

In particular, she emphasized the importance of:

• deleting model language in the guidance documents that encourages water utilities to make blanket statements, such as "your tap water is safe," and prohibiting such unqualified statements by water utilities;

• deleting language in the guidance documents that encourages states to offer a blanket exemption from the report mailing requirements for water utilities serving fewer than 10,000 persons;

• defining serious misrepresentations in or omissions from the reports as a major violation of the act; and

• clarifying in the guidance documents that the specific source of a contaminant must be given (a particular farm, for example, rather than just agricultural run-off), if the source is known by the system operator.

Unqualified assertions of the safety of the water "may be true for many of those drinking the water, but not for everyone," Neidle said. If consumers read no further, they could miss the required warnings for vulnerable populations and thus draw false, and potentially dangerous, conclusions about the safety of the water for them, she noted.

Neidle also strongly objected to proposed language in the guidance document for state agencies that encourages those agencies to offer a blanket exemption from the mailing requirement for water systems serving fewer than 10,000 persons.

Waivers Should Be Narrowed

"A high quality report is of little use to people who do not receive it," she said. "If the reports have to be specially requested, they are unlikely to receive wide distribution."

Furthermore, she noted, Congress never intended the law to include such a blanket exemption. If they had, they would have provided that exemption in the law, she said. Instead, the law provided the governor with the option of offering waivers for certain systems in this category.

Systems serving fewer than 10,000 persons should be required to request waivers based on specific criteria, and decisions to grant such waivers should be subject to periodic review to determine if the waiver is still warranted, Neidle said.

The guidance document for state agencies should lay out these conditions, she said.

Finally, Neidle argued that falsification or significant omission of information from the reports should be considered a major violation of the act.

"Indeed, from the point of view of the public, falsification or omission of required drinking water data and health effects information is a much more significant violation than the delivery of an accurate report several months late," she said.

The EPA is expected to release new drafts of the guidance documents in January and solicit a second round of comments before producing final documents.

Early indications are that the agency is improving the model language on unqualified water safety judgments in the second draft, but it is not yet clear that they will actually prohibit such statements in the consumer reports, Neidle said. She also reported less apparent progress on the issues of waivers and misleading reports.

Properly implemented, the reports have the potential to generate better public as well as private decisions, Neidle said.

"These reports should spur consumers all over the country to work with their water systems, environmental groups, and government agencies to stop polluters, clean up the surface or ground water sources of their drinking water, and push for modernization of drinking water treatment equipment," she said.

Consumer Victories *(Continued from Page 1)*

said Hunter, who served as an expert witness for HOME.

Nationwide developed maps that showed its executives where to direct selling and where to place agents, he explained. "These marketing materials contained racial descriptors but, incredibly, no actuarial or risk-based input," he said.

Nationwide's underwriting rules reinforced the marketing bias, he said. In Richmond, for example, the company refused to offer its best policy to people in homes over 30 years old or under $90,000 in value.

"This shut out many more minorities than whites, and Nationwide knew it," Hunter said.

Victories Show Need for Further Reforms

Both the Met Life and the Nationwide victories demonstrate a need for further reforms, Hunter said.

While HUD took the lead in combatting insurer redlining, the states "looked on as if helpless," Hunter said, with "some even objecting to HUD's role."

In fact, however, all states have laws that prohibit redlining. Consumers need to push state insurance regulators to do a better job of enforcing those laws, he said.

Specifically, state insurance regulators should be pressed to collect and disseminate insurers' marketing plans and underwriting guides and to release the zip code statistical data they already collect but do not make public, he said.

Hunter also urged consumers to seek to roll back the mutual holding company laws that have been adopted in about 20 states "to undo the massive attack on policyholder assets that is underway under the extant statutes."

Card Issuers Hike Fees To Bolster Profits

The banking industry is pursuing aggressive strategies to increase credit card income and push consumers deeper into debt, according to a new Consumer Action credit card survey released in November by CA and CFA.

The report, released at a Washington, D.C. news conference, highlights the need for Congress to approve new consumer credit card protections and for cardholders to take steps to avoid new charges.

"Banks are pulling out all the stops to increase profits from fee income," said CA Executive Director Ken McEldowney.

Because of a saturated market and rising debt losses, bank card profitability declined from about four percent in the early 1990s to about one percent today, CFA Executive Director Stephen Brobeck noted.

"Banks are working hard to increase interest and fee income, because they wish to reverse a decline in profit margins and believe most consumers will accept the price hikes," Brobeck said.

Pricing Strategies Revealed

The CA survey of 117 cards from 74 banks revealed the following aggressive pricing strategies by card issuers:

• **Increased use of penalty rates**

Especially in the past year, issuers have sought to increase fee income by defining payment conditions which, if not met, trigger penalty rates of up to 25 percent. These conditions are as unforgiving as making one late payment or exceeding the credit limit once.

Of the 31 banks surveyed with penalty rate provisions, default APRs ranged from 16.25 percent to 24.96 percent.

• **Increased late fees**

Many banks charged late fees as high as $29, and the average late fee among surveyed banks was $21.82. This is up from an average late fee of $12.79 among banks surveyed by CA in 1995.

Those banks that were included in both the 1998 and 1995 CA surveys increased late fees by more than two-thirds, on average, during this three-year period.

• **Increased "over the limit" fees**

These fees, which are charged monthly when an outstanding balance exceeds the credit limit, are typically set at the same level as late fees, with many banks charging as much as $29.

• **Shortened grace periods**

Most banks give cardholders 25 days from the closing of a billing cycle to make a payment without additional interest, but a number of banks have shortened this grace period to 20 days. By shortening the grace period, card issuers increase the opportunities to assess late fees.

• **Curtailed "leniency" periods**

In the past, many banks gave consumers from five to 15 extra days after the due date in which to pay without having to pay a late fee. Of 74 banks surveyed in 1998, however, 45 said they would impose late fees immediately if a cardholder's payment was not received by the due date.

• **Lowered minimum payments**

Nearly half the banks in the sample require a monthly minimum payment of only two percent of the outstanding balance. Repaying a $2,000 balance on a 15 percent APR card would cost an additional $250 in interest and would take two years longer (6.6 years vs. 4.6 years) if the cardholder paid two percent each month instead of four percent.

Card Issuers Push Increased Indebtedness

Another strategy pursued by card issuers is to increase indebtedness, CA and CFA noted. They pursue this strategy through aggressive marketing of cards and through aggressive credit extension.

Card issuers mailed out more than three billion solicitations last year.

Banks, meanwhile, have extended $2.4 trillion of card-related debt. That amounts to approximately $24,000 for each American household.

CA and CFA called on Congress to adopt new consumer credit card protections.

Both Rep. John J. LaFalce (D-NY) and Rep. Joseph Kennedy (D-MA) introduced bills in the last session that would have prohibited issuers from penalizing cardholders who paid off balances in full.

The Kennedy bill also would have prohibited other unfair practices and would have limited the imposition of penalty rates.

Congressional Action Needed

Some credit card protections were included in the bankruptcy bill that passed the Senate, including a ban on fees for consumers who pay off their bills on time each month and a requirement that card issuers disclose on monthly statements how long it would take and what the total cost would be of paying off the balance making only the minimum payments. However, these provisions were stripped from the bill in conference committee.

"The new Congress should insist that lenders provide more helpful information about costs to cardholders, who paid more than $70 billion in interest and fees last year," Brobeck said.

"Absent congressional action, the most effective strategy consumers can pursue to avoid these costs is to pay off outstanding balances promptly," McEldowney said.

The 1998 Credit Card Survey is available for free from Consumer Action. To receive a copy, consumers should send an envelope bearing $.55 in postage to Consumer Action-CC, 717 Market Street, Suite 310, San Francisco, CA 94103. The survey is also available on Consumer Action's website at www.consumer-action.org.

Consumer Complaints Are On the Rise

Consumer complaints are on the rise, especially those related to credit, slamming and cramming, and the Internet, according to the seventh annual survey of consumer complaints by the National Association of Consumer Agency Administrators and CFA. At the same time, however, budgets for state and local complaint agencies have been reduced.

"For several years, consumer protection agencies have handled a rising number of complaints with diminishing resources," said NACAA Executive Director Wendy Weinberg. "State legislators who cut protection agency budgets are 'penny wise and pound foolish,' because their constituents will invariably lose more money through deception and fraud," said CFA Executive Director Stephen Brobeck.

New and used auto sales (74%) and home improvement complaints (61%) continued to head the list of most frequent consumer complaints, as they have every year since CFA and NACAA began conducting the survey. The other problem areas among the top ten, along with the percentage of agencies listing them among the top five, were: auto repair (48%), credit (46%), household goods (41%), telemarketing (28%), mail order (20%), collections (17%), landlord/tenant (15%), and cable tv (11%).

The number of agencies listing credit among the top five nearly doubled to 46 percent from no more than 24 percent in previous years. Complaints ranged from usurious interest rates on car title pawn loans to bogus credit protection plans to debt consolidation companies that failed to make promised loan payments.

Also up considerably were complaints involving telephone slamming (the unauthorized switching of one's phone service) and cramming (charging consumers on their phone bill for services that they have not purchased) as well as Internet-related complaints. Some consumers complained, for example, that telephone companies switched long distance service then presented authorizations signed by minors, unauthorized relatives, or even deceased family members. Many of the Internet-related complaints involved Internet Service Providers that either signed up more customers than they could service or went out of business without refunding customers' money.

Various forms of "theft" of consumer dollars were also reported, including the sale of worthless annuities and securities, a talent scout agency that promised work that never materialized to those taking costly classes, scam home repair contractors that collected payments then went out of business, a company that sold shares in a business that, contrary to claims, had not yet developed a product, and a company that took money from consumers for pre-paid funeral expenses then went out of business.

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