

THE WALL STREET JOURNAL.

SOCIAL INSECURITY

High-Interest Lenders Tap Elderly, Disabled

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February 12, 2008; Page A1

DOTHAN, Ala. -- One recent morning, dozens of elderly and disabled people, some propped on walkers and canes, gathered at Small Loans Inc. Many had borrowed money from Small Loans and turned over their Social Security benefits to pay back the high-interest lender. Now they were waiting for their "allowance" -- their monthly check, minus Small Loans' cut.

The crowd represents the newest twist for a fast-growing industry -- lenders that make high-interest loans, often called "payday" loans, that are secured by upcoming paychecks. Such lenders are increasingly targeting recipients of Social Security and other government benefits, including disability and veteran's benefits. "These people always get paid, rain or shine," says William Harrod, a former manager of payday loan stores in suburban Virginia and Washington, D.C. Government beneficiaries "will always have money, every 30 days."

The law bars the government from sending a recipient's benefits directly to lenders. But many of these lenders are forging relationships with banks and arranging for prospective borrowers to have their benefits checks deposited directly into bank accounts. The banks immediately transfer government funds to the lenders. The lender then subtracts debt repayments, plus fees and interest, before giving the recipients a dime.

As a result, these lenders, which pitch loans with effective annual interest as high as 400% or more, can gain almost total control over Social Security recipients' finances.

There are no publicly available statistics on the proportion of payday loans that are backed by Social Security and other government benefits. But dozens of legal-aid lawyers, senior service groups and credit counselors across the country say they are seeing more and more clients on Social Security struggling with multiple payday loans.

The Treasury Department, charged with ensuring that Social Security payments reach beneficiaries, says privacy rules forbid it from monitoring recipients' bank accounts without cause. Social Security Administration officials say the agency isn't responsible for benefits once paid out and that beneficiaries who run into problems should consult an attorney.

An analysis of data from the U.S. Department of Housing and Urban Development shows many payday lenders are clustered around government-subsidized housing for seniors and the disabled. The research was done by Steven Graves, a geographer at California State University at

Northridge, at The Wall Street Journal's request. His previous work was cited by the Department of Defense in its effort to cap the amounts lenders can charge military personnel.

Lenders say they provide a useful service. "This industry provides convenient access to small amounts of money," said Tommy Moore, executive vice president of the Community Financial Services Association of America, which says it represents about 60% of payday loan stores. "It certainly wouldn't be right for the business to discriminate against them for whatever the source of their income is."

But some industry critics say fixed-income borrowers are not only more reliable, they are also more lucrative. Often elderly or disabled, they are typically dependent on smaller fixed incomes and are rarely able to pay off their loans quickly. "It's not like they can work more hours," says David Rothstein, an analyst at Policy Matters Ohio, an economic research group in Cleveland. "They're trapped."

Mr. Harrod was a manager of a Check 'n Go store across the street from Fort Lincoln Senior Citizen's Village, a subsidized-housing complex for the elderly and disabled in Washington, D.C. Mr. Harrod says he was encouraged by his supervisors to recruit the elderly, and did so by often eating his lunch on nearby benches to strike up conversations with the complex's residents. According to Mr. Graves's analysis, there are at least four payday lenders within a mile-and-a-half of Fort Lincoln.

Mr. Harrod quit his job in August over concerns that the company exploited its customers and targeted vulnerable groups and began working with groups seeking limits on payday lending.

Yancy Deering, a spokesman for Check 'n Go, a unit of closely held Ohio-based CNG Holdings Inc., which has more than 1,300 stores nationwide, confirms Mr. Harrod's tenure but says the company doesn't target the elderly. He adds the company doesn't track what proportion of customers depend on government benefits.

Social Security recipients weren't always a natural market for payday lenders, which typically require borrowers to have a bank account and a regular source of income. For years, a large percentage of government beneficiaries lacked traditional bank accounts, choosing to just cash their checks instead.

But by the late 1990s, the federal government began requiring that Social Security beneficiaries receive their benefits by electronic deposit to a bank account, unless they opt out. The number of recipients with direct deposit soared to more than 80% today, up from 56% in 1996. Citing taxpayer savings and greater security and convenience for recipients, the government is making a fresh push to get the remaining holdouts to participate.

With direct deposit, Social Security recipients could now more easily pledge their future checks as collateral for small short-term loans. Oliver Hummel, a Billings, Mont., resident with schizophrenia, lived on the \$1,013 a month in Social Security disability benefits he received by direct deposit to his bank account. Early last year, after his car broke down and his 13-year-old terrier racked up a big vet bill, Mr. Hummel borrowed \$200 from a local lender.

Like many payday borrowers, Mr. Hummel realized he couldn't pay off the loan when it was due so he went to another "payday" lender. Lenders rarely ask about other loans and debt, and borrowers often take out multiple loans in an effort to avoid defaulting. By February, Mr. Hummel had eight loans from eight lenders, at effective annual interest rates that ranged from 180% to 406%.

The industry mushroomed in the 1990s and continues to prosper. Analysts estimate that payday loan volume has climbed to about \$48 billion a year from about \$13.8 billion in 1999. Most payday lenders are small and privately held. The biggest publicly traded company is [Advance America Cash Advance Centers](#) Inc., based in Spartanburg, S.C., with 2,900 stores in three dozen states and reported earnings of \$42.9 million in the first nine months of 2007.

'Buckwheat' Bevels

In November 2002, when Melvin Bevels was short of money for groceries and rent, the elderly man visited a Small Loans store in Sylacauga, Ala., and borrowed money -- he thinks it was \$200. Small Loans is part of a sprawling network of more than a hundred lenders in four states, including Georgia, Florida and Louisiana, owned by Money Tree Inc., a closely held Bainbridge, Ga., firm.

KEY DOCUMENTS IN THE CASE

- [Mr. Bevels's bank statement](#) shows that every time the U.S. Treasury deposited his Social Security check, the bank transferred the benefits to the Money Tree, a high-interest storefront lender.

Mr. Bevels, who can't read, says a clerk helped him fill out papers that instructed Social Security to send Mr. Bevels's \$565 monthly benefits to an account at an out-of-state bank, which transferred the money back to Small Loans or its parent, usually within a day. As is often the case, Mr. Bevels's bank earned no interest and didn't come with either ATM cards or checks.

Every month for nearly four years, Mr. Bevels, who is known around town as "Buckwheat" because of his thatch of yellow-white hair, rode his motorized mobility scooter to Small Loans to pick up his "allowance," which was sometimes as little as \$180 a month, he says.

In a written statement, Money Tree's general counsel, Natasha Wood, declined to comment on Mr. Bevels's case but said: "Anyone who sets up a direct deposit arrangement with Small Loans Inc. does so completely voluntarily."

Mr. Bevels, who believes he's 80 but isn't sure, quickly lost control of his finances. When his utilities were shut off, a neighbor gave Mr. Bevels water in a plastic jug and ran an extension cord to Mr. Bevels's trailer a few hours a day to power his nebulizer, which delivers aerosol medication to people with chronic lung conditions. Mr. Bevels was facing eviction when his trailer burned down, leaving him homeless.

A county social worker arranged for Mr. Bevels to move to public housing and got his Social Security benefits redirected to a local bank. When Small Loans sued Mr. Bevels for repayment in

small-claims court in Talladega County, Ala., a legal-aid attorney headed to court. The judge threw out the case when the lender failed to appear with documentation for the loan.

"It just isn't fair, what they do to old people," says Mr. Bevels, crying quietly. "It isn't right."

Ms. Wood, the lawyer for Small Loans, said in her statement: "Small Loans Inc. does not file suit against anyone because they move their direct deposit service elsewhere."

No regulatory agency tracks how much Social Security money is going to lenders as repayment for payday loans. A 2006 study by the Consumer Federation of America found that one-fifth of those without conventional bank accounts are receiving their government benefit checks through nonbanks, including payday lenders that also operate as check-cashing stores.

Social Security recipients are supposed to enjoy more protections than other borrowers: Federal law says that creditors can't seize Social Security benefits to repay debts. Small Loans and two banks with which it has partnered say their arrangements don't violate any laws. But critics say such arrangements effectively thwart the intention of the law. Social Security recipients can not only lose their benefits, but face lawsuits, harassment and even jail.

Jailed in Clayton

In December 2006, Jennifer Rumph, a disabled single mother of three, went to Miracle Finance Inc. to buy her children a computer for Christmas. She picked a laptop from the store's catalog and the Miracle Finance clerk said it would cost a little over \$600, Ms. Rumph recalls. Some lenders have catalogs of merchandise and lend money to make the purchase. In the end, the loan came to \$1,326, which included principal, interest and a fee for insurance that would pay off the loan to the lender if Ms. Rumph died, according to loan paperwork.

KEY DOCUMENTS IN THE CASE

These three documents show how far Miracle Loans went to collect money from Social Security recipient Jennifer Rumph, who fell behind on her payments:

- The lender went to court and obtained a [default judgment](#) against Mrs. Rumph.
- Mrs. Rumph was [ordered to appear in court](#) to demonstrate what kinds of property she had that could be seized to pay the debt to Miracle Loans.
- When Mrs. Rumph failed to appear, an [arrest warrant](#) was issued, and she was jailed.

The company had Ms. Rumph, 43, sign documents directing her teenage son's Social Security disability check, which is \$623 a month, to the company by way of an intermediary bank -- a condition for getting the loan, she says. The Social Security Administration says it doesn't have a problem with lenders capturing Social Security checks of disabled or orphaned children as long as the benefits money ultimately goes to the "current needs" of the child.

Like Mr. Bevels, Ms. Rumph didn't receive an ATM card or a checkbook. Each month she would go to Miracle Finance 30 miles away in Abbeville, Ala., to pick up what remained of her son Jeremiah's benefits after the company subtracted fees, interest and loan repayments, usually leaving her with less than \$300 of her son's check.

Ms. Rumph, whose medical problems include severe asthma and two hip replacements, was unable to pay her bills on that amount. Much of the \$623-a-month in disability benefits she receives for herself was going to a nearby Small Loans store to repay a different loan. She tried to return the computer, but a Miracle Finance employee said it wouldn't reduce her debt, and then the computer stopped working this summer, she recalls.

In the following months, Ms. Rumph says she asked Social Security several times to redirect her son's check to her mailbox, but to little avail.

Attorneys for Legal Services Alabama, whom Ms. Rumph ultimately contacted, say that each time she tried to cancel the arrangement, the company appears to have resubmitted her original direct-deposit paperwork, which Social Security honored despite her efforts to cancel it.

A Social Security spokeswoman says that when beneficiaries cancel direct-deposit arrangements with the agency, they should also contact the bank that had been receiving the check. Ms. Rumph says she never knew the identity of the bank receiving her son's Social Security benefits.

After Ms. Rumph fell behind on her payments, Miracle Finance sued her in small-claims court in Abbeville, Ala. Although federal law says creditors can't seize Social Security, disability and veteran's benefits to pay a debt, enforcement of the law is scant, and many Social Security recipients are unaware of their legal rights. Lenders and their debt collectors routinely sue Social Security recipients who fall behind in their payments, and threaten them with criminal prosecution, senior advocates say.

Debtors must go to court to prove their case. Ms. Rumph says she didn't know any of this and was afraid to go to court. Miracle Finance won a \$1,500 default judgment in July, and four days later sought a court order requiring Ms. Rumph to appear in person to detail her income and assets.



Jennifer Rumph

After Ms. Rumph failed to appear at two hearings at Miracle Finance's request, a judge ordered a warrant for her arrest.

In November, Miracle Finance kept the full amount of Jeremiah Rumph's disability check. Ms. Rumph fell behind on her \$300-a-month rent for her mobile home and faced eviction. After she was unable to pay utility bills, her electricity was turned off briefly the day before Thanksgiving.

On Sunday, Dec. 9, as she was getting ready for church, two sheriff's deputies came to Ms. Rumph's home, handcuffed her in front of her children and hauled her away. Ms. Rumph spent several hours in jail until an uncle paid the court \$1,500. Miracle Finance didn't respond to numerous requests for comment.

A judge last week said Miracle Finance couldn't force Ms. Rumph to pay the debt because her Social Security income is protected under federal law. But she still owes more than \$5,000 on loans from almost a dozen other lenders. "I want to pay them back," she says. "I can't."

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