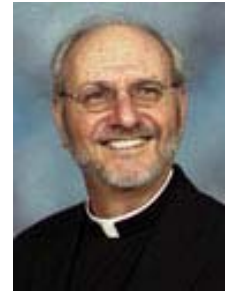


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It Costs More to Be Poor

A row of identical signs arranged like landing lights at an airport repeat the appealing offer: "Borrow \$200, Repay \$203." This modern spider-to-fly invitation displayed in front of the office of payday lenders' appeals to hard strapped workers who just need a boost till payday. What's three bucks? Technically, since the loan spans only 14 days, three bucks in this case represents 39 percent interest (APR). After this introductory offer, the second \$200 loan will demand a \$230 repayment-or 390 percent APR!

Payday lenders, together with pawnshops, check-cashers, tax refund lenders, rent-to-own stores and "buy here/pay here" used car lots represent the fringe economy. The term "fringe economy" refers to those businesses that engage in financially predatory relationships with low-income or heavily indebted consumers by charging excessive interest rates or exorbitant fees and prices for goods and services. Other parts of the fringe economy include credit card companies charging sky-high late payments or over-the-credit-limit penalties, cell phone providers pushing excessive prepaid plans and subprime mortgage lenders hiding the real cost of the mortgage.

The scope of the fringe economy reveals a structure for the poor and credit-challenged that parallels the mainstream economy for the middle class. Fully 10 percent of U.S. households, more than 12 million, have no relationship with a mainstream financial service provider, such as a bank or credit union. These "unbanked" must rely on the fringe economy for services like check cashing, bill payments, short-term loans and appliance rentals.

The exorbitant fees and prices demonstrate why the poor pay more for basic services. The \$6.6 billion a year rent-to-own (RTO) industry, for example, serves 2.7 million households with 8,300 stores. Typically, a dinette table and chairs might rent for \$11.99 per week till full customer ownership after 61 weeks. This arrangement doubles the cost of the furniture, and if the customer misses

one payment, the item can be repossessed.

Other examples from the fringe economy include tax refund anticipation loans with fees and interest that take 16 percent of the tax refund. "Buy-here/pay-here" used car lots frequently charge 28 percent APR for a high-mileage, grossly overpriced vehicle, and money transfers from the United States to Latin America can easily exceed 9 percent of the transferred amount.

Corporations participating in the fringe economy argue their high interest rates and fees reflect the increased risks of dealing with the economically unstable. However, ACE Cash Express reports transaction losses for check cashing at less than one percent, and pawnshops generally loan only 50 percent of the item's value to buffer themselves against loss. Tax preparers are guaranteed repayment when the refund check arrives, and payday lenders require a post-dated check.

While credit should be helping low-income people improve their lives, the fringe economy encourages people to live beyond their means and takes advantage of their lack of financial sophistication. Fringe economy firms are basically growing rich from their financing arrangements and from keeping customers continually enmeshed in debt.

Around the world the poor have fought the money lenders through collective action with institutions like the Grameen Bank and credit unions. These are structures people of faith can explore as more middle class families slide into the ranks of the working poor. Universal health care would save countless families from bankruptcy, while a standard living wage would shrink the pool of the financially desperate. Add to this stricter and enforced usury laws and you create rungs on the ladder for moving up.

The vision: replace the spider-to-fly economy with one permitting a-place-at-the-table for everyone.

September 2007

The Catholic Conference of Kentucky (CCK) is an agency of the Catholic Bishops of Kentucky, established in 1968. It speaks for the Church in matters of public policy, serves as liaison to government and the legislature, and coordinates communications and activities between the church and secular agencies. There are 406,000 Catholics in the Commonwealth. The Bishops of the four dioceses of KY constitute CCK's Board of Directors.