

A free monthly activity newsletter from C.W. Publications

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We talk a lot about the high cost of credit card debt with interest rates running from 18-25% a year. But compared to the interest rates being charged by payday loan companies, they seem like a bargain.

Payday loan companies go by a variety of names such as The Cash Store, Check Into Cash, EZ Money, Title Cash, and Advance Cash just to name a few, and they can legally charge interest rates as high as 780% a year.



What is a Payday Loan?

Payday loans are short-term cash loans based on the borrower's personal check held for future deposit or electronic access to the borrower's bank account.

Borrowers write a personal check for the amount borrowed plus the finance charge and receive cash. In some cases, borrowers sign over electronic access to their bank accounts to receive and repay payday loans.

Lenders hold the checks until the next payday when loans and the finance charge must be paid in one lump sum.

To pay a loan, borrowers can redeem the check for cash, allow the check to be deposited at the bank, or just pay the finance charge to roll the loan over for another pay period.

Payday loans range in size from \$100 to \$1,000, depending on state legal maximums. The average loan term is about two-weeks.

Loans cost on average 470% annual interest (APR). The finance charge ranges from \$15 to \$30 to borrow \$100. For two-week loans, these finance charges result in interest rates from 390 to 780% APR. Shorter term loans have even higher APR's.

Do you think payday loans should be legal? Why?

A True Story

Bob Mathews made less than \$8.00 an hour. He was struggling to keep up with his bills so after seeing a TV ad for payday loans he tried one.

He wrote a \$300 check to the lender dated for cashing two weeks later and walked out with \$255.

Bigger trouble began when he needed money to keep the check from bouncing.

Over the next two years, he repeatedly took out new \$300 loans, paying \$1,245 in fees for the privilege. The annual interest rate translated to 390%.

What advice would you give Bob to break this debt cycle?



It's a Fact

More than half of the payday loan industry's revenues come from consumers who take out 13 or more loans a year.

The chart below lists the legal status of payday loans by state and the maximum finance charge rate and fees allowed. For those states that set a finance charge limit, compute the Annual Percentage Rate being charged on \$100 borrowed for 2 weeks. Alaska is done for you as an example.

State	Maximum Finance Rate and Fees/\$100	APR	State	Maximum Finance Rate and Fees/\$100	APR
Alaska	\$20.00	520%*	Montana	\$25.00	
Alabama	\$17.50		North Carolina	Prohibited	
Arkansas	\$22.22		North Dakota	\$20.00	
Arizona	\$17.65		Nebraska	\$17.65	
California	\$17.65		New Hampshire	No Limit	
Colorado	\$20.00		New Jersey	\$20.00	
Connecticut	Prohibited		New Mexico	No Limit	
DC	\$16.10		Nevada	No Limit	
Delaware	No Limit		New York	Prohibited	
Florida	\$15.00		Ohio	\$15.00	
Georgia	Prohibited		Oklahoma	\$15.00	
Hawaii	\$17.65		Oregon	No Limit	
Iowa.....	\$10.00		Pennsylvania.....	Prohibited	
Idaho	No Limit		Rhode Island	\$15.00	
Illinois.....	\$15.50		South Carolina	\$17.65	
Indiana	\$15.00		South Dakota	No Limit	
Kansas	\$15.00		Tennessee	\$17.65	
Kentucky	\$17.65		Texas	\$12.00	
Louisiana	\$25.00		Utah	No Limit	
Massachusetts	Prohibited		Virginia	\$15.00	
Maryland	Prohibited		Vermont	Prohibited	
Maine	\$15.00		Washington.....	\$15.00	
Michigan	\$15.00		Wisconsin	No Limit	
Minnesota	\$15.00		West Virginia	Prohibited	
Missouri	\$75.00		Wyoming	\$30.00	
Mississippi	\$22.00				

* $\$20 \times 26 = 520\%$

It's a Fact

Payday loans range in size from \$100 to \$1,000, depending on state legal maximums. The average loan term is about two weeks. Loans cost on average 470% annual interest (APR). The finance charge ranges from \$15 to \$30 to borrow \$100. For two-week loans, these finance charges result in interest rates from 390 to 780% APR. Shorter term loans have even higher APRs.

The chart below lists the Median Household Income and Poverty Rate in 2005 for each state, the District of Columbia and the U.S. Use the chart and the following directions to complete the two maps on page 5.

To complete map A

1. Blacken each state with a median household income of \$50,000 or more.
2. Lightly shade each state with a median household income between \$40,000 and \$49,999.
3. Leave white each state with a median household income below \$40,000.

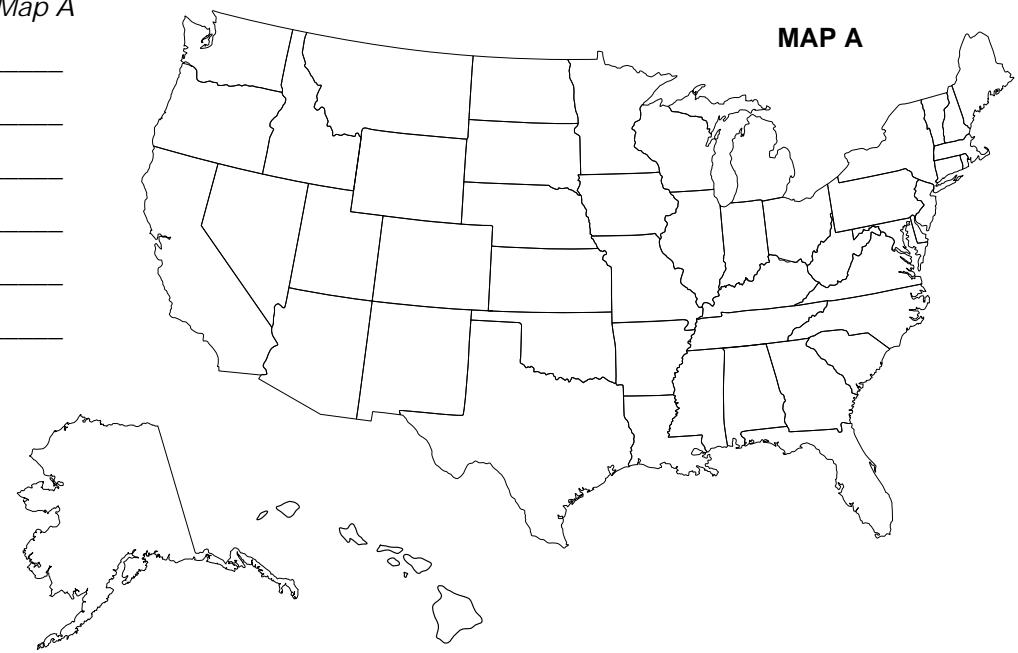
To complete map B

1. Blacken each state with a poverty rate greater than 15.0%.
2. Lightly shade each state with a poverty rate between 10.0% and 14.9%.
3. Leave white each state with a poverty rate less than 10.0%.

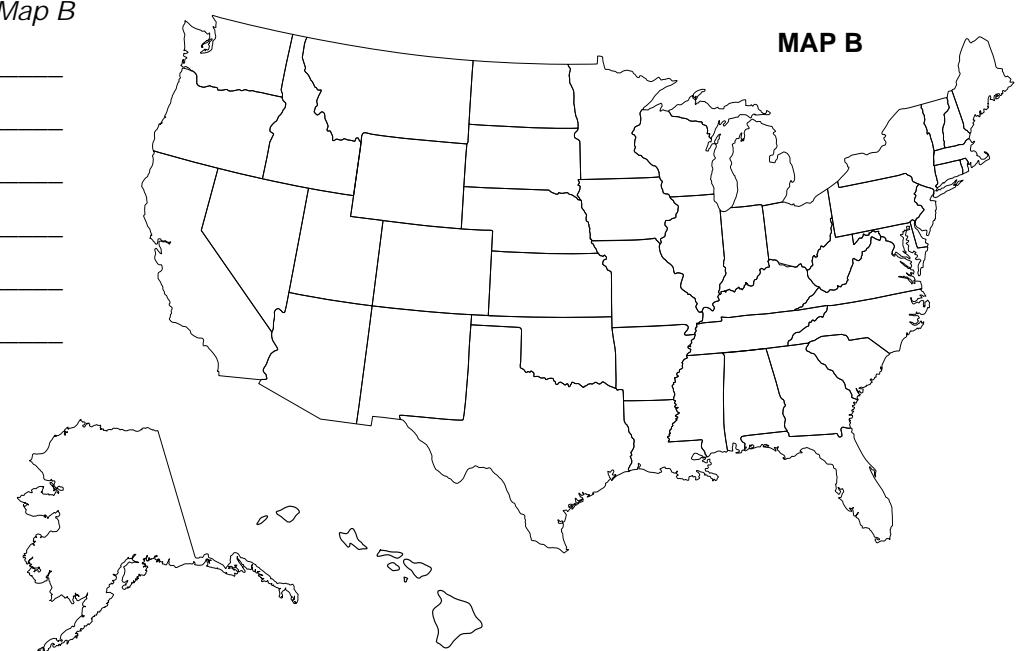
State	Median Household Income	Poverty Rate	State	Median Household Income	Poverty Rate
Alaska	36,879	17.0%	Montana	39,301	14.4%
Alabama	56,234	11.2%	North Carolina	40,729	15.1%
Arkansas	34,999	17.2%	North Dakota	41,030	11.2%
Arizona	44,282	14.2%	Nebraska	43,841	10.9%
California	53,629	13.3%	New Hampshire	56,768	7.5%
Colorado	50,652	11.1%	New Jersey	61,672	8.7%
Connecticut	60,941	8.3%	New Mexico	37,492	18.5%
DC	47,221	19.0%	Nevada	49,169	11.1%
Delaware	52,499	10.4%	New York	49,480	13.8%
Florida	42,433	12.8%	Ohio	43,493	13.0%
Georgia	45,604	14.4%	Oklahoma	37,063	16.5%
Hawaii	58,112	9.8%	Oregon	42,944	14.1%
Iowa	43,609	10.9%	Pennsylvania	44,527	11.9%
Idaho	41,443	13.9%	Rhode Island	51,458	12.3%
Illinois	50,260	12.0%	South Carolina	39,316	15.6%
Indiana	43,993	12.2%	South Dakota	40,310	13.6%
Kansas	42,920	11.7%	Tennessee	38,874	15.5%
Kentucky	37,369	16.8%	Texas	42,139	17.6%
Louisiana	36,729	19.8%	Utah	47,934	10.2%
Massachusetts	57,184	10.3%	Virginia	54,240	10.0%
Maryland	61,592	8.2%	Vermont	45,686	11.5%
Maine	42,801	12.6%	Washington	49,262	11.9%
Michigan	46,039	13.2%	Wisconsin	47,105	10.2%
Minnesota	52,024	9.2%	West Virginia	33,452	18.0%
Missouri	41,974	13.3%	Wyoming	46,202	9.5%
Mississippi	32,938	21.3%	USA	46,242	13.3%

What do you think are the greatest causes of poverty in America?

Explain what patterns you see in Map A



Explain what patterns you see in Map B



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- | | | |
|-------------------------|--------------------------------|-----------------------------|
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The National Bank Robberies – A Money Mystery

Harry walked down the two flights of stairs from his apartment to the front door of the brownstone. At the bottom of the stoop was one of Bartlett's "boys" leaning against a government issue sedan. Harry didn't bother to speak, he just got in the back seat. They drove in silence for a couple of miles until Harry spotted a McDonalds.

"Hey, stop the car. Their coffee is great and I love the commercial with the McDonalds cup talking to the Starbucks cup."

The driver looked in the rearview mirror as he pulled over. The expression on his face gave his opinion of the "brain" they had in the back seat.

Fifteen minutes later he was going through security at the FBI building and being led into Bartlett's office. "Hi, Harry," Bartlett said as he motioned for him to sit down. "Four weeks ago I got this in the mail." He handed Harry a one dollar bill. "Notice that the words Federal Reserve Note and the denomination are circled. At the time I just thought it was another crank, but I started a file as always." Harry smiled as he looked at the bill. The smile was for his old schoolmate who "started a file as always".

"Later that week, a national bank in Montpelier, Vermont, was robbed and this was left in an envelope with my name on it." He handed Harry a two dollar bill with the same things circled. "The next week the Bank of America in Watertown, New York, was robbed and another envelope was left - this time with a five dollar bill. Same things circled - the words Federal Reserve Note and the denomination." Harry took the five and laid it beside the one and the two. "The next week, the same M.O. The Carolina National Bank in Lincolnton, North Carolina, hit for over \$300,000."

"What I've got now, Harry, is over a million dollars stolen and this." Before Bartlett could hand it over, Harry said, "Yeah, I know. You've got a ten dollar bill and another national bank about to be hit." Harry laid the ten beside the other bills and stared at them for the next few minutes. Bartlett knew to keep his mouth shut and leave Harry alone.

"Have you seen that great commercial with the McDonalds and the Starbucks coffee cups talking to each other?" Harry finally said as he took another drink of McDonalds coffee. "Breaks me up. Have you got a decent atlas in this place?" He added.

Bartlett motioned to one of his "boys" who disappeared into the next office and came back with an atlas. Harry took it and turned first to the Vermont, New York and North Carolina maps and finally looked at the maps of several other states. Then he tossed the atlas on Bartlett's desk as he stood up and headed for the door.

"Whoever is doing this obviously knows you and the Federal Reserve System." Harry said, "If I were you, I'd get some security on the national banks in _____, _____, and in _____. Though I'd put my money on the larger town. Bigger banks - more bucks! And by the way, you won't be getting a twenty."

What two cities and states did Harry mention to Bartlett?



Here are some new Facts from the Bureau of Labor Statistics that illustrate once again that "Education Pays"! Listed below are the median weekly earnings for full-time wage and salary workers by type of educational attainment.

Use the chart to construct a bar graph on the right illustrating the differences in income.

Educational Attainment

Median Weekly Earnings

- A) Less than a high school diploma \$ 409.00
- B) High school graduate, no college \$ 583.00
- C) Some college or associate degree \$ 670.00
- D) Bachelor's degree and higher \$1,013.00

With these statistics in mind, let's do some math.

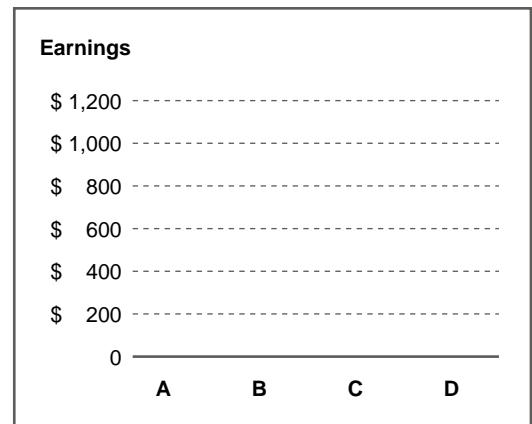
Aaron dropped out of high school at age 17 and went to work. Assuming he earns an average of \$409 a week working full-time, how much will he earn in 5, 10 and 15 years.

$$[\$409 \times 52 \text{ weeks a year} = \$ \underline{\hspace{2cm}}]$$

$$5 = \$ \underline{\hspace{2cm}}$$

$$10 = \$ \underline{\hspace{2cm}}$$

$$15 = \$ \underline{\hspace{2cm}}$$



Betty began a full time job after she graduated from high school. Assuming she earns an average of \$583 a week working full-time, how much will she earn in 5, 10 and 15 years.

$$[\$583 \times 52 \text{ weeks a year} = \$ \underline{\hspace{2cm}}]$$

$$5 = \$ \underline{\hspace{2cm}}$$

$$10 = \$ \underline{\hspace{2cm}}$$

$$15 = \$ \underline{\hspace{2cm}}$$

Carla graduated from the local community college with an associate degree. Assuming she earns an average of \$670 a week working full-time, how much will she earn in 5, 10 and 15 years.

$$[\$670 \times 52 \text{ weeks a year} = \$ \underline{\hspace{2cm}}]$$

$$5 = \$ \underline{\hspace{2cm}}$$

$$10 = \$ \underline{\hspace{2cm}}$$

$$15 = \$ \underline{\hspace{2cm}}$$

Darren graduated with a bachelor of science degree. Assuming he earns an average of \$1,013 a week working full-time, how much will he earn in 5, 10 and 15 years.

$$[\$1013 \times 52 \text{ weeks a year} = \$ \underline{\hspace{2cm}}]$$

$$5 = \$ \underline{\hspace{2cm}}$$

$$10 = \$ \underline{\hspace{2cm}}$$

$$15 = \$ \underline{\hspace{2cm}}$$



PAGE 3 ANSWERS

\$10.00 = 260%
 \$15.00 = 390%
 \$15.50 = 403%
 \$16.10 = 418.6%
 \$17.50 = 455%
 \$17.65 = 458.9%
 \$20.00 = 520%
 \$22.00 = 572%
 \$25.00 = 650%
 \$30.00 = 780%
 \$75.00 = 1,950%

PAGE 6 ANSWERS

Note that the three previous robberies took place in the 1st, 2nd and 5th Federal Reserve Districts which correspond to the denominations circled on the bills.

They also took place in the largest town in a county named after the person pictured on the bill.

The 4th robbery will take place in the 10th Federal Reserve District in the counties of Hamilton, NE or Hamilton, KS.

Harry named: Aurora, Nebraska and Syracuse, Kansas.

PAGE 7 ANSWERS

Aaron	\$21,268	\$106,340 212,680 319,020
Betty	\$30,316	\$151,580 303,160 454,740
Carla	\$34,840	\$174,200 348,400 522,600
Darren	\$52,676	\$263,380 526,760 790,140



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