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UTILITY CUSTOMERS EXPOSED TO PREDATORY LENDERS: Report Documents How Hundreds of Payday Lenders Act as Utility Payment Agents

BOSTON, Mass., June 5, 2007 – Utilities that direct customers to pay electricity, natural gas and telephone bills at payday loan stores make those customers targets for marketing of predatory loans, a National Consumer Law Center report has found.

“Utilities and Payday Lenders: Convenient Payments, Killer Loans,” a report released today by NCLC, found more than 650 instances where payday lenders act as authorized bill payment agents for regulated utilities. Many of those payday lenders are now listed on utility web sites.

“Consumers depend on utilities for survival,” said Rick Jurgens, an NCLC consumer advocate. “Utilities shouldn’t direct customers to pay bills where predatory loans are pitched, and regulators shouldn’t allow utilities to outsource services to such establishments.”

The report compared payment agents listed on 21 utility web sites against a nationwide database of licensed payday lenders compiled by Steven Graves, a geography professor at California State University at Northridge.

Payday lenders make short-term loans at annual interest rates that start at 390 percent. When payment comes due, consumers frequently roll over short-term loans or take out multiple loans, trapping them in a vicious cycle of debt.

Searching for customers for ultra-high-cost consumer loans, hundreds of payday lenders have signed up to serve as official utility bill payment sites. Other payday lenders act as “unauthorized” payment agents.

An estimated one in four utility customers – including many minorities, women and low-income customers – opt for in-person bill payment. Outsourcing has grown as utilities have sought to cut costs of bill payment services.

"Consumers paying utility bills in person to avoid disconnection should not be directed to high-cost payday lenders," said Jean Ann Fox, director of consumer protection for Consumer Federation of America. "Utilities should not contribute to the payday loan debt trap."

Copies of the report are posted at the National Consumer Law Center web site www.nclc.org/reports/content/payday_utility.pdf.

The National Consumer Law Center is a non-profit organization with 37 years of working on issues that affect low-income consumers. NCLC publishes legal manuals and consumer guides and works with and trains legal-service, government and private attorneys, community groups and organizations representing low-income and elderly people.

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