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ATTACHMENTS: Whistleblower statements, contact info

Payday Lending Industry Insiders Tell All: Unsavory Details Emerge about the Debt Trap and Much More

Washington, D.C. – Former payday loan company employees today revealed the inside workings of an industry premised on maximizing income by trapping financially vulnerable individuals in long-term debt. The whistleblowers “came clean” at a press conference hosted by D.C. Councilmember Mary Cheh on Sept. 12 at 10:00 AM on the steps of the Wilson Building.

The whistleblowers are former employees of Check ‘n Go, a Cincinnati-based payday lending company that does tremendous business volume in Ohio. John Rabenold, an executive with Check ‘n Go, is running for a seat in the Ohio House of Representatives. In his statement, whistleblower Mike Donovan made note of Rabenold’s campaign. Their statements are attached.

In Ohio, both legislative chambers are looking into the payday lending industry and debating increased consumer protection. The Coalition for Responsible Lending (OCRL) maintains – and the whistleblowers confirm -- that the payday lending business model aggressively works to trap customers into repetitive borrowing behavior. According to OCRL, capping the interest rate is the only way to break the trap, and supports a bill being crafted in the House by Rep. Bill Batchelder (R-Medina) that imposes a 36% rate cap on payday loans; reduces the debt trap for repeat borrowers; and creates fair and viable alternatives for borrowers.

In D.C., the revelations about an often shadowy industry come at a time when payday lenders, led by trade group Consumer Financial Services Association (CFSA), have embarked on an intense public relations and lobbying campaign to derail a bill that would cap interest rates on payday loans in the District. The bill was introduced by Councilmembers Cheh and Marion Barry in March and is slated for a final vote in the Council on Sept. 18.

In Ohio, Rep. Batchelder’s bill will be introduced by the end of the month.

D.C. Press Conference on Payday Industry
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Statement of William Harrod

My name is Bill Harrod and until August 13, 2007 I was a store manager for Check 'n Go here in the District. I worked for the company for 9 months and I quit as a matter of conscience.

I'm here to tell you that Check 'n Go deliberately targets black communities. The company sent me to apartment complexes with exclusively black occupants to market our payday loans. I could have gone to other apartment buildings nearby that were more diverse, but I was instructed to stick to low-income, black apartment buildings. I was trained to approach apartment managers and offer them referral fees of \$20 for each tenant who came into our store and took out a loan. The sales pitch was that not only would the manager directly earn money off the loan, but that it would help tenants make their rent payments on time. The managers bonuses depend on minimizing late rent payments.

Under what was called our Business Value Program, we were encouraged to establish relationships with local businesses, such as car dealerships, vehicle repair shops, fast food and convenience stores, where ever people shop. The aim was to get referrals and to convince store managers that they could clear overdue payments in their accounts receivable if they sent their customers to us for the cash they needed to pay their bills. If a manager didn't send us customers for a while, I'd pay a call on him to remind him of how lucrative our relationship could be.

We didn't restrict our marketing to businesses in the District. We went into Maryland, to College Park, Landover, Laurel, Bowie – always to areas with a high percentage of black customers. We never went to stores in Bethesda or Gaithersburg. And remember: in Maryland, payday lending is illegal. But we marketed our payday loans to Maryland businesses anyway, trying to lure their customers across the border for a loan.

We also included churches in this program, giving pastors \$20 referral fees as well if they sent us a member of the congregation. We did this because the church was connected to the

community. It gave us credibility. It got us more deeply into the customer base. Sometimes we went even further than that.

I was instructed to start attending services at Unity Baptist Church – neither my bosses nor the lobbyists could do this because they were not black – to gain favor with the minister there and convince him to support us publicly. I was instructed by my boss to offer the church \$800 to send several children to summer camp in return for the pastor testifying against the Cheh bill at the Council hearing on reducing payday loan interest rates. I did this. But in the end, the minister walked out of the Council chamber without testifying because he was embarrassed at what he had been asked to do. I was told to pressure him to go back into the room, but he wouldn't do it.

The racism at Check 'n Go is systemic, not just directed toward the outside. During my training in Virginia, I intercepted notes between my regional manager and other staff referring to me as a home-boy, negro, and nigger. On my last day of training, I overheard my regional manager say to another staff member, "Isn't it sad that all we can find in the hiring pool in D.C. is blacks and druggies." Although I brought these incidents up with Human Resources, the only response of the company was to remove me from Virginia and put me in a store in D.C.

I want to tell you about one last thing: we were trained to access customer's bank accounts to see if there was money in them to pay us by using their account numbers and Social Security numbers, dialing into the automated line and essentially usurping their identities. We could track their purchases, see where they shopped. We would use this information to collect on our debts, making customers think that we knew where they were all the time and that they couldn't escape us.

I believe that payday lending is a corrupt and corrupting business. I am glad that I got out of it. The Council needs to do the right thing on Sept. 18th and stop the abuses of this industry.

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Statement of Cameron Blakely

My name is Cameron Blakely. I was a Check ‘n Go store manager in D.C. for 9 months.

The secret to the success of the payday loan is its deceptive design. Specifically, we made the process very simple and easy at the front end to get people into the loan. But at the back end, we made it very difficult for customers to get out of the loan. It became a situation where our borrowers were like indentured servants, but with indefinite terms of servitude. They would work and work. But each payday, we’d claim a piece of their paycheck. Every paycheck. Not only was it hard to escape, but most of our customers were not fully aware of the desperate situations they were in. They were so confused that sometimes they would say that they just couldn’t live without that extra payday loan cash coming in – when, in reality, they were not getting any more money out of the loan. Instead, they were paying money to us in fees over and over again. And that is what was making their paychecks even shorter than usual.

Here’s how it works: A customer comes into the store and we approve his loan as quickly as possible. In just 10 minutes, he walks out with money in his hand. His goal is to get fast cash with no hassle. My goal as a payday loan employee is to keep that customer in the loan for as long as I can. That customer adds to my “customer count,” which is what my bonus depends on. And the way I do this is to loan him more money than he can realistically pay back in just two weeks, when the loan is theoretically due.

I want to introduce you to Stacey Brown, who was my customer for the whole time I worked for Check ‘n Go. Stacey first became a Check ‘n Go customer in January 2001. He stayed a customer for more than six years, with the same loan outstanding every single day of that time. He ended up paying back \$14,997 in fees for borrowing just \$900.

Stacey meant two things to me in my job. First, keeping him on my customer list added roughly \$20 to my quarterly bonus. Second, keeping him on my customer list also meant I could maintain the payroll budget at my store. If I lost Stacey, I'd not only lose bonus money, but I would have to cut the hours of some of my staff because my payroll budget, which was based on how many customers I had each month, would be reduced. Then I'd personally have to put in extra hours to get the work done because there wouldn't be enough staff.

How did I keep Stacey? Well, first I had to lure him in with a personal, friendly and reassuring manner, repeating his name when I talked to him, and acting like I cared about his welfare. Friendliness, building a relationship with the customer, is the biggest selling point because then the customer thinks you're doing him a favor. That makes him feel comfortable about borrowing money. And it all happens in a flash, before he can give it a second thought.

Once I had him trapped, I encouraged Stacey to borrow the maximum allowable, regardless of how much he wanted. That's the friendly approach at work: you make a customer feel so grateful for what you're doing that they'll take out a loan even if they don't really need it. I could get an extra \$5 bonus each quarter if Stacey borrowed the maximum. Which he did.

Then, if Stacey ever came in to pay his loan off, I would try to talk him out of it, saying things like, "come on, don't you think you could use the extra \$900 this week?" If Stacey resisted me and did pay off the loan, it would mean that I had failed to perform to company standards. I didn't have to worry about Stacey because he was already in over his head, so I just had to be reassuring and tell him it was okay – no problem about paying the loan off: just pay the finance fee. Only about \$115 or so. Every two weeks. For more than six years.

I victimized people like Stacey. This product is called a two-week loan. But that's a lie. It is made to be long term, it cannot be anything else but long term. If it were just a two week loan, my store would not have been profitable and I would have been out of a job. I owe people like Stacey a big apology for taking their trust and their money.

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Statement of Micheal Donovan

My name is Mike Donovan. Until yesterday, I was a district director of operations for Check 'n Go, the country's second largest provider of payday loans, and the largest payday lender in Washington, D.C. My responsibilities included overseeing the day-to-day operations of nearly 20 stores in the District, as well as several stores in Northern Virginia and Delaware. Most recently, I was also responsible for running the grassroots campaign to kill Councilmember Cheh's payday loan bill. My responsibilities put me in a good position to set the record straight on a few things the industry has been saying and doing. For instance,

There's the industry claim that most borrowers pay off their loans "on time." Clever wording that, because if a customer pays back a loan on the due date but then turns around and borrows the money right back again, strictly speaking the customer is paying the loan on time. Of course, we train our sales staff to keep customers dependent, to make sure they keep re-borrowing, whether in the form of a renewal, or a back-to-back transaction, forever, if possible. We virtually guarantee customer retention by encouraging customers to borrow up to 85% of their gross income – that is, more money than they actually receive in their take-home pay. In Virginia, our policy is to loan 100% of gross income.

The average Check 'n Go customer in the District is continuously in debt to the company for at least a year, and it's not uncommon to see customers trapped for many years. The repeat borrower is vital to our business model. It is the basis for bonuses. It is the basis for store payroll budgets. We create complicated metrics with deliberately obscure names like "unique customer count" to disguise – even to our staff – the fact that we're in business to create repeat customers. We're so good at doing this in the District that, in the aggregate, Check 'n Go stores here have about 10 times the loan volume of company stores in any other market in the country. Check 'n Go has almost 1,500 payday loan stores nationwide.

The industry claims it has “best practices” that will end repeat borrowing and stop the debt trap. I always laugh at this one because saying it will end the debt trap is an admission that there is a debt trap. But I also laugh because, as I said, we’d have no business without the repeat customer. The rollover ban is a sham because it still allows customers to pay back one loan and then borrow a second before leaving the store, re-borrowing the same principal. That’s not defined as a rollover, even though it amounts to the same thing. So “no rollovers” is a meaningless concept.

In fact, the rollover issue is a charade in itself. While everyone is talking about rollovers, the company is busy promoting its internet installment loans with the First Bank of Delaware – at APRs of about 400% and up – and fee-less debit cards on which salaries can be directly deposited, and that allow \$250 worth of overdraft credit – at a fee of \$20 per overdraft. These products are aimed at increasing the maximum indebtedness of individual payday customers. That way we can both maximize and accelerate our fee income, not to mention gain electronic access to a customer’s assets, which is otherwise illegal in the District with a payday loan.

Another misleading best practice is the extended payment plan, which in theory allows a borrower unable to repay the loan on the original due another 90 days to pay it back with no extra fee. Why is this meaningless? Well, we instruct our staff not to tell customers that the option exists. Customers are supposed to discover it referenced on the back of the CFSA brochure that is handed to them quarterly along with their privacy statements. (Think about it: quarterly privacy statements for borrowers on two-week loans. Clearly something is not right.) Then they have to ask for an extended payment plan the day before their loan is due. If they ask on the due date, they do not qualify. And they can only get one of these a year. Moreover, we train our staff to discourage borrowers who ask for the option from exercising it.

Let’s talk about the industry’s assertion that it does not target minority populations. Well, I can tell you emphatically that it does. I have been responsible for selecting sites for new stores

in D.C. and northern Virginia. On the site selection sheet we are required to indicate the racial and income characteristics of the area. We seek out low-income African-American and Latino neighborhoods because we know that this is where our most profitable client base is located. In the District, nearly all of our customers are African-American. In fact, when a PR company went around to all the payday loan stores in the District to make a promotional video, the crew spent the entire day looking for a white customer to put in the film. They finally found just one.

Here are some other “misrepresentations” I want to clear up. DCFSA, the ostensibly local industry trade group set up to kill the Cheh bill, says that 400 people will lose their jobs if payday lenders leave D.C. Check ‘n Go is the largest payday lender here, and is the only company whose only product is payday loans, nothing else. Check ‘n Go has 75 employees, about 40 of whom live in D.C. ACE Cash Express has been here since 1968. It’s not closing up shop, although it may cut some staff. First Cash Financial also has a pawn license, so it’s also sticking around. The “creating unemployment” scare tactic is just that: a scare tactic.

Then there’s the lobbying campaign against the Cheh bill. We coerced customers into writing letters to councilmembers when they came into our stores to take out or renew a loan. We made them write the letters before we would conduct the transaction. We gave them a script and had them put the letters in unsealed envelopes so we could screen them later and destroy those that were unfavorable. We made customers and employees telephone the Council to express support for the industry. We required customers and staff to go to the DCFSA website and send emails to the Council; customers who were not D.C. residents were told to use the store address. We got customers to appear in a pro-industry video by telling them it would only be seen by the Council. Then we put the video on YouTube, on the DCFSA website, and invited the media to watch it. We convinced the Washington Informer and the Afro-American to host town hall meetings to debate the pros and cons of payday lending. We sought legitimacy from partnering with these well-respected publications, but we planned to shuttle all our staff in D.C. and

northern Virginia to the event and hire a radio personality to do a live radio feed from the site, turning it into a celebration of the industry. Fortunately, the newspapers got wind of the plan and put a damper on the project. We are organizing a day-long financial literacy session for high-school students. But it will be taught by our staff (who have no training or teaching skills) and will feature more free gifts, rap artists and festivities than the essentials of financial education. I was involved in the planning and implementation of all these PR initiatives. The great irony is that the money to pay for them comes from the pockets of payday loan borrowers.

The company will do whatever it believes is necessary to beat back attacks on its bottom line. The Check 'n Go vice president of government affairs, John Rabenold is currently running for the Statehouse in Ohio, where the company is headquartered. Getting a high-level staff member into a lawmaking body would be a coup for Check 'n Go, especially since a coalition in Ohio is actively pursuing legislation that will restrict payday lending in that state. All Check 'n Go executive staff at the level of district director and above, in over 30 states, were asked by the CEO to donate at least \$200 to Rabenold's political campaign. We were told that this was voluntary, but our understanding was that a failure to do so would impact our careers in the company. In fact, Rabenold's campaign treasurer is the Check 'n Go director of training and development. So there is a lot of pressure to support the Rabenold campaign, both monetarily and otherwise.

None of this is why I left my job at Check 'n Go. I resigned because I could no longer stomach the lies, and I could no longer continue exploiting customers, making hard lives even harder. I hope that by speaking out now I will be able to, at least in some small part, make up for the harm I have done by helping to end a very abusive business practice.