



*Project  
Prosperity*

*A Joe Robert Thornton Project*

# What Is Prosperity And Why Does It Matter?

- Prosperity- a successful, flourishing or driving condition, especially in financial respect; good fortune.
- Gateway of the American dream – buying a home, buying a car, having access to credit, saving money and generally being financially independent.
- Many Americans are prevented from realizing this dream due, in part, to no/low income, living in disadvantaged neighborhoods and/or due to predatory lending practices that affect their income and ultimately their credit score.



# What Is Project Prosperity?

- Project Prosperity is about providing education and resources to help Americans avoid the pitfalls that negatively impact their income and their credit score.
- Project Prosperity is also about helping those who are impacted by predatory lending practices that affect access to resources that will help them realize their dreams.
- This includes pawn shop fees, rent-to-own fees, payday loan fees, check cashing fees, checking account fees and overall significantly higher interest rates.



# The Impact Of A Credit Score

- Ultimately, the gateway to prosperity is an excellent credit score.
- Your credit score allows you access to resources not otherwise available and saving money in addition to avoiding predatory lending fees.
- The difference between a good credit score and an excellent credit score over a lifetime is a whopping \$60,000.
- The difference between a poor credit score and an excellent credit score is over \$200,000.



# How Good Is Your FICO® Score?

- The FICO® Score, which ranges between 300 and 850, is the most commonly-used credit scoring model by lenders for evaluating a borrower's creditworthiness. A FICO® Score of 704 is considered "good" by most lending standards. Approximately 29% of Americans had a FICO® Score that fell in the "good" credit score range in 2018, while approximately 58% had a FICO® Score of 704 or greater.



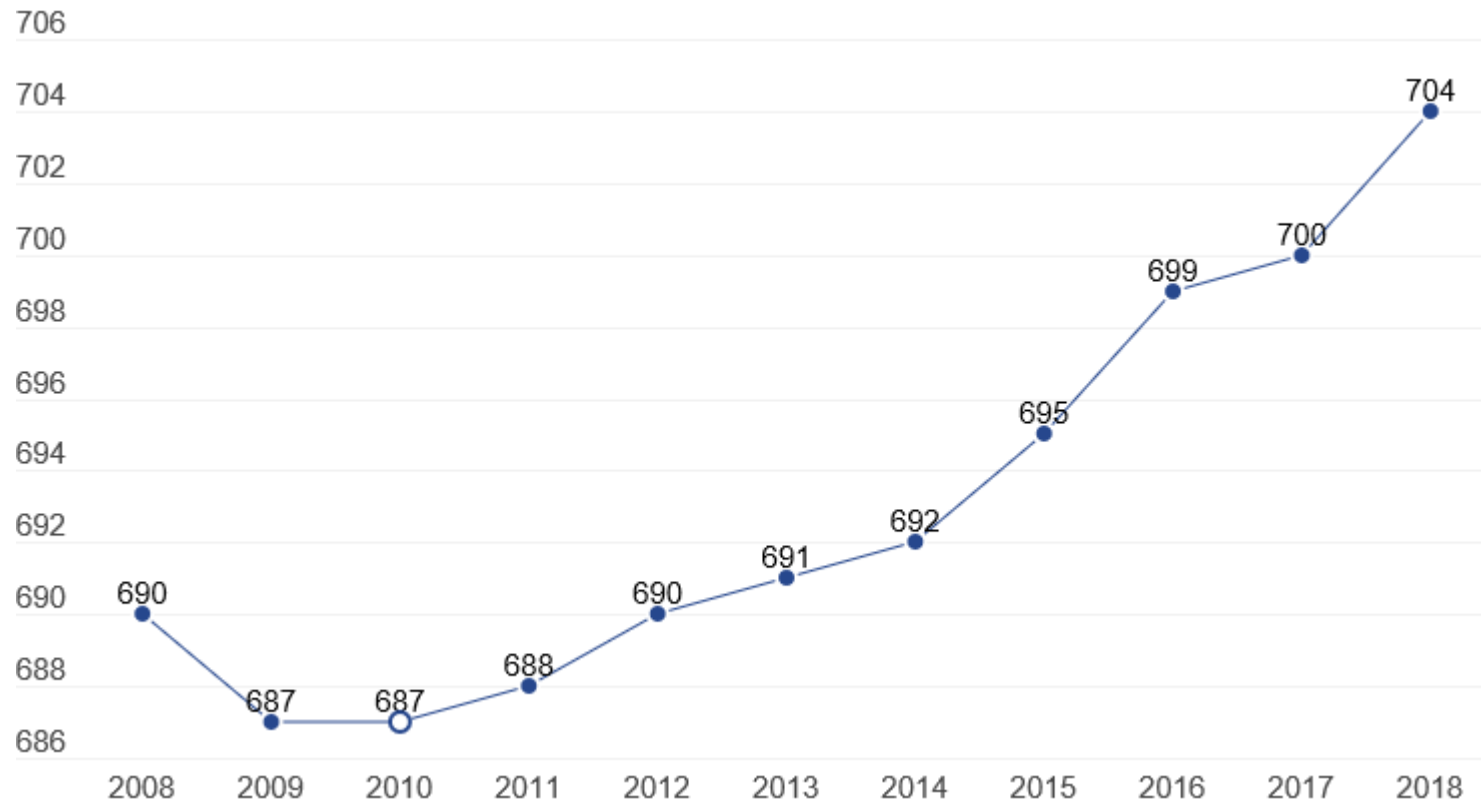
# The Range Of FICO® Scores

- Someone with a FICO® Score of 800 or above is considered to have "exceptional" credit
- 740-799 is considered a "very good" credit range
- Scores between 670-739 are considered "good" scores
- A "fair" score falls between 580-669
- Below 580 is considered a "poor" credit score



# FICO® Score Trends

- The average FICO® Score in the U.S. as of April 2018 is 704, according to data analytics company FICO®. That's the highest average FICO® Score since 2005.

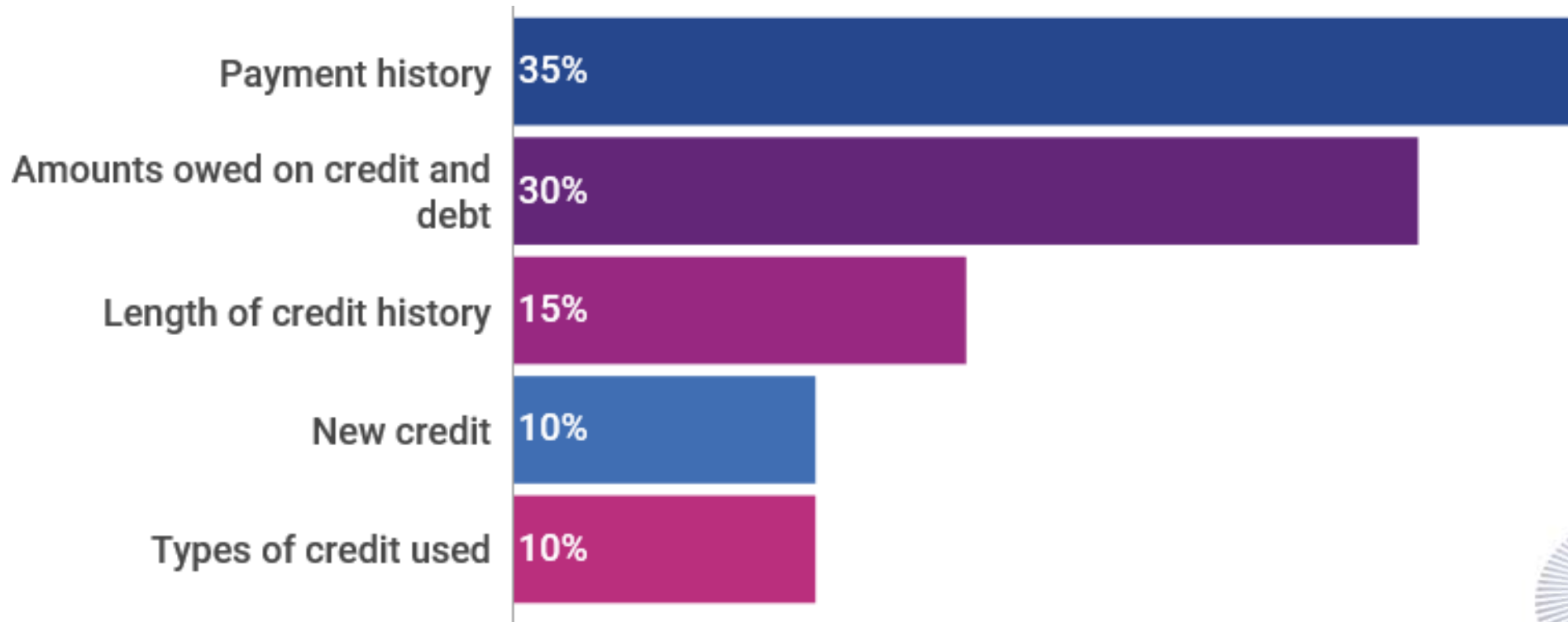


Source: Experian



# What Makes Up A FICO® Score ?

- Paying on time and paying down balances will drive the majority of your credit score.



Source: Experian





# FICO® Scores By Age Group

- According to recent FICO® research, in 2018 people over age 60 had the highest average FICO® Score of 747, a five-point increase since the same time last year.
- Overall, credit scores increase with every age group:



Source: Experian



# Predatory Lending Fees

Pawn Shop Fees

Payday Loan Fees

Check Cashing Fees

Rent-To-Own Fees

Checking Account Fees



# Predatory Lending Fees

- Predatory lending is any lending practice that imposes unfair or abusive fees on a borrower. It is also any practice that convinces a borrower to accept unfair terms through deceptive, coercive, exploitative or unscrupulous actions for a loan that a borrower doesn't need, doesn't want or can't afford.
- By definition, predatory lending benefits the lender and ignores or hinders the borrower's ability to repay the debt. These lending tactics often try to take advantage of a borrower's lack of understanding about loans, terms or finances.



# Predatory Lending Fees

- Predatory lenders typically target minorities, the poor, the elderly and the less educated. They also prey on people who need immediate cash for emergencies such as paying medical bills, making a home repair or car payment. These lenders also target borrowers with credit problems or people who recently lost their jobs. This could disqualify them from conventional loans or lines of credit.
- While the practices of predatory lenders may not always be illegal, they can leave victims with ruined credit, burdened with unmanageable debt, or even homeless.



# Predatory Lending Fees

- The Home Ownership and Equity Protection Act (HOEPA) protects consumers from excessive fees and interest rates. Loans that are considered "high cost" are subject to additional disclosure requirements and restrictions.
- Federal laws protect consumers against predatory lenders. Among them is the Equal Credit Opportunity Act (ECOA). This law makes it illegal for a lender to impose a higher interest rate or higher fees based on a person's race, color, religion, sex, age, marital status or national origin.
- In addition, 25 states have anti-predatory lending laws.



# Pawn Shop Fees



- A pawnshop loan of \$100 that costs \$15 in fees and is due in 30 days runs about 182% APR. It is not uncommon for a Pawnshop loan to be more than 200% APR. An APR of 36% is generally accepted by personal finance experts and regulators as the upper end of affordability for any loan.
- About 15% of pawn loans are never repaid.
- If you find yourself reborrowing or extending a pawn loan, or pawning and redeeming the same item repeatedly, you likely need more than this short-term financial patch.



# Pawn Shop Fees



- 32% of pawn shop regulars have no bank accounts, compared to 14% of Americans and 8% of American households. Of the 32% who say they have no bank account, 67% say they don't have enough money to open a bank account, 31% say there are too many fees to make accounts worthwhile. Nearly 70% of pawn shop regulars with a bank account have incurred overdraft or low-account fees, compared to the national average of 30%.
- Pawnshops may not disclose an APR — many will talk only of fees, or give interest per month rather than annually.





# Rent-To-Own Fees



- Rent to own, or "RTO" to use the industry shorthand, is a huge industry in the US bringing in \$8.6 billion in revenues nationwide in 2016. As points of comparison, the construction industry was recently bringing in about \$13 billion and the financial services industry brought in about \$17 billion per year according to Inc Magazine's list of the biggest industries in the US.

Source: Association of Progressive Rental Organizations





# Rent-To-Own Fees



- 2.3% of US households used rent-to-own services in any given year. 31% of customers were black. 73% had only a high school education or less. 59% had an income of \$25k or less. Nearly half of all rent-to-own customers had been late with a payment. 38% of rented items were electronics, 36% were furniture, and 25% were appliances. The most popular rented items were TVs, sofas and washing machines. RTO customers who bought the items rented them for an average of 14 months before buying them.

Source: Rent Confident



# Rent-To-Own Fees



Here is an example of how it works:

- A rent-to-own company buys a couch for \$500 wholesale and sells it to you for \$1,000.
- You can buy the couch for \$1,000 any time in the first 90 days. In the meantime, you are paying \$19.95 per week.
- Most people can't afford to buy the couch outright in the first 90 days, so they are locked into the weekly payment plan of \$19.95 a week for 2 years. Total cost- \$2,045.
- While you are making payments, the company will require you to pay an extra \$2 a week in "loan insurance", which is another \$242 dollars.
- Since you're now paying \$2,045 for the couch instead of \$1,000, you need to pay the extra tax on the higher price... that's another \$55.
- If you can't make your payments, the company will give you a payday loan at 548% APR.
- At the end of 2 years, your couch that you have paid \$2,338 is probably now worth \$200.

Source: CreditInfocenter



# Rent-To-Own Fees



Another example:

- A Samsung 65" flat screen TV lists for \$999. It's \$39.99 per week to rent it, or \$173.31 per month. If you pay for it in cash within 90 days, it costs \$2,183. If you buy it after 21 monthly or 91 weekly payments, it will cost you \$3,639. Now, if you were a person with cash on hand, you'd probably go pick it up at a retail store within \$10 of the \$1000 list price. A low-income consumer without a lot of cash flow and bad credit, might get a credit card with a high APR around 23.9%. If you paid the same amount to the credit card company as you did to the rent-to-own company, \$173 per month, you'd pay it off in 7 months, with \$73 in interest and \$1140 in principal. Buying with a credit card, the same TV would cost you \$1213.
- These examples demonstrate that rent-to-own should be your last option.

Source: Rent Confident



# Rent-To-Own Fees



- Of course, the whole appeal of the RTO business model is that they don't require a credit check. Their target market is the consumers who cannot get credit at all. Most of these folks could not afford the "90 days as cash" option either – if they could, they could probably buy the TV elsewhere. For the average rent to own furniture customer, paying \$3640 for a \$1000 TV is the only option available.
- This is why improving your credit score is critical.



# Payday Loan Fees



- Payday loans are short-term loans, generally 7 to 14 days, against a post-dated check. In general, this loan against the paycheck you haven't yet earned carries a 15% fee. On the average payday loan of \$300 for eight days, this 15% fee equates to an APR of 459%!
- The fee you pay for the use of this money is exorbitantly high. Think of it this way: by borrowing your pay in advance, you are settling for a 15% cut in pay.
- If you can't make it through to the next payday without a loan, and you're already spending next week's pay, how will you ever make it through next week without another loan? This can be a vicious, and very expensive, cycle.





# Payday Loan Fees



- Payday loans take advantage of clients who lack financial savvy--who never stopped to think about the "cost of money" or who, quite simply, don't budget well enough to have \$300 in the bank in the event of an unexpected expense.
- Payday loans can easily top 400% APR
- The Consumer Financial Protection Bureau says that 94% of repeat payday loans – churning – happen within one month of the first loan and that consumers using payday loans borrow an average of 10 times a year. The interest and fees amount to \$2.1 billion for borrowers.



# Check Cashing Fees



- Many people receive income in the form of checks, and if they don't have a traditional bank account, or are buried in overdraft fees, they may have a difficult time cashing those checks. That's where check cashing stores come in. They offer customers check cashing services in exchange for a fee — usually a flat fee plus a set percentage of 3 to 5% of the amount of the check being cashed. So, for example, if you wanted to cash a \$1,000 check, and a check casher charges a flat \$5 fee plus a 3% fee, you would receive \$965 in exchange for their check-cashing service.



# Check Cashing Fees



- The latest estimates from the Federal Deposit Insurance Corporation (FDIC)'s 2017 household survey indicate that 8.4 million U.S. households (6.5% of all U.S. households) are unbanked, meaning that they do not have any savings accounts, checking accounts, credit cards, or other financial products offered by banks. Another estimated 18.7% of U.S. households (24.2 million households in total) are underbanked. These households may have a savings or checking account with a reputable financial institution, but they also used financial products and services outside of the formal banking system from places like title or payday lenders. Specifically, 23.7% of unbanked and 3.8% of underbanked households used a non-bank check casher as an income source in 2017.





# Check Cashing Fees



- Many check-cashing storefronts also offer other financial services similar to those of banks, but for the unbanked or underbanked. Services like money orders, prepaid debit and credit cards, bill payments, payday loans, title loans, and other short-term and bad credit loans and services.
- Critics of check-cashing companies posit that they are predatory, and their fees are significantly higher than they would be if a customer were using a traditional bank, thus making households who rely on their services worse off than if they just had a checking account and could cash checks for free.



# Checking Account Fees



- The average checking account fee at top U.S. banks is \$9.60. Amounts average between \$0 to \$20, with many finding a middle ground at either \$7, \$10 or \$12.
- To be sure, banks and credit unions are entitled to charge reasonable fees for bona fide services they offer. But when financial institutions charge overdraft fees on debit card transactions they could easily decline at no cost to their customer, manipulate transactions to make overdrafts more likely, and charge penalties that are grossly disproportionate to the shortfall—we can rightly call those practices predatory.



# Checking Account Fees



- Overdraft abuses are most pernicious on debit card transactions, where the overdraft fee typically far exceeds the amount of the transaction that triggered it. Purchasing a pack of gum can result in a penalty that costs as much as a tank of gas. Importantly, if the consumer lacks sufficient funds for a debit card purchase, banks can simply decline the transaction at checkout, which costs the consumer nothing. This can be done and, in fact, is being done more now. The largest debit card issuer in the country, eliminated overdraft charges on debit card purchases several years ago, and some have never imposed these charges. These banks are to be commended.



# Checking Account Fees



- The majority of large financial institutions, and many smaller ones, actively encourage these costly debit card overdrafts. They aggressively market so-called overdraft "protection," often targeting those customers who have most struggled with overdraft fees in the past.
- Banks impose hundreds of dollars of fees in a single day, and they often continue charging fees while the account holder is desperately trying to cover the initial fees and restore a positive balance in the account.



# Checking Account Fees



- Surveys have found that high overdraft fees disproportionately impact people of color and lower-income communities.
- By increasing financial disenfranchisement, abusive overdraft practices exacerbate a problem that is already severe. A 2011 study from the Federal Deposit Insurance Corporation (FDIC) showed that about 8 percent of all households were unbanked, but the share was much higher for the African-American and Latino communities, at 21 percent and 20 percent, respectively. The share of the unbanked among all lower-income families stands at 28 percent.





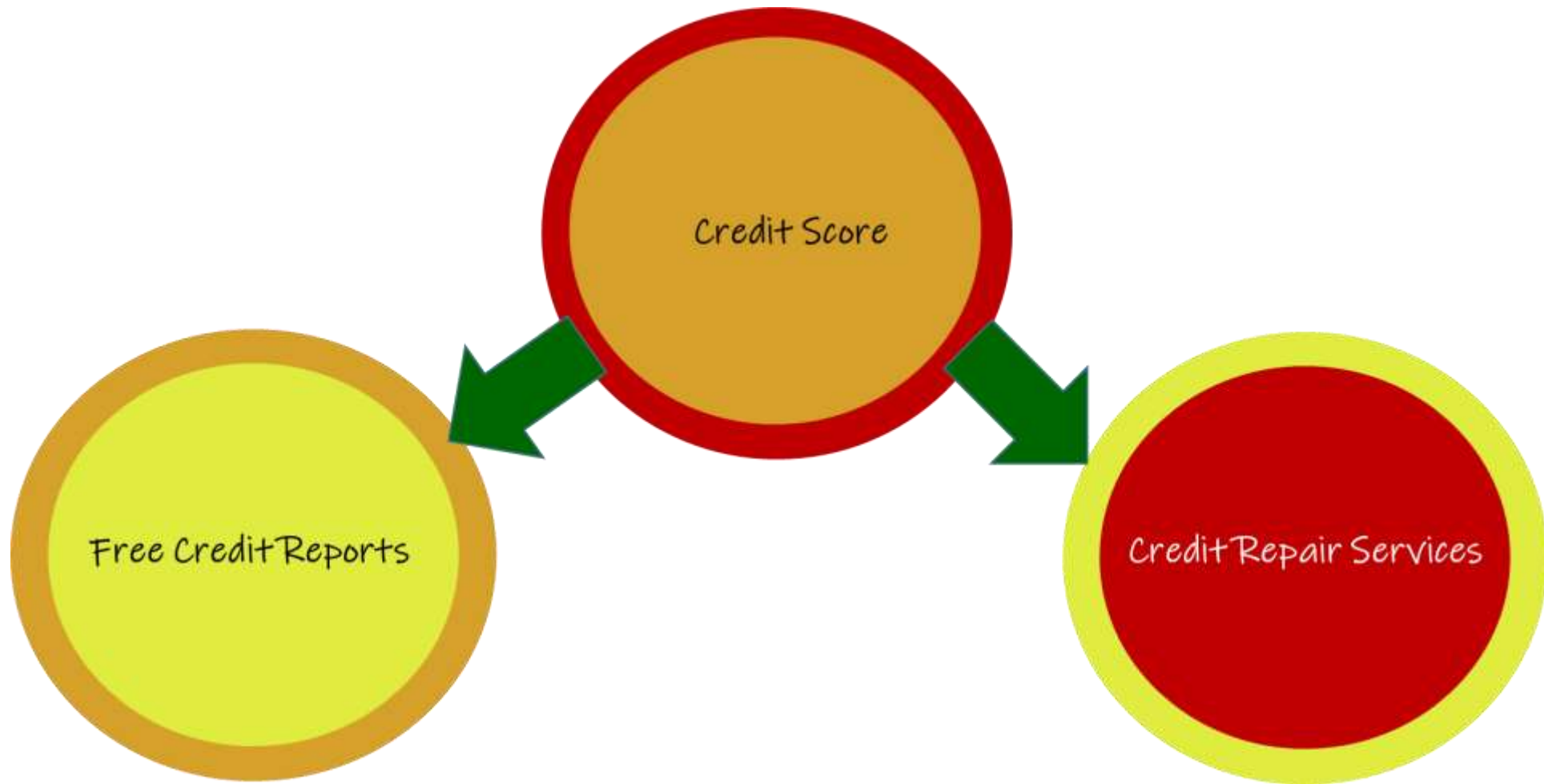
# Checking Account Fees



- The Consumer Financial Protection Bureau recently released a study finding that, at several large banks, customers who were charged overdraft fees on debit cards were far more likely to have their accounts involuntarily closed.
- For too many families, overdraft fees represent the beginning of becoming unbanked. Previous research has found that overdraft fees are the main reason banking customers lose their accounts involuntarily.
- Once a person is ejected from the mainstream financial system, it becomes difficult to reenter and the unbanked and underbanked are more likely to end up with no choice except alternative financial services, which are often more expensive and less secure than a responsible mainstream checking account.



# Taking Action On Predatory Lending Fees



# Free Credit Reports

Free Credit Reports

- The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months. The FCRA promotes the accuracy and privacy of information in the files of the nation's credit reporting companies. The Federal Trade Commission (FTC), the nation's consumer protection agency, enforces the FCRA with respect to credit reporting companies.
- A credit report includes information on where you live, how you pay your bills, and whether you've been sued or have filed for bankruptcy. Nationwide credit reporting companies sell the information in your report to creditors, insurers, employers, and other businesses that use it to evaluate your applications for credit, insurance, employment, or renting a home.

Source: Federal Trade Commission Consumer Information





# Free Credit Reports



- You want a copy of your credit report to:
- make sure the information is accurate, complete, and up-to-date before you apply for a loan for a major purchase like a house or car or apply for a job.
- help guard against identity theft. That's when someone uses your personal information — like your name, your Social Security number, or your credit card number — to commit fraud. Identity thieves may use your information to open a new credit card account in your name. Then, when they don't pay the bills, the delinquent account is reported on your credit report. Inaccurate information like that could affect your ability to get credit, insurance, or even a job.



Source: Federal Trade Commission Consumer Information

# Free Credit Reports



- Under federal law, you're entitled to a free report if a company takes adverse action against you, such as denying your application for credit, insurance, or employment, and you ask for your report within 60 days of receiving notice of the action. The notice will give you the name, address, and phone number of the credit reporting company. You're also entitled to one free report a year if you're unemployed and plan to look for a job within 60 days; if you're on welfare; or if your report is inaccurate because of fraud, including identity theft. Otherwise, a credit reporting company may charge you a reasonable amount for another copy of your report within a 12-month period.

Source: Federal Trade Commission Consumer Information



# Credit Repair Services



- Credit repair organizations offers to improve your credit in exchange for a fee- different from credit counseling agencies, which are typically a free resource from nonprofit financial education organizations that review your finances, debt and credit reports with the goal of teaching you to improve and manage your financial situation.
- Credit repair organizations typically offer to review your credit reports and address any negative items that they can with the credit bureaus on your behalf.
- According to the Federal Trade Commission, the credit repair industry is fraught with scams. To help avoid scammers, it's important to research any credit repair organization before agreeing to work with it.



# How Do Credit Repair Services Work?

Credit Repair Services

- Many credit repair companies start by requesting a copy of your credit report from each of the three major consumer credit bureaus — Equifax, Experian and TransUnion.
- The company will review your credit reports for derogatory marks, like ...
- Charge-offs, Tax liens and Bankruptcies
- Then, it will set a plan for disputing errors and negotiating with creditors to remove those items.
- That plan may include sending ...
- Requests to validate information
- Letters to dispute erroneous negative marks
- Cease-and-desist letters to debt collectors on your behalf

Source: Credit Karma



# Credit Repair Costs



- The amount you'll pay and how it's calculated will vary depending on the company, but there's a rule they have to follow. Credit repair companies can't request or receive payment until they deliver the promised results.
- Depending on the company, you might pay a one-time flat fee, or pay for each derogatory mark the company removes from each of your reports. This may start around \$35 per deletion and could range to \$750 or more.
- The company may also charge by the month, ranging from \$50 to \$130 or more. You might also pay setup fees or a fee for accessing your credit reports.





# Credit Repair Services



- According to a 2016 notice from the CFPB, more than half the complaints it received about credit repair involved alleged fraud or scams.
- The Credit Repair Organizations Act, or CROA, makes it illegal for credit repair companies to lie about their services and results, and sets some additional rules. If you think you might be the victim of a credit repair scam, or if you've had other issues with a credit repair company, you can submit a complaint to the Consumer Financial Protection Bureau.
- Credit reporting companies have a number of requirements under CROA, such as giving you a written contract that explains your legal rights and the services they'll provide and allowing you to cancel within three days without charge



# Control What You Can Control

- Make a realistic budget and live it. You will have savings so you will never need to borrow money to meet emergency expenses. (By not paying the fee on a typical \$300 payday loan for seven paydays, you will have your own \$300 savings for a financial emergency.)
- If you need money to pay a utility bill, ask the utility company for an extension. Look into the late fee they charge. Is it less than the 15% fee on a payday loan
- Consider getting overdraft protection on your checking account. If it is less costly than the payday loan, use it.
- If you must use payday loans, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday. Otherwise, you will become the payday loan industry's dream client--returning every payday for a loan.





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