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Consumer advocates unite to change lending practices

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On two sunny days in October 2004, con sumer advocates from across the country hunkered down in a basement room at Cleveland State University.

They were veterans of a long fight against credit practices they viewed as a blight on their communities, things like payday loans, predatory mortgages and title lending - an odious practice in which poor consumers put up their paid-off cars as collateral on small, high-interest loans.

It was a battered little army that gathered in that basement.

Their mission was as simple as it was sweeping: They wanted to change the way America talks about credit.

Film takes on

runaway credit

In the next six years, you may begin to hear about Americans For Fairness in Lending, the group that grew from that meeting in Cleveland.

Sometime in February - the date has skittered around a bit - AFFIL's Web site, now just a placeholder, will go live. The group is cross-marketing with "Maxed Out," a documentary on runaway credit and its consequences that promoters hope will do for the debate about debt what "Super Size Me" helped do for fast food.

The independent movie screens in New York on March 9 and will eventually make its way to theaters in the Midwest.

AFFIL director Kirsten Keefe says that moviegoers will be shocked to learn that interest rates that top 365 percent are not illegal.

"There's no major voice out there talking about the need for regulation," she says.

AFFIL is tuning up its vocal cords.

Days of caution

are long over

Certainly, America's views about credit have inverted over time.

Decades ago, credit was seen as something to be used cautiously. One might borrow to buy a home or a car or in a dire emergency, but lenders and borrowers alike shared the belief that credit was to be doled out sparingly.

In the 1960s, Household Finance's ads included the caution to never borrow needlessly.

Banks turned away would-be homeowners who couldn't amass a sizable down payment and show they could devote a chunk of their income to the serious business of paying off a mortgage - both principal and interest.

Credit-card issuers generously funded credit counseling programs to help borrowers who slipped up learn how to budget. If wayward debtors joined a financial counseling program, lenders routinely would lower the interest owed to help them get back on track.

Those days are history.

Tweens - kids 11 to 13 - are pitched secured cards to help them get in the habit of using plastic early. College kids are handed applications for credit cards before they even step on campus. People emerge from bankruptcy court to find new offers of credit waiting in their mailboxes.

Creditworthiness has become a state of mind. No down payment? No real disposable income? No worries.

Between 2000 and 2005, among households that use plastic, the average credit card debt went up 17 percent to $9,159 per family.

Credit card companies have cut back on their funding of credit counseling programs that urge careful use of credit. Nowadays, if borrowers fall behind, creditors are likely to jack up their interest rates. Sometimes credit issuers raise rates when customers are just late on some other company's bill.

What had been the strict and narrow world of credit has opened up - in no small part because of government policy - to a Wild West where payday lenders are exempted from usury rates and where people view their homes not as nest eggs but ATMs.

As Cathy Lesser Mansfield, who chairs the AFFIL board, points out, deregulation of the credit industry began in the 1980s. An entire generation of credit users has grown up with the notion that it's normal for companies to offer teaser rates that don't last or to force customers into arbitration if they dare dispute the terms.

"As far as they've known, the credit industry has always been deregulated," she says. "The concept to them is normal."

Lesser Mansfield, a law professor at Drake University, says part of AFFIL's challenge is to convince the public they have a right to be protected from unfair lending: "If governments can tell us we've got to wear seat belts, they can make sure we're protected when we go to buy a house."

Group hopes to change

perceptions of credit

Getting from here to there, though, could be a long walk.

The necessity of making the trek first occurred to Wil Ogburn in 2003, when he heard a Capitol Hill staffer discuss a PowerPoint presentation the credit industry used to lobby Congress.

It was a grim time for consumer advocates. They were being shouted down on bankruptcy reform and had lost some state skirmishes on predatory lending. Their arguments that people did not understand the consequences of some of the terms they were agreeing to elicited little sympathy with lawmakers.

The industry PowerPoint hammered home that consumers didn't have to take out credit. They chose to.

Who was Congress to limit people's choices?

Ogburn, who started his career at Cleveland Legal Aid, was startled by the staffer's next words: "He said, no matter how right you are, no matter how bad the abuses are, you're not going to succeed as long as the [industry's] message is 'credit is a right.' "

Ogburn realized that unless the perception of credit changed, consumer advocates would keep losing. He asked himself the question he later asked the assembled group in Cleveland: "Can we strategically engage the public in their attitudes about debt?" The group - social justice advocates and military lawyers and consumer representatives - answered yes.

They wanted to be for something, not against.

They wanted a coalition that would complement their efforts, not compete with them.

In two years, AFFIL has grown from a file drawer in Lesser Mansfield's office to an organization with nonprofit status and a full-time director. It has a lawyer-heavy board and a budget funded by charitable foundations. The goal is to focus the public's attention on credit practices.

Keefe said people will be outraged when they realize how little the government has done to protect consumers.

She points to recent efforts to restrict the amount of interest that lenders can charge members of the military. That effort came at the behest of consumer groups, who routinely target payday lending, and the military, which was alarmed by the number of service men and women who were being classified as security risks because their personal finances were in tatters.

Military pay is relatively low, and most bases were ringed with payday lenders that let borrowers bet their paycheck that they can repay loans with annual interest rates that may top 400 percent.

To address the concerns, Congress last fall enacted a law to cap interest rates offered to military members at 36 percent.

Keefe recalls that she shared the news with her father, her frequent confidant.

His reaction: "Thirty-six percent!"

While she celebrated the cap as a victory, she said, "He was shocked it was so high."

If you have a consumer problem you haven't been able to resolve on your own, e-mail sherylharris@

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