Book Review

Broke, USA: From Pawnshops to Poverty, Inc. How the Working Poor Became Big Business

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Journal of Financial Counseling and Planning readers are well acquainted with the "alternative financial services sector," also known as "fringe financing," "the poverty industry," "Poverty, Inc.," or, simply "payday" when the topic at hand is payday loans. While financial counselors and educators know how these businesses operate and how much they charge consumers, few probably have extensive knowledge of how widespread these businesses are, how they started, how they have impacted communities, and who major "players" are in both the poverty industry and in organizations that advocate against them. Enter *Broke, USA: From Pawnshops to Poverty, Inc. How the Working Poor Became Big Business*, a masterfully written 358-page book that addresses all of the above topics and more. The insights that this book provides into non-bank lending and the legislative lobbying process are both startling and profound.

The author of *Broke, USA* is Gary Rivlin, an award-winning author of four previous books who has worked as a writer and reporter for the *New York Times* and authored articles in *GQ, Newsweek,* and *Wired,* among others. Rivlin writes with authority about the poverty industry and extensive endnotes at the end of the book describe his information sources. *Broke, USA* is based on Rivlin's interviews with industry figures and newspaper accounts of payday loan legislative battles in several key states throughout the 2000s. The book also describes in great detail the seeds of the 2007 "mortgage mess" and resulting Great Recession and its associations with Poverty, Inc. The book goes back in time as far as the 1980s but focuses on the growth of the poverty industry during the past decade.

In the Prologue of *Broke, USA,* readers learn the history of Household Finance and about an Ohio family, the Myerses, who eventually walked away from their home and moved into a trailer park after a predatory refinancing nearly tripled their monthly mortgage payment. The interest rate was much higher than they were promised and the loan was "packed" with insurance and other undisclosed expenses. The case is described in graphic detail as a cruel example of predatory lending practices which were prevalent in their geographic area. In the end, the couple received a settlement described by Rivlin as "a mere pittance compared to what Household had cost them" (p. 18). They also filed for bankruptcy.

Chapter 1, "Check Cashers of the World Unite," describes Rivlin's visit to the 2008 meeting of the National Check Cashers Association in Las Vegas. Here he describes a skit that shows financial center consumers "greeted by friendly people who are only too glad to cash their checks or loan them cash until their next paycheck" (p. 22). Themes heard throughout the meeting were "No one matches the service we give our customers" and "Our products fit our customers' lifestyle" (p. 24). The history of a pawnshop chain called Cash America International that went public and Rent-A-Center rent-to-own stores are described. Rivlin also notes that payday lending was a late entry to Poverty,

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Inc., but in 2008, an estimated 14 million (of 110 million) U.S. households visited a payday lender "collectively borrowing more than $40 billion in installments of $200 or $500 or $800" and paying "$7 billion in fees" (p. 27). About 40 million Americans live on $30,000 or less per year, which Rivlin uses as a cutoff to describe the working poor. He notes that they "earn too much to qualify for government entitlements but earn so little there's no hope they'll ever save much money" (p. 31). Back at the meeting, conventioneers, wary of the impact of the financial crisis on their bottom line, were advised to develop loyalty programs.

"The Birth of the Predatory Lender," Chapter 2, describes the time period 1991-1993 from the vantage point of Bill Brennan, an Atlanta public interest lawyer who Rivlin notes, "has spent more than he wants to admit doing reconnaissance work at industry-sponsored subprime lending conferences" (p. 36). Several particularly abusive lending cases involving Fleet Bank borrowers are described as well as abusive subprime lending practices (e.g., packing, flipping, and equity stripping). The chapter also describes how large mainstream U.S. banks started to increase their profits by starting a subprime subsidiary.

Chapter 3, "Going Big," focuses on Cleveland, Tennessee in the 1990s and introduces readers to Allan Jones, a man who has made "a couple hundred million from the payday business" (p. 61). Jones realized, by talking to check-casher James Eaton, that people charged high fees for short term loans were happy with the arrangement because they received money quickly and viewed it as cheaper than a bounced check. He is considered the payday industry's most prominent pioneer and an outspoken defender. The name of Martin Eakes, founder of the Center for Responsible Lending (CRL), is also introduced. Another "player" who established a rent-to-own store empire is described, as well as Poverty, Inc. business practices and operating guidelines (e.g., locating in a shopping center anchored by a Wal-Mart). Rivlin also notes that Poverty, Inc. entrepreneurs "gave generously to political campaigns of the right state legislators" (p. 79).

In Chapter 4, "Confessions of a Subprime Lender," readers are provided with background about Martin Eakes in North Carolina circa 1980 to 1998. No love is lost between Jones and Eakes, who Jones blames for the mortgage meltdown and resulting financial crisis. Eakes convinced Fannie Mae to help his organization, the Center for Community Self-Help (which recruited borrowers with credit scores below 620), create a secondary market to buy and sell subprime mortgages, a process known as "mortgage securitization." As Rivlin notes, "It was the failure of so many subprime loans buried in mortgage-backed securities that accelerated the global financial crisis" (p. 86). However, the fact that Eakes and the CRL were behind a major payday industry political fight in Ohio in 2008 also factored into Jones' opinion.

The story of Eakes' lending unit, called "Self-Help" for short, continues in Chapter 5, "Freddie Rogers." The case of Rogers, a Self-Help client with a predatory home improvement loan with Associates, is described. Rogers never missed a payment, yet Associates claimed he still owed the company nearly as much as he had borrowed 10 years earlier. The case of the Ivey family, who almost lost their home after an Associates broker talked them into a "preposterously expensive" home equity debt consolidation loan, and passage of a North Carolina predatory loan reform bill in 1999 are also described.

Chapter 6, titled "The Great Payday Land Rush," describes the growth of payday lending in the late 1990s. Eventually, some companies went public with IPOs, such as Advance America, which has traded on the New York Stock Exchange since 2004. Others remained private to avoid having to answer to shareholders. Former Advance America CEO Billy Webster is profiled as well as Consumer Federation of America advocate Jean Ann Fox. Fox's contribution, according to Rivlin "was adding an element of math" (p. 123). For example, the $15 per $100 that payday lenders charge works out to an APR of 391%; a $21 fee per $100 is a 546% APR; and a $25 per $100 fee is a 650% APR! Ironically, Webster did not challenge Fox when he could have, according to Rivlin, because "he figured people didn't care about the APR, they only cared that they could have $300 today and what they would owe in two weeks" (p. 124).

Chapter 7, "Subprime City," focuses on Dayton Ohio in 1999-2000. Jones, Webster, and others mentioned in earlier chapters all had multiple stores there. Payday lenders were plentiful in Dayton since 1996 when the Ohio legislature (after intense lobbying pressure) voted to exempt small, short-term loans from the state's 28% usury cap. A steep rise in predatory lending and mortgage foreclosures in a relatively short period is described with both statistics and real life examples. Rivlin also describes how Dayton locals reached out to Eakes and Brennan and federal government officials (e.g., former HUD secretary Andrew Cuomo) for assistance, and the political squabbles that ensued.

Chapter 8, "An Appetite for Subprime," is set in 2000 to 2005 and focuses on Citigroup's acquisition of Commercial Credit, Primerica, and Associates to become the country's largest subprime lender. Despite objections by some politicians, Congress did not have the power to stop them. Citi CEO Sandy Weill is described as an "empire-builder." The motive for Citi's subprime endeavors was profit or, more specifically, the spread (i.e., the difference between what money costs a company to borrow and the rate at which they can lend it to others). Credit insurance products were another cash cow. Sixty percent of all Associates loans included some kind of credit insurance. Eventually federal regulators, specifically the FTC, intervened and the remainder of the chapter discusses resulting lawsuits, fines, and concessions.

Not every subprime lender is a financial behemoth like Citigroup. "No Experience Necessary" is the title of Chapter 9, which describes the humble beginnings of several Poverty, Inc. entrepreneurs such as Fesum (Fez) Ogbazion, an Ethiopian immigrant, turned Dayton instant tax refund lender, who Rivlin met at the Las Vegas check cashers' convention. The mechanics of refund anticipation loans (RALs) are explained, as well as the fact that the "Big Three" (i.e., H&R Block, Jackson Hewitt, and Liberty Tax Service) generate more than $1 billion in annual revenues from them. Rivlin also notes that RAL providers and other poverty businesses tend to locate in low to moderate income communities and near each other akin to a "one-stop shop." This is unlike most merchants who prefer not to have their competitors that close. According to one report cited in *Broke, USA*, 80% of Jackson Hewitt customers earned under $30,000 and well over half chose its instant refund program. As Ogbazion notes, "These are people who can't wait" (p. 183).

Another Poverty, Inc. entrepreneur, Jared Davis, is profiled in Chapter 10, "Same Old Faces," which describes the growth of his Check 'n Go payday loan stores in Mansfield, Ohio from 1997 to 2007. Like Jones and others profiled in *Broke, USA*, Davis fiercely defends his industry against criticism by media and consumer advocates (including Eakes) by noting that it provides quick cash for basic necessities. A Check 'n Go store manager, Chris Browning, is also profiled. She states "They fired me because eventually their policy became, if a body walks in the door, you loan 'em money, and I wouldn't do that" (p. 189). Before she was let go, Browning marketed her store with flyers at laundromats, car repair shops, and medical offices. Store managers, who began with a $21,000 annual base salary, earned bonuses when they converted borrowers into semi-regulars and grief when their "customer reactivation rate" was too low. Borrowers were required to provide three references upon application and Browning often called the references when borrowers were late with payments in an attempt to embarrass them into paying. The chapter also describes how many borrowers patronized multiple payday lenders, walking from store to store in the same shopping center to get cash from each and juggling loan repayments.

Chapter 11, "The Great What-If," describes a 2002 to 2003 legislative battle in Georgia and introduces readers to Roy Barnes, the former governor who signed an anti-predatory loan bill that became a model for other states. Six years before the 2008 mortgage mess, the law decreed that any entity taking possession of a subprime loan, even just long enough to securitize it and sell it off, "was legally liable for the integrity of that loan" (p. 200). The chapter also describes how large banks shut down branches in poor neighborhoods and replaced them with subprime lending units (e.g., CitiFinancial). Public interest advocates Vincent Fort and Bill Brennan (described earlier) are also featured throughout the chapter. The Barnes-Fort bill was signed into law in April 2002. Barnes was not re-elected that November. By March 2003, the next governor (Sonny Perdue) signed amendments that "limited liability to the original issuer of a loan while watering down a number of provisions in the Barnes-Fort bill" (p. 213). Besides strong industry lobbying, another reason cited for this change was that Standard & Poor's, Moody's, and Fitch (credit rating agencies) refused to rate "any mortgage-backed security that included even a single loan out of Georgia-even conventional mortgages" (p. 212). One can only wonder if the financial crisis might have been averted if investment bankers, for fear of being sued, would have had an incentive (as they did under the Barnes-Fort law) to carefully study the mortgages that they were "slicing and dicing" into securities. The role of the U.S. Comptroller of the Currency (OCC) is also described in Chapter 11.

The plot thickens in Chapter 12, "Public Enemy Number One," with descriptions of additional Poverty, Inc. legislative battles. Not surprisingly, the payday industry's main spokesman, Steven Schlein, had nothing but contempt for Eakes and the CRL. Readers also learn that the CRL has a $25 million building in Washington, DC and was initially funded with about $20 million in donations by Marion and Herb Sandler, former owners of World Savings Bank (later purchased by Wachovia), which specialized in option

ARM mortgages that often result in negative amortization. I could not help think of other causes with admirable objectives that also had questionable funders, including some in the financial literacy field. Chapter 12 also discusses Advance America's IPO led by Morgan Stanley and studies about the poverty industry. One noted that by 2006, subprime loans accounted for more than 25% of loans written.

"Past Due," Chapter 13 is set in Columbus, Ohio from 2002 to 2008. By 2005, Ohio's mortgage default rate was almost 6%, tops in the country. The chapter describes the process that eventually led to passage of a predatory loan bill that, among other things, limited people to four payday loans in a year. Also included is the role of a key crusader, Bill Faith, executive director of the Coalition on Homelessness and Housing in Ohio (COHHIO), and descriptions of several scammed consumers who were used as "evidence" of fraud. Interestingly, the poverty industry fought the bill with the same strategy that I noticed soda manufacturers did in New York last year when a tax was proposed on sugar-sweetened beverages: the loss of jobs. The root problems of triple-digit APRs (or, in the case of beverages, obesity) were never even acknowledged.

Chapter 14, "Maximizing Share of Wallet," takes readers back to the check cashers' conference and profiles Tim Thomas, owner of Daddy's Money Pawn Shop in Wichita, KS. Kansas has no caps on check-cashing fees and Thomas says he charges a 10% fee on personal checks "because I can" (p. 264). Thomas also provides payday loans and, in Kansas, can provide back-to-back loans up to $500 to the same person indefinitely. The busiest months in the payday business are September and December for back-to-school and the holidays. Rivlin notes, "Almost every enterprise that's part of the fringe economy takes a stab at the tax return business" (p. 265), including Thomas, who earns $6 by sub-contracting with a company called Refund Today, for every client who opts for a refund anticipation loan. Another Poverty, Inc. entrepreneur, Fraser MacKechnie, COO of Amscot Financial, a Florida "all-purpose poverty enterprise," is also profiled. MacKechnie's tips for success include curb appeal ("Aim to look like a McDonalds") and becoming "indispensible" to customers by selling lottery tickets and stamps. Amscot also avoids using the controversial term "payday loan" in its publicity and instead calls it a "cash advance." Rivlin then discusses several other conference presentations and FDIC data on the annual cost of check-cashing fees.

Back to Ohio in Fall 2008, Chapter 15, "Payday, the Sequel," provides additional details about passage of the law described in Chapter 13. Payday lenders spent $13.8 million to fight it. Bill Faith held focus groups the summer before the vote and realized "the polarizing power of the triple-digit APR" and used it in later ads. People also said they did not like the idea of having their loans in a "nanny-state" government database (to track the number), but they hated 391% APRs even more. As the recession was gearing up in Fall 2008, payday lenders threatened the loss of 6,000 to 10,000 jobs. In the end, the payday loan reform bill passed with 64% of the vote. One cannot help wonder about unintended results, though. Someone quoted later in a newspaper article said "This is a terrible mess for people who live from week to week."

In Chapter 16, "Dayton After Dark," the decline of this city and its surrounding suburbs is described in graphic detail. For example, "A single street in Trotwood was home to no less than six payday shops, along with a Rent-A-Center and a Jackson Hewitt" (p.289). The chapter also describes the subprime mortgage meltdown and the role of specific companies such as Ameriquest Mortgage and Countrywide Financial that sold mortgages to unqualified buyers and investment banks like Bear Stearns, Lehman Brothers, and Merrill Lynch that, in turn, repackaged these mortgages and sold them to pension funds and investors. Rivlin notes it did not matter to Ameriquest's bottom line whether customers could afford the high-cost loans "because they would be off the books long before a borrower defaulted" (p. 298).

Broke, USA ends with an Epilogue chapter, "Borrowed Time," set in New York in the Fall of 2009. Readers learn that payday loans are becoming popular in the United Kingdom and U.S. poverty industry owners are bemoaning lost profits due to legislative restrictions and market saturation. Nevertheless, many industry entrepreneurs are still thriving. The role of the new Consumer Financial Protection Agency in addressing Poverty, Inc. businesses is also described and the status of companies described in earlier chapters is updated (e.g., "Ameriquest would be the first big subprime lender to flop" and Citigroup would cut around one third of its workforce). Rivlin ends the book by describing how some Poverty, Inc. firms began to diversify in the late 2000s to hedge their bets. For example, Allan Jones opened some pawnshops. He tells Rivlin the pawn industry guideline is you pledge three times collateral, "so if one of his clerks thinks they can sell a flat-screen TV for $300, they will loan that person $100" (p. 332).

After reading *Broke, USA*, readers will have a much better appreciation of the "business side" of fringe financing companies as well as their devastating impact on the lives of consumers. Personally, my already strong distaste for sleazy lobbyists and corrupt politicians was further enhanced as well as my admiration for strong consumer advocates and public interest lawyers. I was surprised to learn that the Center for Responsible Lending, whose reports I had always read with interest, had roots in subprime lending and loan securitization. The mindset of Poverty, Inc. entrepreneurs and the arguments used to defend their industry (e.g., they are providing a needed service to happy customers) were enlightening.

Broke, USA is well-written, engaging, and based on the author's extensive research. It is highly recommended for anyone who wants to really understand what is happening to America's working poor. Only three suggestions for improvement come to mind. The first is the way the book is organized. The constant shifting back and forth among dates, locations, story lines, and "characters" was sometimes difficult to follow. It might have been easier if chapters or sections contained a topic (e.g., the Ohio legislative fight) from start to finish. The second is that a chart of state laws regarding poverty industry businesses would have been a valuable addition. My third comment is that Rivlin offers no concrete solutions for Poverty, Inc. from either an educational or public policy perspective; he simply "tells it like it is" but leaves readers to wonder what to do with the information that he has provided.

Finally, a week after finishing *Broke, USA*, I read an op-ed piece by Todd Zywicki in the *Wall Street Journal* (January 4, 2011) about "the old story of regulators thinking they can wish away the unintended consequences of consumer credit legislation." For example, the CARD Act, limiting credit card penalty fees and interest-rate adjustments, has meant higher interest and fees and reduced credit limits for many. Zywicki notes "The impact was even worse for lower-income Americans, who have lost access to credit cards and were dumped in the laps of payday lenders that charge interest rates 10 times higher than credit-card companies." He also describes how new regulations on interchange fees will result in more low-income Americans being unable to qualify for free checking (as banks re-price accounts to recover lost revenue), and that Poverty, Inc. businesses, such as check cashers and sellers of nonbank prepaid debit cards, are expected to benefit. It would be unfortunate if laws that most financial educators support for reducing borrowing costs cause even more misery to people like those profiled in *Broke, USA*. As Zywicki notes in the conclusion of his article, "Congress can pass all the laws it wants, but it can't repeal the law of supply and demand and the law of unintended consequences."