

ECONOMIC OPPORTUNITY STUDIES

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This is a chronicle of the way an activist CAA Association can engage experts from the national low-income advocacy network, win press attention, and persuade utilities to become partners in promoting their consumers' economic security by their practices.

See the NCLC Report that triggered change

http://www.consumerlaw.org/reports/content/payday_utility.pdf

What consumer practices could your utility change on its own authority ?

Payday loan ties dropped

Arizona's major utilities sever links with lenders

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The Arizona Republic

Jun. 30, 2007 12:00 AM

Arizona's major utilities have ended a longtime practice of allowing customers to drop off electric and gas payments at **payday-loan centers after a Phoenix community action group brought the matter to light.**

Arizona Public Service Co., Southwest Gas and Tucson Electric Power Co. said they had begun the practice as a convenience to customers. Earlier this month, they said they would quit over concern about potential problems. "We were trying to do the right thing, with unintended consequences," said Tammy McLeod, general manager of customer service for APS.

The change has met approval from Arizona Corporation Commission members, the Arizona chapter of the AARP and the Arizona Community Action Association, which advocates for low-income residents. That group helped publish a report earlier this month looking at the practice in Arizona and elsewhere across the country, describing the arrangement as a potential ambush for low-income people to be lured into high-interest loans.

Payday-loan centers offer easy-to-obtain, short-term loans to borrowers who promise to repay them plus a fee after the next payday. The centers, which frequently also cash peoples' checks, have come under fire for their rates, which some critics say are as much as 400 percent annually. For years, most of the state's major utilities arranged for customers paying cash to drop off their payments at payday-loan centers as well as grocery and convenience stores. Both Tucson Electric Power and Southwest Gas used payday centers as main drop-off sites.

Not especially unusual

It's not an unusual arrangement. The National Consumer Law Center found more than 36 utilities used payday lenders as authorized bill-payment agents. Utilities may not have understood what it meant to direct people who pay cash because of tight budgets into places that offer such easy-to-get loans, said Cynthia Zwick, executive director of the Arizona Community Action Association.

A week after AARP alerted the Corporation Commission to the report, Southwest Gas told Zwick's group that it would end its 9-year-old practice. APS and Tucson Electric quickly followed. "It has been a stunning exodus. I have never seen the utilities move so fast," said Kris Mayes, a member of the Corporation Commission, which oversees utilities.

"It is a very bad practice. And it comes when utilities are asking for double-digit rate increases, and it is unfortunate that they are steering their customers into places that offer exploitive loans," she said.

Rick Jurgens, consumer advocate for the law center, a Boston-based non-profit that works with low-income consumers, said he didn't know of any other utilities listed in the report that ended their arrangements with payday lenders.

Not based on hard data

Eric C. Norrington, vice president of Texas-based Ace Cash Express, which has the bulk of Tucson Electric's pay stations, said the consumer-law report wasn't based on hard data such as a customer survey. His company believes that people who come to Ace Cash Express to pay utility bills don't take out loans. Norrington said the company, which has the largest number of payday-loan centers in Arizona, had internal data to support that but wanted to wait to share it until an accounting firm hired by Ace Cash Express conducted its own report.

Lyndsey Medsker, spokeswoman for the Community Financial Services Association of America, the industry's largest trade group, said her members have not complained about utilities stopping payments in their stores.

Although all three utilities as well as UniSource Energy Services, which provides electricity and natural gas in five Arizona counties, quickly said they were severing their ties with the loan centers, each had varying reasons for partnering with them in the first place.

McLeod, of APS, said the state's largest utility made the move to protect its customers from unscrupulous check-cashing centers. About 10 years ago, APS noticed that many check-cashing places were advertising that they would accept APS bills. The check-cashers were offering the service to entice people to their stores, but frequently, they weren't delivering the payments to APS in time, McLeod said.

APS asked the centers to stop, and when they didn't, APS decided to join forces with them, instead, and make certain centers authorized agents for the utility, McLeod said. "We threw in the towel," she said.

During the past couple of years, the centers became more focused on making payday loans,

but APS didn't receive any complaints from customers that they were being pressured to take out high-interest loans when they came into pay their electric bills, McLeod said.

Southwest Gas officials said they began their arrangement as their service area grew. "It was traditional to come into the gas company and pay your bill, and that became impractical," said Garth Andrews, Southwest Gas spokesman. The move was done to increase customer convenience with lower costs for the company, Andrews said.

For utilities, operating their own customer-service center rather than outsourcing it to a convenience store or another site, is an extra expense, Zwick said. "Turning to a third party was the easiest way for them to solve their problems without realizing the implications for families," she said.

Using a payday loan to pay a utility bill is an easy way to get trapped in debt, she said. Paying the interest on a short-term loan makes it even harder to pay the next month's utility bill, she said.

'Everyone was doing it'

Zwick first learned of the issue in September 2006 when UniSource closed its walk-in lobbies in Flagstaff, Prescott, Cottonwood and Show Low and suggested people who wanted to pay cash go other places, including payday-loan centers.

"We realized that was not appropriate and went online and found everyone else was doing it," she said. She started talking with the utilities in October and sent them formal letters on the subject in December.

She also got the National Consumer Law Center involved to look at the issue nationally, and its report came out early this month.

Cash-paying alternatives

Now, the utilities are scrambling to find alternatives for cash-paying customers. Joe Salkowski, spokesman for Tucson Electric, said the company is trying to find places that offer convenient locations before they drop their existing agreement with Ace Cash Express, which provides all their off-site payment locations.

One possibility may be kiosks in stores, he said. Since 1997, Salt River Project has stationed kiosks that accept SRP payments in grocery stores. SRP, which does not have arrangements with payday-loan centers, would not say how much the units cost. The units have paid for themselves by increased convenience and eliminating the need for more of their own centers. Customers really like them, said Jennie King, principal planning analyst with SRP. Over a four-day period last week, the kiosks took in 2,000 payments. "The main reason we did the kiosks is that we wanted to do this ourselves," she said. "We didn't want anything to come between us and our customers."