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SOUTHERN EXPOSURE

Southern Exposure has been published since 1973 by the Institute for Southern Studies. With its combination of investigative reporting, historical perspective, oral histories, photography, and literature, the magazine has earned a national reputation. The magazine has received several Project Censored Awards; the Sidney Hillman Award for courageous reporting on racial injustice; two Alternative Press Awards for best regional publication; a National Magazine Award; and the John Hancock Insurance Company award for economic reporting.

The Institute for Southern Studies is a nonprofit center working for progressive change in the region. Since its founding in 1970, the Institute has sponsored research, education, and organizing programs to (1) build the capacity of grassroots organizations and communities with strong local leadership and well-informed strategies, (2) provide the information, ideas, and historical understanding of Southern social struggles necessary for long-term fundamental change, and (3) nourish communication, cooperation, and understanding among diverse groups.

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FRONT PORCH:
LETTER FROM THE EDITOR

STOP THE PROFITEERS

On Friday, March 28, an explosion erupted in the Shu'ala marketplace in Baghdad. The blast proved to be one of the bloodiest episodes in the U.S./U.K. assault on Iraq, claiming the lives of over 60 innocent Iraqis, mostly women and children. Many dozens more were gruesomely injured, losing eyes and limbs, their bodies punctured by rocketing shards of concrete and metal.

The killing quickly fueled already-growing anti-American rage; as one woman angrily told Robert Fisk of *The Independent* (London), "This is a crime. Yes, I know they say they are targeting the military. But can you see soldiers here? Can you see missiles?"

The Pentagon first denied having "good information" about the explosion, then blamed Iraq's own "malfunctioning air defense equipment." They even speculated it was a "deliberate" attack by Saddam Hussein on his own people. The U.S. media quickly embraced the Pentagon's explanations, and moved on.

But Fisk of *The Independent* was unconvinced. The enterprising British reporter obtained a foot-long shard of the missile's fuselage from a man near the scene, and with the help of a London-based researcher, deciphered a serial number from the remnant.

What did the code reveal? Fisk reported that the missile could be traced directly back to the Raytheon Company, a Texas-based military supplier that manufactures parts for Tomahawk missiles. Although dozens of the world's media outlets reported Fisk's findings, the U.S. major media never admitted that the carnage at Shu'ala was made in Texas.

The Shu'ala tragedy is not only a lesson in corporate media denial. It also drives home a point made in the pages of *SE* for many years: that all too often, in the business of war, there are few degrees of separation between the killing and the South.

FRONT PORCH:
LETTER FROM THE EDITOR

Raytheon is just one of several military merchants enjoying record profits from the spoils of war. Halliburton, whose questionable war wealth was first exposed in *Southern Exposure* last year, DynCorp, Lockheed Martin—all are corporations making millions off the deadly enterprise of battle, and all have major operations in the South.

Throughout history, advocates of the public interest have mobilized to stop the war profiteers. During the Civil War, public outcry against enrichment from suffering led Georgia's General Assembly to enact extra taxes on war profits—a measure adopted nation-wide after the two World Wars and the Korean War. In the 1930s North Dakota Sen. Gerald Nye held Congressional hearings to investigate ties between the Army, Navy, and major arms manufacturers, and in the 1940s Senator Harry S Truman called profiteering "treason."

As this issue highlights, the arms dealers abroad have their counterparts at home: a burgeoning and reckless industry of shady bankers like Citigroup who, dressed in Wall Street respectability, prey on our nation's most vulnerable citizens, fleecing working people of billions of dollars.

The time has come for a new movement to reign in the merchants of misery, both at home and abroad.

■ ■ ■

This year marks the 30th anniversary of *Southern Exposure*, which produced its first issue—on "The Military in the South"—in 1973. Three decades is a virtual lifetime in the cutthroat and consolidating magazine business. Looking back, we're proud to see a thread running through our history: exposing the power brokers who run roughshod over people's lives, and celebrating the people who refuse to surrender their dignity and compassion.

This issue also marks a smaller anniversary: it's been a year since *SE* came back from a one-year hiatus brought on by a tight money crunch and uncertain financial future. Yet *Southern Exposure* has risen again.

We can thank you, our readers, for *Southern Exposure*'s accomplishments over the last 30 years, as well as our recent revival. It was friends like you who gave us ideas, subscriptions, and financial support, keeping *SE* alive as a source of hard-to-find information, innovative ideas, and inspiring stories of change.

As we train our eyes on the next round of looters, profiteers, and closed-door dealmakers—and the people fighting to stop them—we thank you again for your support. It's always timely, always needed, and always appreciated.

CHRIS KROMM
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Photo by Keith Ernst

Towers of Power: Corporate Radio's Grab for More Market Share Spells Trouble for Black Broadcasting

JAMES VAUGHAN HAS SEEN AND HEARD MANY CHANGES SINCE HE first got on the airwaves three decades ago. After graduating from historically black North Carolina Central University in Durham, N.C., in the late 1960s, he and a group of classmates started the short-lived WAFR radio station. He then went on to work as a broadcast journalist in Washington. While living in Virginia, Vaughan even started a TV station from the ground up, but eventually bowed to economic pressure and sold it. He's now back in Durham and works as an announcer for sister gospel AM radio stations WTIK and WFTK, owned by Virginia-based Positive Radio Group. But his days as a small independent broadcast owner are in the past.

"In this area, for the most part, diversity in ownership, particularly among African Americans, has disappeared," he said. "In terms of local ownership, there are none as far as I know. And there seems to be very little prospect of it."

Vaughan was one of more than 150 people who came to a public hearing of the Federal Communications Commission at Duke University's law school on March 31. The overflow crowd included law students, broadcasters, and a group of volunteer DJs from Duke's college radio station, WXDU. They came to express concern about proposed FCC rule changes, since adopted, that could accelerate the galloping trend toward media consolidation, a trend that began when radio was deregulated in 1996, and could carry over to television and even print journalism under the new rules. Panelists representing local media outlets discussed the biggest impact of broadcast consolidation, the decline in localism—local ownership, decision-making, and programming—which has in turn affected everything from music to morals to news coverage.

On June 2, the FCC relaxed rules limiting how many media outlets a single company can own, both nationally and within a given market. In doing so, the FCC accelerated the trend toward deregulation begun with the 1996 Telecommunications Act, which eliminated the cap on the number of radio stations that a single company could own nationally. Until now, a company couldn't own more than 35 percent of the national TV market share, and no company was allowed to own both a daily newspaper and a TV station. On June 2 the latter rule was scrapped, along with what remained of radio ownership caps, and the TV market share limit was raised to 45 percent.

One of 17 people who came to the microphone to speak during the hour-long public comment session, Vaughan told the commissioners that he opposed further deregulation, and described small broadcasters as "David facing Goliath."

Vaughan is one of many African American broadcasters who have struggled unsuccessfully against the tide of consolidation. Beginning in the civil rights era, small, locally owned black stations dotted the American airwaves, especially in the South. But in the past two decades, most of those stations have been bought by corporations. The term "black radio" itself no longer refers to ownership, but rather to a set of commercial formats (gospel, R&B, urban and soul) that cater to African-American audiences. The biggest owner in those markets is Maryland-based Radio One, which owns 65 stations

in 22 markets and carries the popular Tom Joyner talk show. Clear Channel Communications, the largest radio chain in the country with more than 1200 stations overall, is also a major owner of urban format stations.

The changes in black radio are just one example of the consolidation trend, but it's one that typifies the way profit motives can stack the deck against small broadcast competitors and limit the news and perspectives available to the public. Vaughan views diverse ownership as integral to the promise of the civil rights movement, a promise that continues to be broken. "I understand the dynamics," Vaughan says. "I wouldn't want to sound like I'm anti-free enterprise. But one or two people who are in a position can really do enormous amounts of damage by simply maximizing their ability to monopolize."

Durham was one of only a handful of sites to host hearings on the proposed rule changes. FCC Chairman Michael Powell, who has vocally supported relaxing barriers to media concentration, has also said he thinks public hearings are unnecessary, referring to them as "a 19th-century whistle stop tour." He pointed out that anyone can file a comment on the FCC's web site, and in fact a last-minute campaign showered the site with hundreds of thousands of e-mails, almost all of them opposed to the new rules. But a recent poll by the Pew Foundation's Project for Excellence in Journalism found that 72 percent of Americans have heard nothing about the impending decision.

At the hearing, opposition to the rule changes ran the gamut ideologically, and included conservatives such as Jim Goodmon, owner of the Raleigh-based Capitol Broadcasting Company (whose Raleigh television station WRAL ran Jesse Helms's political commentary in the 1960s and early 70s), and North Carolina congressman Richard Burr, a Republican expected to run for the U.S. Senate next year. Burr offered a social conservative's take on the loss of localism. He argued that centralized control by network owners takes away local stations' ability to make choices about which shows are appropriate for the local audience,

Commissioners Jonathan Adelstein and Michael Copps organized the hearings at Duke University over the objections of FCC Chairman Michael Powell. Photo by Jonathan Goldstein.

citing the cases of *Married by America* and *Temptation Island*, programs that the Raleigh-Durham area Fox affiliate (also owned by Goodmon) refused to run due to moral objections.

Supporters of the rule changes included Michael Ward, President and General Manager of Raleigh's NBC affiliate, and Barry Faber of the Sinclair Broadcast Group (which owns the area's WB and UPN affiliates), who argued that profit and the public interest are complimentary objectives. But those touting the advantages of corporate ownership were unable to answer a question posed by U.S. Rep. David Price (D-N.C.): "What do you make of the radio precedent?"

William Sutton, Jr., Deputy Managing Editor of the Raleigh *News & Observer*, came to represent the National Association of Black Journalists. He pointed out that a loss of jobs due to consolidation has had an especially big impact on black journalists, and especially in radio. "We had many more radio journalists in the first decade or so of our existence than we do today," Sutton said. "Not long ago, in the 60s, 70s, and even 80s, we had more independent operations and more black-owned and operated radio stations."

The impact hasn't just been a loss of jobs, Sutton said, but a loss of local programming. For small stations, this means fewer resources for news operations to cover issues of concern to the community. It also means a loss of diversity in the newsroom, which affects the point of view.

"If we continue down this path we are going to see a nation that is less informed, not better informed," he said in a telephone interview after the hearing. He said that if big media businesses were willing to commit to a public discussion of how to increase the diversity of their staff and viewpoints, "that would make me and others a lot more comfortable. But I just don't think they're willing to do that."

NABJ President Condace Pressley, assistant program director of WSB Radio in Atlanta, wrote a letter to Chairman Powell in March urging the Commission to delay any change in the current rules. The proposed changes "will have a resounding negative impact on the quality of news content, the diversity of voices and viewpoints, and most importantly market competition," she wrote. Another professional group, the National Association of Black Owned Broadcasters, has frequently criticized media concentration and continually lobbies the FCC to take steps to stop the trend.

These groups argue that minority broadcasters have been hit especially hard by the consolidation trend. An FCC-commissioned study by the Washington-based Civil Rights Forum on Communications Policy found that the Telecommunications Act of 1996 had an immediate and dramatic impact on black radio ownership. The previous year, 203 radio stations were black-owned and operated. During 1996 alone, there was a net loss of 26 stations, while the number of stations owned by the top 50 radio groups nearly doubled. That was also the year that Clear Channel, which has since come under fire for anti-trust allegations, acquired US Radio, a black-owned chain of 17 stations.

Why do black-owned stations have such a hard time competing? Part of the answer is a pattern of discrimination on the part of advertisers. The same study found that ad agencies are reluctant to buy airtime on Spanish and urban format stations, based on their perceptions of those audiences' buying power. More than half of the ads on minority-owned stations are purchased at a discounted rate. Maintaining the capital required to stay in the game is difficult for any small broadcaster, but it's especially difficult for minorities.

Why did James Vaughan sell his television station? "Economics," he said plainly in

a conversation after the hearing. It costs thousands of dollars even to file an application for a broadcast license. And Vaughan has observed first hand that those who do get one face extreme economic challenges in trying to stay on the air.

"Because of the tremendous cash-intensive nature of this, if you're able to get in it and hold on for a while, you can do well, because it's cash-intensive in terms of intake as well as outlay. But you've got to have the outlay to begin with." After working nearly 10 years to get the station off the ground, Vaughan found he could not hold on. It's a common problem, he says. "For African Americans, particularly in broadcasting, the pieces to that puzzle have never really been put together."

Vaughan said he thought the hearing at Duke was positive. "I was very elated that at least two of the commissioners are concerned about localism and the original flavor of the Communications Act of 1934 that emphasized responsibility to the citizenry."

Despite the FCC's June 2 decision, there's a growing movement in Congress to turn back the tide. In May, Burr introduced a bill that would restore a 35 percent cap on media ownership, with his colleague Price as a lead sponsor. The Burr-Dingell bill would prohibit businesses from owning stations that reach greater than 35 percent of the national television audience. Companion legislation has been introduced in the Senate as well.

It may be a long shot, but Vaughan thinks congressional efforts can draw from ample precedent stating that diverse ownership is "a safety cap for things like the freedom of the press and the public's right to know." Basing broadcast decisions strictly on profit motive threatens those rights, he says. "You can have all the freedom of speech you want, but it's the person who's holding the microphone who gets heard."

—FIONA MORGAN

Nina Simone: Freedom Singer

SONNY ROLLINS ONCE SAID THAT IF NINA SIMONE WAS A JAZZ singer, then he didn't understand jazz. Nevertheless, a lot of her obituaries call her a jazz singer. They also refer to her as singing pop, cabaret, rhythm and blues, soul, blues, classical art song, and gospel.

She had a different idea. "If I had to be called something, it should have been a folk singer because there was more folk and blues than jazz in my playing."

Maybe that's true of her piano playing. But her singing, not her playing, defined her. Mainly, it defined her as Nina Simone, sui generis. But if you need a label, try this one: Freedom singer.

The term describes her militant presence in the Civil Rights Movement of the 1960s and the way that she sang, both within and without the limits of predictable cadence and melody. More than that, it describes what she sought. Like her good friends James Baldwin and Lorraine Hansberry, Nina Simone made art about wanting to live like a free person. This certainly didn't mean to live—or to sing—like a white person or for that matter, an American. It meant living, and singing, like a person who not only counted on the promise but lived in the actuality of the American Dream.

Personally, she could be haughty, with audiences as well as everyone else, but once the music started, her hauteur showed its real face: an unshakable, irrevocable commitment to her own self-worth, and by extension, ours, too. This is what Aretha Franklin

and everyone else found in songs like "To Be Young Gifted and Black," and it's what let Simone set "Mississippi Goddamn," otherwise a "protest" song, to a jaunty cabaret arrangement and fill it with jokes that turn out to be time-bombs. The shadow that she casts across her blues, especially "Nobody's Fault But Mine" and "Work Song," represents not so much what it is to live without freedom as what it is to live with the fear of losing the sense of self that allows freedom to exist.

"I wish I knew how it would feel to be free," she sang, so delicately that it sounds like she feared the concept would shatter from merely being uttered out loud. But she ends that song on an entirely different note: "I sing 'cause I know how it feels to be free." In that moment, so does the listener. This tension animates virtually every one of the songs she sang and all of the songs she wrote, starting with "Four Women," which speaks like a condensed Toni Morrison novel twenty years early.

Her classical training made her wish that she could convey that spirit simply by singing her songs. If you hear her sing "I Put a Spell On You," "I Loves You Porgy," or "To Love Somebody," you know she could—she still stands as the greatest interpretive singer of the 60s, pouncing on songs by the likes of Dylan, Leonard Cohen, George Harrison, and Randy Newman with cat-like grace and singularly personal insight. (This week, I find many of them too painful to listen to.) But once Hansberry convinced Simone that joining in the Movement would not diminish but enhance her work, she took off in the opposite direction. No singer—no artist—committed herself or her work to the Movement more fully than Simone, and she followed its twists and turns from the days of Freedom Marches to the less hopeful time of identity politics that lay just the other side. *I Put A Spell On You*, one of the great music autobiographies, spends at least as much time conveying her political attachments and adventures as talking about her music career or personal life.

Simone took the treacheries with which the Movement ended so deeply to heart that she went into exile, first in Liberia, then in Barbados, finally in the south of France. She returned occasionally, always written up as a self-involved diva but perceptive as always. She found her native country's racial and political malaise, she said in 1996, "worse than ever." In that respect, what a mercy that she will not, as planned, tour the U.S. this spring.

Nina Simone hadn't made an important record or written a well-known song since the early '70s, so in a sense her absence will not be widely felt. But she had a song about that, too. "I've forgotten you, just like I said I would / Of course I have / Well, maybe except when I hear your name." The words are Hoagy Carmichael's. The sentiment is hers . . . and ours.

—DAVE MARSH

This article originally appeared at www.counterpunch.org.

Lifting the Lockdown: As the Prison Population Grows, So Does Resistance to the Prison-Industrial Complex

IF MISSISSIPPI AND LOUISIANA WERE COUNTRIES, THEY WOULD have the highest incarceration rates in the world, according to a study by the Justice Policy Institute. Department of Justice figures show that the U.S. prison population passed the two million mark for the first time in 2002, with the South leading the way. Overall, the Southern incarceration rate is 526 per 100,000—higher than 63 percent of the world's countries.

For participants at the Critical Resistance South conference this April, these figures come as no surprise: many have been imprisoned themselves, or have family members doing time. Critical Resistance is a national grassroots group that fights to end the prison-industrial complex through local organizing, providing services for prisoners' children, working on housing rights for former prisoners, and producing publications, videos, and film festivals.

Over a thousand people came together in New Orleans to challenge the belief that policing, surveillance, and imprisonment make our communities safer.

Rev. Goat Carson opened the conference with a prayer and hearty laugh, stirring the audience to join him and "laugh in the face of oppression. We are here, we are still here. We are one people!"

Other speakers included Dorothy Gaines, who was sentenced to 20 years on drug conspiracy charges (later commuted by President Clinton), and Angela Davis, who spoke about the connections between the prison and military industrial complexes and the war against Iraq.

"The prison has become so naturalized, it's extremely hard to imagine life without it," Davis said. "Our most important challenge today is creating and exploring new terrains of justice where the prison no longer serves as our major anchor."

One purpose of the conference was to give voice to stories that often go unheard. Patrick Banks of Tampa, Fla., served time at age 15 for driving his father's car. While at a Florida boot camp, Banks and the others inmates had to "earn their shoes" by working barefoot. "Most people ignore the reality [of prisons because] it doesn't affect them or their families," Banks explained. "Nobody really cares. There's a million cases out there just like me."

Held in Tremé, a New Orleans neighborhood and one of the nation's oldest black communities, Critical Resistance South created a space for people with diverging points of view to have conversations and debates about struggles against mass incarceration and the many forces behind the prison system. Prison abolitionists debated advocates of reform, while others discussed whether life without parole is a winning strategy for anti-death penalty advocates, and how and if poor women and women of color can connect with feminism.

Activists gather to oppose the prison-industrial complex at the Critical Resistance South Conference in New Orleans.

"People came who had never been to a conference before," says Rose Braz, national director of Critical Resistance. "People spoke and presented who had never done that before. I think our goal, which was to involve the people most impacted by the prison industrial complex, really did come through."

—KIM DIEHL

Holistic Outlaws: North Carolina Alternative Medicine Makes a Bid for Legal Protection

DR. GEORGE GUESS WAS A LICENSED FAMILY PRACTITIONER IN Durham, N.C., in 1985 when the state medical board ordered him to stop providing his patients with homeopathic remedies to supplement their conventional treatment. At the time, Dr. Guess was the only practicing homeopath in North Carolina, and in the ensuing appeals, the witnesses against him were his fellow physicians.

Their complaints were of a general nature: What Dr. Guess was doing was outside the norms of conventional medical practice. His patients had made no complaints against him, and the state medical board offered no evidence of malpractice. The North Carolina Supreme Court upheld the medical board's ruling that Dr. Guess had "failed to conform to the standards of acceptable and prevailing medical practice."

The board did not question Guess's qualifications, ability, or knowledge, he says, "nor did they assert that homeopathy was unsafe or ineffective." Guess says that, to these doctors, "such questions were moot." Rather, they objected to his practice "apparently solely because homeopathy . . . is not taught in medical schools or widely practiced." Homeopathy, in other words, was simply out of the medical mainstream.

The board allowed Dr. Guess to continue to practice conventional medicine in the state, but he was not allowed to practice homeopathy. Dr. Guess is now a licensed physician and homeopath in Charlottesville, Va., the president of the American Board of Homeotherapeutics, and editor of the *Journal of the American Institute of Homeopathy*.

According to providers of alternative medicine, Dr. Guess's story points to a problem with state medical boards: in cases where alternative therapies are being examined by these bodies, conventional physicians are asked to sit in judgment of treatments they have never studied and which many are inclined to view as quackery.

In terms of legal status, medical practioners generally fall into one of three categories. Conventional physicians and some alternative doctors (chiropractic and acupuncture in many states) are licensed and overseen by state boards; some forms of health care have been exempted from oversight by state medical authorities; and the rest exist outside the medical regulatory structure. In most states, these include homeopaths, naturopaths, reflexologists, and practitioners of Reiki.

These unlicensed providers are most at risk under medical licensing laws, according to a 1998 study that appeared in the *Journal of the American Medical Association* (Studdert et al.). The study found that alternative practitioners were many times less likely to be sued for malpractice than their conventional counterparts. The study focused on chiropractic, acupuncture, and massage therapy, which at the time accounted for about two-thirds of alternative health care visits in the U.S. Although in some recent years Americans have spent more out of pocket on alterna-

tive medicine than on conventional medicine, during the study period alternative providers accounted for only about 5 percent of malpractice claims. The study also found that injuries resulting from these forms of health care tended to be less severe than those from conventional treatment.

Nevertheless, the study concluded that doctors practicing unlicensed forms of alternative medicine were more likely, when brought before state medical boards, to be judged negligent in their practices: "Where practitioners of alternative medicine are unlicensed," Studdert wrote, "courts tend not to recognize them as belonging to an identifiable school of medicine and hence do not apply a school-specific standard of care. Instead, the allegation of negligence will be judged according to conventional medical or lay standards of care . . . [This] has a significant bearing on case outcome."

A group of North Carolina alternative providers and patients, citing the fact that roughly 40 percent of North Carolina residents use some form of "complementary or alternative medicine," have introduced a bill in the state legislature that would exempt all alternative practices from the medical licensing law.

Only four states (California, Idaho, Minnesota, and Rhode Island) offer such an exemption. None of the Southern states do, despite the rich history of Southern folk medicine. North Carolina licenses chiropractors and acupuncturists. It also exempts 18 different types of health-care providers, including dentists and nurses as well as midwives and osteopaths, from allegations of practicing without a license. Many practitioners across the country favor official state licensing boards or legal exemptions for particular forms of alternative medicine, but the pending North Carolina legislation would exempt all types of non-standard care, "so long as the practitioner discloses to a client his or her professional training and qualifications and discloses to a client that he or she is not a licensed medical doctor."

Dr. Manfred Mueller is a member of Citizens for Healthcare Freedom and is already certified by the Council for Homeopathic Certification. Mueller would like to see this approach to exempting alternative medicine catch on, rather than having to fight a legislative battle for each type of practice.

"It's ridiculous that every single healing modality should have to go through this charade," says Mueller. "In my view, the state should not interfere with a health practice unless there is sufficient evidence that it is a risk to the public health."

Furthermore, the broad exemption sought by Citizens for Healthcare Freedom would acknowledge what many practitioners and their customers already feel: that their chosen modes of healing are inherently safer than surgery and pharmaceuticals. As Studdert wrote in 1997, "Since rates of medical injury increase with invasiveness of therapy, fewer bases for suit are likely to present in the largely noninvasive alternative

Acupuncture, with its own licensing procedure in North Carolina, offers a model for alternative health care practices seeking legal recognition.

medicine setting. Moreover, injuries that do occur may not be as severe."

Mueller, several fellow practitioners, and a number of their patients convinced North Carolina Representative Paul Luebke to sponsor the Alternative Medical Practices bill, which was introduced into the state House in early April. However, the group may have a tough time getting the bill passed. As one state representative declared summarily to a lobbying member of Citizens for Healthcare Freedom: "The doctors are opposed to this."

—HART MATTHEWS

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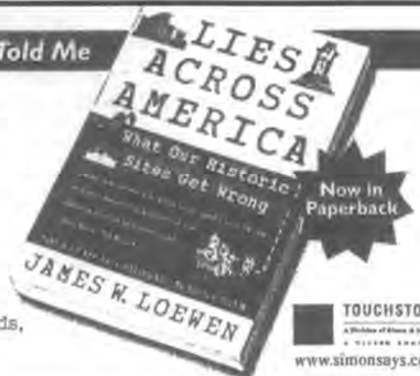

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Armed for A

UNDER COVER OF THE WAR ON TERROR, THE BUSH AD
THE PRODUCTION SITE FOR A NEW GENERATION OF NU

BECCI ROBBINS

After the thaw of the Cold War, the global community ratified numerous treaties aimed at ending the nuclear arms race. Now the Bush Administration is quietly reversing course, promising a new generation of weapons that peace activists fear will uncork the nuclear genie they have worked long to contain.

"What DOE [the Department of Energy] wants is to produce nuclear weapons of new design," says Lou Zeller, a researcher for Blue Ridge Environmental Defense League in North Carolina. "This would spark a new nuclear arms race."

At issue is a DOE plan to build a new billion-dollar nuclear weapons factory at the Savannah River Site (SRS) in Aiken, S.C., a complex that occupies 312 square miles across the river from Georgia. The plant would manufacture plutonium pits, the core component for nuclear bombs. Since 1952, SRS has produced tritium and plutonium for weapons but has never assembled them.

Critics of the new pit plant argue that the project poses a risk to public safety, the environment, and national security. Greenpeace International nuclear campaigner Tom Clements called plans for the new bomb factory "ill-timed, unsubstantiated, and provocative." He says the DOE has not provided evidence of the need for a new pit plant, and is relying on classified documents that were prepared and presented with no input from the public.

"As the role of nuclear weapons becomes ever harder to defend, DOE planners have set out to develop nuclear weapons as a first-strike, counter-proliferation weapon," Clements says. "The DOE must publicly present solid policy and economic justification for this new facility. Reliance on Cold War jargon and secret, non-public documents is insufficient to make the case."

The United States has a reserve of 13,000 to 15,000 plutonium pits and a current stockpile of about 10,700 warheads, according to Jim Bridgman of the National Alliance for Nuclear Accountability. But DOE officials say those pits begin to decay in as few as 45 years and that the United States' supply will need to be replenished by 2020.

"Malarkey," says Mary Olson, director of the Nuclear Information and Resource Service southeast office. She contends that the DOE's claim of plutonium pits' rate of decay has not been substantiated, and suspects it is simply a ploy to expand plutonium production. Olson further charges that the government's assertion that the United States is the only nuclear power without the capacity to manufacture plutonium pits is false, as the Los Alamos National Laboratory in New Mexico has the capability to do so.

Zeller says the new plant will not just replenish supplies but will allow SRS to build and upgrade new nuclear weapons. "We already have—for the foreseeable future—thou-

rmageddon

MINISTRATION PLANS TO TURN SOUTH CAROLINA INTO CLEAR WEAPONS—AND A NEW ARMS RACE

sands of these weapons on hand, enough to blow up the world hundreds of times over."

Plutonium pits were made at Rocky Flats, Colo., until 1989, when the plant was shut down after an FBI raid to investigate environmental crimes discovered massive contamination at the site.

The new plant in Aiken would adopt the same technology used at Rocky Flats. Critics want to know what will prevent the same costly outcome at SRS, already an Environmental Protection Agency Superfund site because of repeated accidents that have caused massive radioactive contamination. And given gloomy economic forecasts, opponents of the facility wonder how the government can honor its commitment to clean up SRS while spending billions of new dollars to expand operations. The new pit plant would cost up to $4 billion to build and $250 million to operate each year.

Ellenton, S.C., was one of three towns evacuated in 1952 to make way for the Savannah River Site nuclear complex. "It is hard to understand why our town must be destroyed to make a bomb that will destroy someone else's town," read a message affixed to the town limits sign in the early 1950s. Photo courtesy of Becci Robbins.

Clements says the way the Bush Administration is tackling that problem is by lowering environmental standards for cleaning up nuclear waste. These cost-cutting measures are called "rapid cleanup," and allow SRS to cut corners in order to meet its obligations.

While the safety and environmental hazards posed by the new pit plant would have the greatest impact on the largely low-income population living near SRS, its construction has global implications. It signals that the United States intends to break its promise to seek nuclear disarmament as agreed to in the 1970 Non-Proliferation Treaty, which

the Clinton Administration reaffirmed in 2000 as an "unequivocal commitment."

But the congressionally mandated Nuclear Posture Review, released on December 31, 2001, revealed the new agenda of the Department of Defense and the DOE. The review calls for "a revitalized nuclear weapons complex" and "a new modern pit facility," along with a new generation of low-yield, "bunker-busting" nuclear weapons that would be used to attack underground "terrorist" hideouts. Observers such as Jane Wales of the Center for Arms Control worry that the posture review presents "a vision for a new world in which nuclear use is 'thinkable'."

According to Olson, the nuclear establishment has long wanted to design and develop new nuclear weapons, and the changing political landscape has provided increasingly fertile ground for the weapons industry. "The seeds were planted a long time ago," she says. "Now they've had an opportunity to sprout."

Clements says the 9/11 attacks not only emboldened the Bush Administration to pursue expanded nuclear weapons production but also provided the cover to do so largely in secret. "September 11 was the exact excuse they needed to operate in the dark," he says. Clements and other anti-nuclear activists say information is more difficult to obtain now, citing public documents that were removed from Department of Defense, Environmental Protection Agency, and SRS web sites in the months following 9/11.

While nuclear weaponeers use the threat of terrorism to justify ramping up U.S. nuclear capabilities, critics of expanding production at SRS fear that concentrating the nation's plutonium at a single site puts the South square in the terrorists' crosshairs. At a public meeting on March 27 in North Augusta, several speakers expressed concern about the area's increased vulnerability to attack. "What better come-and-get-me signal could we give them than by having all the plutonium stored in one space?" asked Peggy Roche of Columbia.

Lawrence Kokajko of the Nuclear Regulatory Commission (NRC) responded, "We are aware of the terrorist threat and are sensitive to it."

Not satisfied with NRC's calculations regarding the risk to residents in the area, Brendolyn Jenkins, speaking on behalf of an Aiken community group, pressed for clarification. "What does NRC consider an acceptable number of fatalities?"

NRC spokesperson Tim Harris responded, "We have no hard and fast numbers."

When asked to respond to the community's fears of a potential terrorist attack, National Nuclear Security Association spokesperson Bryan Wilkes said in a recent email interview, "NNSA will have the highest levels of security at the pit facility when it opens. Terrorists strike at targets of opportunity. A highly secure facility like [SRS] will not be a good target for anyone. It's why other sensitive facilities and places in the U.S. haven't been attacked or penetrated, or even attempted."

The pit plant is just the latest attempt to expand operations at SRS. Another project slated for the site is a reprocessing plant that would turn surplus plutonium into mixed oxide, or MOX, to fuel commercial reactors in the Carolinas. The DOE has marketed the proposal as a way to reduce the stockpiles of dangerous material the nuclear weapons industry generated during the Cold War and minimize the risk of it falling into the hands of terrorists.

That argument, Zeller says, has masked the industry's true motivation. "The unspoken part of the MOX fuel project has always been that it is an attempt to create a

plutonium economy," Zeller says. "This is an attempt to reopen the door we shut 25 years ago."

The irony has not escaped anti-nuclear activists that if both construction projects are approved, SRS will have one plant to dismantle nuclear weapons and another plant to create more.

"It used to be swords into plowshares; now it's swords into swords," says Don Moniak, who lives in Aiken and volunteers as a Blue Ridge Environmental Defense League consultant. His is a lonely job: Aiken is a conservative community with a long history of supporting SRS because of the jobs it provides and the money it has pumped into the state economy since its construction in 1950. SRS is South Carolina's largest employer, with a current payroll of over $1 billion.

The State

Reds Widen Big Breakthrough

SC Site Selected for Atomic Energy Plant

$260,000,000 Project Set In Barnwell, Aiken Counties

H-Bomb Material Involved; Towns To Be Evacuated

Stunned Citizens of Ellenton Ponder Future Without Town

US Charges Chinese Reds With Open Aggression

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Chinese Reds Swing 13 Miles Behind GIs In Northwest

Reinforcements Rush Up to Meet Flank Menace

Expansion of Atomic Energy Plan Set at Billion Dollars

Washington Seeks Urgent Measures To Halt Red Tide; World War Is Feared

Voices Raised In Favor of Use Of Atomic Bomb

Governors Hear Plea to Admit Negroes to Graduate Schools

NEWSPAPER REPRODUCTION COURTESY OF BECCI ROBBINS.

The MOX plant was shopped around to various sites across the country, but public resistance thwarted those construction proposals. The project finally found a home at SRS largely because the South is known as the path of least resistance for dangerous waste. But environmentalists and anti-nuclear activists say enough is enough. "We cannot let the South become the cradle of a new nuclear arms race," Zeller says.

Zeller and others opposed to the construction projects slated for SRS have their work cut out for them. Critics of expanded plutonium production at SRS are greatly outnumbered and out-gunned by lobbyists paid by the nuclear industry and by a new administration bent on maintaining a hawkish military posture.

Still, these activists are cautiously optimistic that a sleeping public is waking up to a new reality. Moniak says the threat of a terrorist attack at SRS has generated a new level of interest in a subject that usually makes people's eyes glaze. "It's woken a lot of people up," he says. "People used to think nuclear issues weren't personally important to them. It's a show-stopper for them now."

Zeller has noticed a change as well. "People are calling us more, showing up at hearings more. It's still an uphill battle, and industry still holds most of the cards, but we're getting information out and I think it's having an effect. We don't want to scare people, but it's a scary situation and I think it's only fair to warn people."

Clements says the threat of terrorism is a legitimate concern, but what alarms him even more is the signal the Bush Administration is sending to the world. "Instead of reducing reliance on nuclear weapons, we are moving to stockpile more far into the future. We have far too many people trying to find the bad guy over there instead of trying to find the good guy here at home." SE

Becci Robbins is a freelance writer living in Columbia, S.C.

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THE NEW LOAN SHARKS

MICHAEL HUDSON

Marjorie Reese wondered if there was "crookedness in it." She was signing for a loan at a CitiFinancial branch in Montgomery, Ala. Reese was a single mom and kindergarten teacher. She didn't make a lot of money. Her credit record wasn't great. How in the world could CitiFinancial put money into her hands so quickly?

But Reese needed the cash. She put her trust in CitiFinancial.

"They make you feel you're really special," she says. "I guess I signed about 20 pages of stuff. They always act as if they're in a hurry. . . . I got caught up in all that signing."

Only later, Reese maintains, did she realize the swift "sign here, sign there" ease of the loan closing masked some unpleasant details: an annual interest rate of 30.0 percent and a $959 charge for credit insurance, a pricey addition to a loan of $3,565. Reese insists she knew nothing about the insurance on that loan, or about the $2,488 she paid to cover insurance on a $6,200 refinancing seven months later.

Like millions of Southerners, Marjorie Reese had been ensnared by a "subprime" lender—one of a burgeoning "poverty industry" of finance companies, pawnshops, and other financial businesses that target consumers made vulnerable by discrimination and financial need.

These consumers struggle in a marketplace that has two sets of rules: one for "prime" borrowers who pay competitive rates, and one for "subprime" borrowers who are marked for high prices and questionable sales tactics.

A decade ago, *Southern Exposure* became the first news organization in the country to take an in-depth look at how Wall Street was profiting from predatory loans targeted at low-income, blue-collar, and minority consumers. Sad to say, since the publication of that Fall 1993 cover story, "Poverty, Inc.," things have gotten worse.

Subprime mortgage lending, for example, has grown more than 500 percent in less than a decade, from $34 billion in 1994 to $213 billion in 2002. "Payday lenders"—storefront operations that offer small loans at interest rates as high as 400 percent—have grown from an uncounted scattering in the mid-1990s to a 25,000-strong multitude today.

Some of corporate America's biggest names—including CitiFinancial's parent, Citigroup—have pushed their way into the market, using their capital and clout to sustain investor enthusiasm and legal sanction for unfair and unsavory practices. They've found a rich market in the South, where economic inequality, racial discrimination, weak consumer laws, and pliable regulators create a ripe atmosphere for abuse. Federal and state governments have largely backed away from policing the marketplace, and corporate consolidation and innovations in technology, credit products, and marketing have provided Wall Street with a generous influx of cash at a time when old-fashioned ways of making money —buying and selling goods, for example—seem increasingly outdated.

America has been transformed by a top-down financial revolution, one that's targeting folks on the bottom half of the nation's income ladder. It's easy, Wall Street has learned, to make money off people desperate for cash. As Marjorie Reese says, "People who need money, where will they go? They trap you that way."

This special section documents how these traps are laid, and how citizens are fighting back, pushing for justice through a combination of litigation, legislation and grassroots activism.

Barbara Buie, a nurse and teacher in Fayette, Miss., won a settlement three years ago against one of CitiFinancial's corporate forerunners. Now she has joined other Mississippians in a new lawsuit against CitiFinancial. She's tired, she says, of companies that take advantage of average folks struggling to feed their families and hang onto their homes.

"People come into this town and they think they can do anything that they want," Buie says. "We're going to tell them that they can't do this—and that we count for something." SE

Visit *Southern Exposure* online for web-exclusive maps and articles on Citigroup and the poverty industry: www.southernstudies.org

BANKING

CITIGROUP, WALL STREET, AN[D

MICHAEL HUDSON
PHOTO BY HART MATTHEWS

MARIA FLORES FELT TRAPPED. Breaking up with her boyfriend had stuck her with loan payments she couldn't keep up. She says a manager from a CitiFinancial branch in Atlanta threatened to send someone to her job with an arrest warrant and tell her boss she was a deadbeat.

Flores says the manager told her she needed to come in and get a new loan. She thought she had no choice.

So she signed—taking out a second mortgage and digging herself into a deeper hole with CitiFinancial and, by extension, with the finance company's corporate parent, Citigroup, the nation's largest and most powerful bank company.

And her problems didn't end. As she fell behind again, she says, CitiFinancial forced her to write post-dated checks to try and catch up. When that didn't help, CitiFinancial had another solution: yet another loan.

Flores says branch employees led her to believe she had to buy credit insurance to get the new loan—and folded and flipped the papers so quickly and deftly as she signed that she didn't realize the insurance would cost her nearly $700 the first year alone.

The July 2002 deal carried a 17.99 annual percentage rate, or about triple the market rate for home loans. Nearly all the $17,398 mortgage represented debt rolled over from her previous loan; it cost her $304 in fees to get $93.45 in new money.

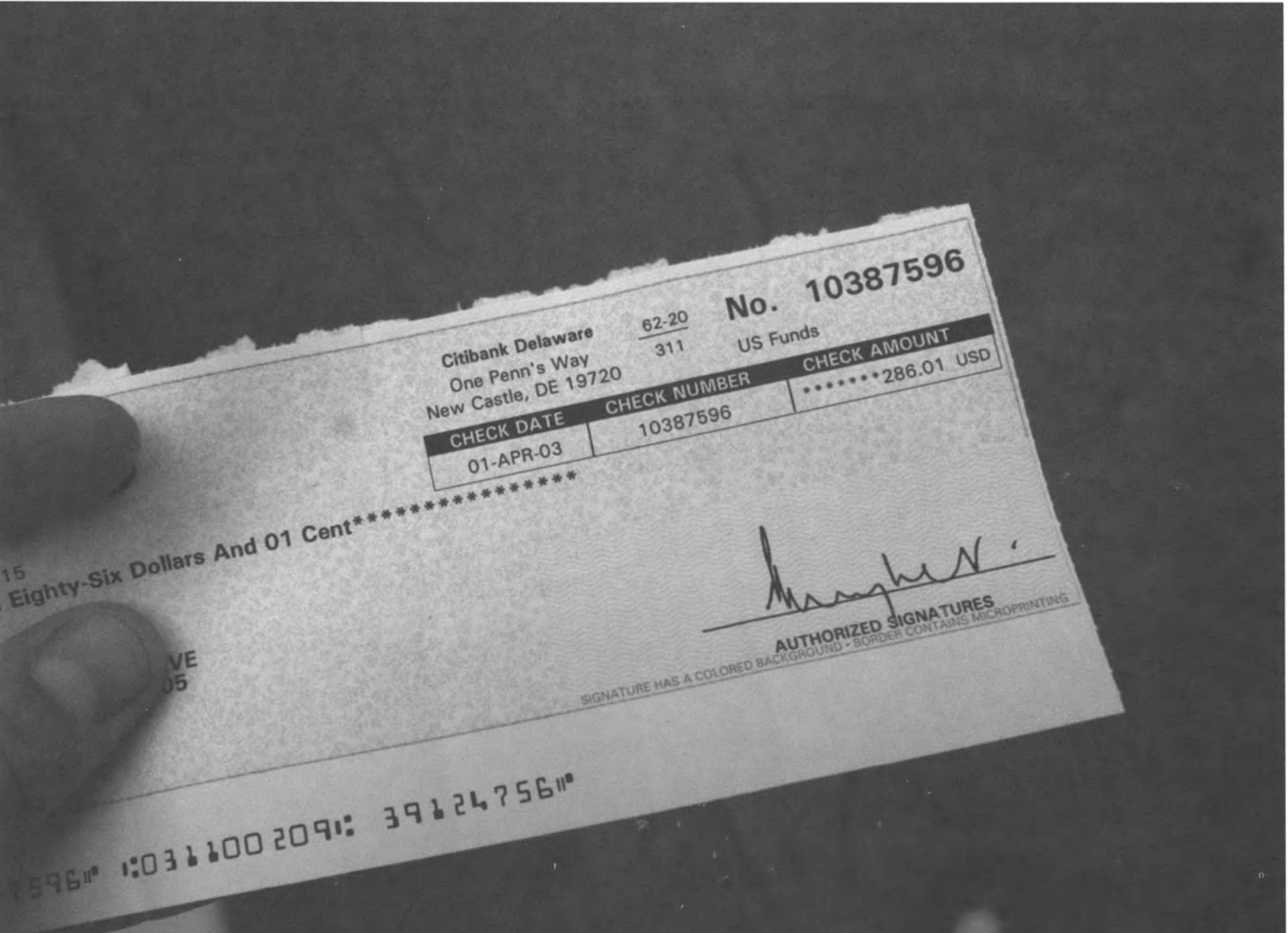
She knew it was a lousy deal. But what choice did she have?

"I was desperate," she says. "I thought they were going to take my house."

So, like millions of other CitiFinancial customers, Maria Flores did what she thought she had to do. She signed the papers.

ON MISERY

THE FLEECING OF THE SOUTH



SUBPRIME TIME

Over the past year, Citigroup and its CEO, Sanford I. Weill, have been buffeted by investigations into the company's misadventures with Enron, WorldCom, and other ill-fated Wall Street players.

But is there an overlooked scandal brewing for Citi in places far from Wall Street? In Southern hometowns such as Selma, Ala., Ashland, Ky., and Knoxville, Tenn., people complain Citigroup has taken advantage of them in an unglamorous part of its financial empire—personal loans and mortgages aimed at borrowers with bad credit, bills piling up or, in many instances, simply a trusting nature. Unhappy customers claim the company manipulated them into paying excessive rates and hidden fees, refinancing at unfavorable terms, signing deals that trapped them into bankruptcy and foreclosure.

These borrowers are part of the growing "subprime" market for financial services. They are mostly low-income, blue-collar and minority consumers snubbed by banks and credit card companies. Still others are middle-class consumers who have hit hard times because of layoffs or credit card-fueled overspending. Whatever their circumstances, they pay dearly. Citi's subprime customers frequently pay double or triple the prices paid by borrowers with Citi credit cards and market-rate mortgages—annual percentage rates (APRs) generally between 19.0 and 40.0 on personal loans and 8.5 and 21.9 on mortgages. And beyond exorbitant APRs, critics and lawsuits claim, Citi has fleeced customers with slippery salesmanship and falsified paperwork.

A seven-month investigation by *Southern Exposure* has uncovered a pattern of predatory practices within Citi's subprime units. *Southern Exposure* interviewed more than 150 people—borrowers, attorneys, activists, current and ex-employees—and reviewed thousands of pages of loan contracts, lawsuits, testimony, and company reports. The people and the documents provide strong evidence that Citi's subprime operations are reaping billions in ill-gotten gains by targeting the consumers who can least afford it.

"It's a pretty lowdown company that would take advantage of the working poor like this," says Tom Methvin, an attorney with Beasley, Allen, an Alabama firm that represents hundreds of borrowers who claim Citi did them wrong. "Behind the curtains, they prey on the most vulnerable people in our society."

Maria Flores paid dearly for Citi loans. "I was desperate." Photo by Michael Hudson.

WHO'S TARGETED? NUMBERS

While not all subprime loans are predatory (subprime refers to loans to people with credit challenges), the overwhelming majority of predatory loans are subprime. Given this observation, it is instructive to see which communities are targeted for subprime lending:

African-American: Lower-income African Americans receive 2.4 times as many subprime loans as lower-income whites, while upper-income African Americans receive 3 times as many subprime loans as do whites with comparable incomes.

Hispanic: Nationally, borrowers living in areas where Hispanics were 75% of the population were twice as likely than borrowers living in white areas to receive a subprime loan.

Southern: In 17 metropolitan statistical areas (MSAs), the level of subprime lending is more than 1.5 times the national norm: 14 of these are in the Southeast or Southwest, and 7 are in Texas. El Paso has the highest proportion of subprime loans in the nation, at 47% of all loans.

Citi, critics say, is a model for America's financial apartheid: a company that's slow to offer affordable credit to minority and moderate-income communities (see "Reinventing redlining," p. 24), then profits by pushing a costly alternative. Citigroup argues that its prime lenders turn customers away because of legitimate assessments of credit histories, and that its subprime units must in turn charge more because their risks are greater.

These assertions are called into question by the fact that Citi's subprime lenders charge high rates even to borrowers whose credit records would qualify them for competitive-rate loans. A national study by the Community Reinvestment Association of North Carolina (CRA-NC) concluded that large numbers of so-called "A-credit" customers are being charged higher rates only because they had the misfortune of walking into one of Citi's subprime mortgage units rather than one of its prime-rate lenders.

The study estimated this group includes nearly 90,000 predominately African-American customers who took out first mortgages in 2000 from Citi's panoply of subprime lenders. According to CRA-NC's calculations, these borrowers paid an average of $327 a month more in interest than their prime-rate counterparts, or an overcharge of $110,000 per borrower by the time the loans are paid off. Over the lifetime of their loans, these borrowers' excessive payments could total as much as $5.7 billion.

The company counters that it "has long maintained very high standards" within its subprime operations. It says it doesn't discriminate or gouge customers. Spokesman Steve Silverman denied requests for an interview with Weill and said privacy concerns prevent the company from commenting on individual borrowers' cases. Nevertheless, Silverman says Citi has worked to address complaints about the way the subprime industry does business: "We've really taken a leadership position on these issues and tried to raise the bar for the industry and, frankly, for the benefit of consumers."

The company has reined in some of its worst abuses, but it has done so under pressure from activists and government. The changes fall short of eradicating unfair practices—and in many instances seem little more than empty gestures.

In his public statements, Weill has rejected the idea his company victimizes anyone. In January, he told investors Citi "has become a leader in lending to people who wouldn't qualify to get loans from banks, or are embarrassed to go into a bank. We have to be very careful that we quantify predatory lending as really something that is predatory lending, and don't take the market away from people that really need credit."

Citigroup's push into the subprime market is a dramatic example of how the merger of high and low finance is playing out on Wall Street and on side streets across the South. It's also the story of how one man blazed a less-traveled path to Fortune 500 ascendance for himself and for others who would imitate his example. And, finally, it's a case study in how large corporations can fight off scandal and avert lasting reform through a skilled combination of legal maneuvers, tactical retreats, PR stratagems, and power politics.

THE WEB

Citigroup has established itself as perhaps the most powerful player in the subprime market by swallowing competitors and employing its vast capital resources and name-brand respectability. CitiFinancial, its flagship subprime unit, claims 4.3 million customers and 1,600-plus branches

TELL THE STORY

Female: Almost 40% of single women borrowers got their refinance or home equity loans from high-cost subprime lenders, compared to one-third of men. In certain parts of Texas, women took subprime loans at a 2-to-1 ratio over men.

Elderly: Borrowers 65 years of age or older were three times more likely to have a subprime loan than borrowers under 35.

Rural: One in four rural households is considered "cost-burdened" by housing payments, meaning that housing expenditures consume more than 30% of their monthly income. As a result, lenders consider many rural residents bad risks—a condition that contributes both to individual residents' difficulty in obtaining credit and to a general lack of access to credit.

Sources: Center for Community Change, "Risk or Race? Racial Disparities and the Subprime Refinance Market," May 2002; Federal Home Mortgage Disclosure Act; Consumers Union/Austin, "Texas Women and Elderly Pay More for Refinance and Equity Loans," April 2003; AARP Public Policy Institute; Congressional Rural Caucus.

in 48 states, including nearly 350 offices across the South.

Things don't stop with CitiFinancial, however. The web of subprime is woven throughout Citigroup. Sandy Weill's company has refashioned itself into a full-service subprime enterprise—one that makes high-cost loans, writes the insurance wrapped into the contracts, buys other lenders' portfolios and sells securities backed by the income streams from all these transactions. Citibank is now banking on subprime. In 2000, one study calculated, nearly three of every four mortgages originated within Citigroup's lending empire were made by one of its higher-interest subprime affiliates—nearly 180,000 loans out of a total of 240,000-plus mortgages for the year.

The downscale market is vital to Citi's plans for prospering in a tough economy. Citigroup slid by with a three percent increase in core income in 2001. CitiFinancial, in contrast, posted a 39 percent hike. Last year the story was much the same. CitiFinancial's income grew 21 percent, topping $1.3 billion, or nearly one-tenth of Citigroup's take for the year. Add that to subprime-related receipts at its investment banking and insurance operations, and subprime's contribution to the global parent's bottom line becomes even clearer.

Subprime's importance isn't just a matter of balance sheets. It's rooted in the company's history and evolution. Citigroup looks the way it does today because Weill bought a middling-sized subprime finance company and used it as a vehicle to acquire other companies and create a behemoth that put him in position to win the biggest prize of all: Citi. The 1998 merger was, at the time, the largest in history, uniting Citicorp, Travelers Insurance, Primerica, Commercial Credit, and Salomon Smith Barney. Along the way, the media lionized Weill as the King of Capital, CEO of the Year, a daring dealmaker who lived by the philosophy, "How you get there isn't as important as where you're going."

But tales of impropriety at Weill's subprime companies —before and after the merger—raise uncomfortable questions. Was Sandy Weill's climb to power at the world's most powerful bank financed by shady loans targeting desperate and unwary consumers? Is today's Citi a company built on a foundation of duplicity and exploitation?

THE PLATFORM

He was a kid from Brooklyn, the grandson of immigrants, a first-generation college man who began on Wall Street as a

REINVENTING CITI'S PRIME LENDERS FOR SERVING MINORITIES

Many fair-lending advocates say America's largest bank falls short of living up to the federal Community Reinvestment Act, or CRA, which prods banks to stop "redlining" African-American, Latino, and low-income communities.

Kevin Stein of the California Reinvestment Committee says Citigroup has "one of the worst CRA performances of any major bank. . . . There just doesn't seem to be much interest." Citi recently scored a "zero" on the committee's study of mortgage lending in California. Stein's organization says Citi also "lags far behind its competitors" in offering checking accounts and other basics that are affordable to consumers with modest incomes.

Citigroup counters that it "has an excellent record of lending to all communities" and notes that regulatory agencies have awarded "outstanding" CRA ratings to nine of Citi's 12 banking units and satisfactory ratings to the other three. The company says it doesn't discriminate based on race, ethnicity or income, and it scrupulously follows fair-lending rules. "We live within the letter of these laws and regulations, and also embrace their spirit and intent," Citi says.

As part of its efforts to reach underserved communities, the company has put on seminars for small-business owners and first-time homebuyers and created "individual development accounts" that help low-income consumers seek financial independence. Last year, the company says, it reached $100 billion in "community reinvestment activity," placing the company ahead of schedule in its $115 billion, 10-year commitment to community lending and investing.

Critics say banking regulators take a milquetoast stance to policing and rating banks' CRA performances. And they say Citi's reinvestment numbers are result of fuzzy math that counts a variety of activities that have little to do with serving real people. A number of recent studies have called Citi's commitment to fair lending into question:

- Research by Fair Finance Watch found that in 2001 Citi's prime-rate lenders were much more likely to reject black and Latino mortgage applicants than white applicants. In Washington, D.C., and its Virginia-Maryland suburbs, for example, blacks were turned down 7.1 times more often; Latinos were

REDLINING: GET BAD MARKS AND THE POOR

turned down 6.5 times more often. The mortgage industry's overall disparity rates in the region were considerably lower (a black-vs.-white disparity of 3.1-to-1 and a Latino-vs.-white disparity of 2.3-to-1). Citi says it takes "strong exception" to the group's characterization of its record.

■ A National Training and Information Center study of mortgage lending in 17 cities established a link between predatory lending and Citi's weak community reinvestment performance. NTIC said "Citigroup has reinvented redlining by pushing high-interest loans in communities ignored by Citibank and its prime lending operations."

In 2000, the study found, African Americans were 7.4 times more likely to receive a subprime loan from Citi than a prime one. A spokesperson for Citigroup said NTIC's information was outdated and failed to reflect new efforts by the company to offer lower interest loans to low-income customers.

■ A report by the National Community Reinvestment Coalition concluded Citigroup does a below-average job of offering affordable loans to minority, female, and low- to moderate-income borrowers. The study looked at 25 metro areas and ranked the 23 most active mortgage lenders in these cities. Citigroup ranked near the bottom in both types of loans measured by NCRC: 14th in home-purchase loans and 17th in refinancings.

NCRC's senior vice president, David Berenbaum, believes Citigroup officials are committed to community reinvestment: "They have a strong CRA plan." Still, he adds that Citi's performance is "nowhere near" the performance of other banks that "are expanding their branches and are very much targeting communities that are usually underserved."

Peter Skillern of the Community Reinvestment Association of North Carolina says his organization is working with Citi to encourage it to funnel development money into the state through non-profit groups. As it is now, he says, Citi does as much as $1.5 billion a year in business in North Carolina via credit cards, subprime loans, and other transactions, but it has no bank branches in the state. "All of our money seems to be going up to New York," Skillern says. "And we need it back."

$35-a-week clerk. At age 27 Sandy Weill started his own brokerage and built it with a relentless campaign of acquisition. Eventually he won the number two spot at American Express. But he was driven and pugnacious, and left frustrated with the company's old-boy system. In 1986 he found another challenge, buying Commercial Credit, a loan company based in Baltimore. The rise in personal bankruptcies frightened some investors, but Weill smelled opportunity in this humble business of small loans to average folks.

He assembled his management team and headed for Baltimore. As Monica Langley recounts in her Weill biography, *Tearing Down the Walls*, buying Commercial Credit was the first step in his climb back to the top. "Think of it as a platform," Weill told his deputies. "We need a financial

© Newsmakers

Sandy Weill: gained power through merger

services company to grow from."

Langley writes that the new administration's enthusiasm was interrupted by Weill's assistant, Alison Falls, who understood Commercial was built on lending at high rates to borrowers with nowhere to turn. The company's legal dustups had included a 1973 Federal Trade Commission order that it stop using underhanded means to sell credit

A GATHERING OF PREDATORS

A 17-year series of takeovers and mergers have consolidated many of the nation's most exploitive lenders and insurers under the Citigroup banner. Here's how it happened:

Commercial Credit / Citigroup Timeline

1985 Sanford Weill leaves number two spot at American Express.

1986 Weill takes over at **Commercial Credit**.

1988 Using profits from an invigorated Commercial Credit, Weill takes over **Primerica**, including Smith Barney.

1993 Weill and Primerica complete takeover of Travelers Insurance.

1997 Travelers buys **Salomon** Brothers, merges it with **Smith Barney**. Also buys **Security Pacific Financial Services** and rolls it into Commercial Credit.

Associates First Capital Timeline

1992 Alabama jury hits Associates with a $34.5 million verdict after hearing testimony it forged customers' signature. Judge orders retrial, saying he erred in allowing her attorneys to call Associates a "company without conscience." The case is settled for a lesser sum before the new trial.

1993 Associates agrees to pay nearly $3.4 million in Arizona to settle a class action lawsuit and attorney general's investigation claiming illegal credit-insurance packing. Associates opens 170 new branches while hiring 670 former employees of ITT Financial Services, an ITT Corp. subsidiary forced out of the business amid $80 million in loan-fraud settlements.

1996 Associates purchases 77 branches and $1.2 billion in loan receivables from Atlanta-based Fleet Finance, a subsidiary of New England's largest bank and a notorious predatory lender forced to pay $120 million to settle charges it fleeced 20,000 Georgia borrowers.

KEY

- Info
- Lawsuit

COMMERCIAL CREDIT

History of legal problems includes a 1973 Federal Trade Commission order to stop using misleading tactics to sell credit insurance. In the '90s a plethora of lawsuits accuses the company of fleecing customers on insurance.

PRIMERICA

A 1989 Tennessee Insurance Department report blasts the company for "a system of deliberate evasion and violation" of the law. A 1994 New York Times investigation concludes Primerica's pitch to would-be agents is "a mix of fact and half-truths . . . representative of a companywide pattern of exaggerations in the recruitment of agents and the selling of policies to hundreds of thousands of Americans. . . . That the sharp practices continue brings into question whether Mr. Weill is meeting his goal of building a first-class financial-services company."

1998 Travelers takes over Citicorp in what at the time is the largest merger in history. Commercial Credit becomes CitiFinancial.

2000 Citigroup buys Associates First Capital Corp., rolls company into CitiFinancial.

2001 *January / December:* Citigroup agrees to pay up to $13.5 million to about 3,500 Georgians to settle two class actions alleging pre-merger wrongdoing at Associates.

March: FTC sues Associates and CitiFinancial, alleging Associates engaged in systematic predatory lending. Affidavits from two ex-employees state CitiFinancial is just as predatory as Associates.

September: Citigroup agrees to pay $20 million to settle North Carolina attorney general's allegations Associates duped an estimated 9,000 borrowers in selling credit insurance.

2002 Citigroup agrees to pay $240 million to settle FTC lawsuit and private class action against Associates. FTC calls it a victory that puts real money in real consumers' hands. Citi says it closes the book on predatory lending questions. Critics say the settlement lets Citi off the hook — offering an average payoff of only $120 per victim without addressing CitiFinancial's own misdeeds.

2003 At Citigroup shareholders meeting, the advocacy group Responsible Wealth accuses Citi of "opportunism" and discrimination in its subprime credit empire. Weill counters that the company is a leader in reforming subprime, says it helps customers "raise up their quality of life and opportunity."

1997 An investigation by ABC's "Prime Time Live" reveals widespread misconduct at Associates, featuring the case of Bennett Roberts, an elderly, illiterate homeowner from Charlottesville, VA., who signed a series of 11 mortgages. Thanks to refinancings, Roberts's debt ballooned past $46,000, but barely half — about $23,000 — went into his pocket. The rest went to up front finance charges and closing fees.

1998 Documents disclose the Federal Trade Commission and U.S. Department of Justice have been investigating Associates for more than two years.

SECURITY PACIFIC FINANCIAL SERVICES

Came under fire in the early '90s for buying mortgages from three of the nation's worst predatory lenders: Union Mortgage, Dartmouth Plan, Community Bank of Peoria.

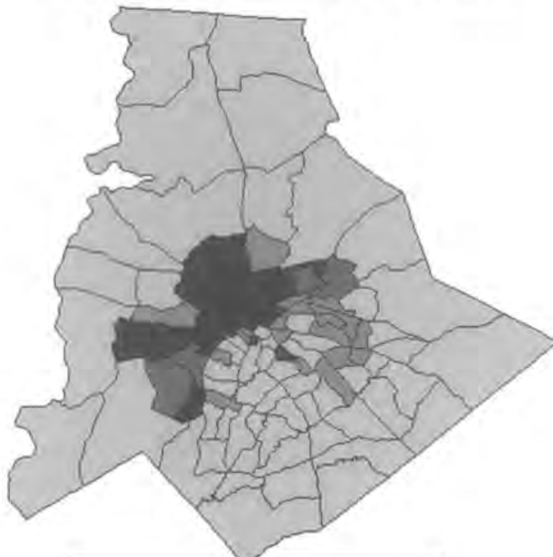
SALOMON SMITH BARNEY

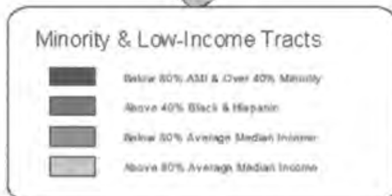
In 1991 Salomon Brothers pays $290 million to settle charges it used phony bids to corner the U.S. Treasury bonds market. In 2000 the advocacy group ACORN stages protests against Salomon Smith Barney for marketing securities backed by $3 billion in mortgages from Ameriquest, a subprime lender whose corporate predecessor had paid $4 million to the U.S. Justice Department over allegations it had gouged elderly and minority women.

GRAPHIC BY TED MAY

Citifinancial Subprime Lending Patterns Charlotte (Mecklenburg Co.), NC

Minority and Low-Income Tracts





Citifinancial Lending Concentration

Sources: 2000 U.S. Census, 2001 Home Mortgage Disclosure Act data

ABOVE: HOW CITIFINANCIAL'S SUBPRIME BORROWERS ARE

insurance. "Hey guys, this is the loan-sharking business," Falls said. "'Consumer finance' is just a nice way to describe it."

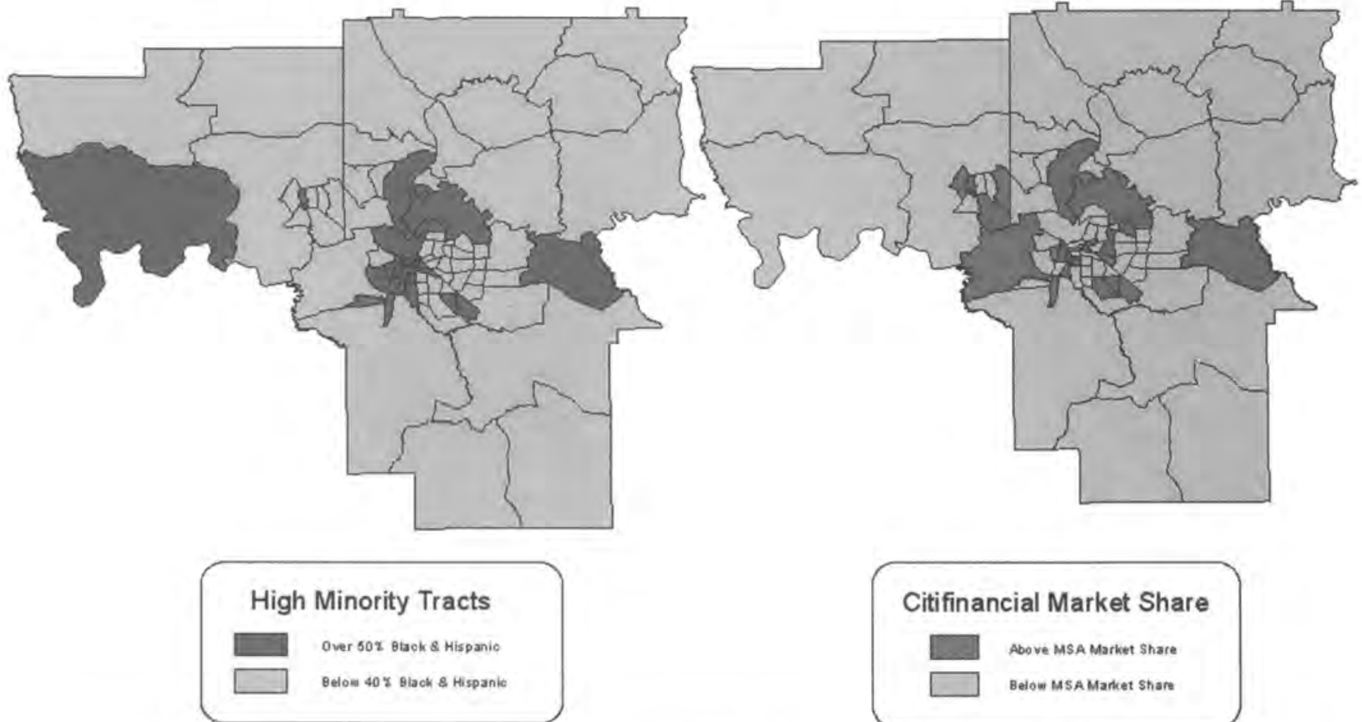
Weill entertained no such qualms. He likened Commercial Credit to Wal-Mart, implying it was snobbery to suggest blue-collar folks in small towns shouldn't have access to credit. "This is Main Street, America," he said.

Indeed, high-cost finance companies were nothing new, especially in the South. But deregulation and Wall Street know-how were transforming a balkanized industry into an enticing market for some of corporate America's biggest names, including ITT and Fleet.

Salomon Brothers pioneered the mortgage-backed securities market: loans made by local operators were bought by bigger institutions, which in turn used Salomon to create investment products sustained by revenues from these high-yield mortgages. The profits bankrolled an army of quick-buck lenders. Many customers were ensnared through "loan flipping": repeated refinancings that rolled in new fees and insurance, making their debt grow ever larger. Lawsuits and congressional hearings ensued, forcing some predators—Fleet and ITT among them—out of

Citifinancial Subprime Lending Patterns
Montgomery MSA, AL

High Minority Tracts — Citifinancial Lending Concentration



Sources: 2000 U.S. Census; 2001 Home Mortgage Disclosure Act data

CONCENTRATED IN AREAS WITH HIGH MINORITY POPULATIONS.

the business.

By the time Weill arrived, Commercial Credit, too, was on the verge of going out of business—not because of legal problems, but because of nose-diving profits and excessive corporate debt. Weill turned things around, introducing an entrepreneurial style that gave branch managers stock options and bonuses for meeting goals. "He has a 100 percent hands-on focus," Charles Prince, a Weill advisor since his Commercial Credit days, once recalled. "And no detail is too big or too small." In six years profits rose from $25 million to $193 million. The company grew in leaps. In 1990, Commercial gained $1 billion in receivables by buying the consumer finance arm of Barclays Bank.

CLOSED FOLDERS

Frank Smith worked for Barclays in Mississippi when his branch joined Weill's burgeoning network. Commercial seemed a good company to work for at first. But things changed. It became a numbers game: management prodded Smith and other branch managers with quotas for generat-

ing loans and selling insurance. "Over a period of time," Smith says, "it went from a family, employee-oriented company—doing the right thing, trying to help its customers—to this cutthroat thing of anything that will get us more business."

Sherry Roller vanden Aardweg, who worked for Commercial in Louisiana from 1988 to 1995, agrees there was "a tremendous amount of pressure" to sell insurance: "We kept adding insurance that we could offer. It just kept growing. It was beginning to get a little bit ridiculous."

Credit insurance covers a loan if a borrower dies, gets sick or injured, or becomes unemployed. Consumer advocates call it an overpriced rip-off, and charge that subprime lenders break the law by stealthily slipping it into loan contracts or by telling customers they can't have the loan without it. It was a big moneymaker for Commercial because it was often sold through a Commercial-owned insurance company, American Health & Life, which wrote some of the costliest products in the business (see "Citi and credit insurance," below right).

Smith believed credit insurance benefited borrowers, but he worried about how aggressively it was sold. He says auditors from American Health & Life would pointedly ask: "Why didn't you sell this person the insurance?" Selling it became a game of semantics and psychology. Loan officers never said "insurance." They spoke of "payment protection."

When customers applied over the phone, employees focused on what monthly payment they could afford. When these customers came to the office, Smith says, many loan officers conducted "closed-folder closings." The documents would be prepared with insurance already included. The loan officer emphasized the monthly payment, dancing around the question of insurance and interest.

"It's the idea that 'This is the monthly note we talked about. We don't have to get into a lot of detail'," Smith explains. "The whole time you have the check on top of the folder. They need the money or by God they wouldn't be at the finance company. They'd be at a bank." Once the documents came out, most customers signed quickly and unquestioningly.

Smith says he complained about this practice, but management brushed him off. He left in 1999 on less-than-happy terms; he says the company accused him

UNSETTLED ISSUE: LAWSUIT A EVEN AFTER SETTLEMENT,

Barbara Buie's troubles with her finance company never seemed to stop. Buie, a teacher from Fayette, Miss., says she'd get behind, promise to make a payment in a week, then get another call the next day demanding money.

Finally, in March 2000, Buie and about 100 other Mississippians reached a deal with First Family Financial Services, a subsidiary of Associates First Capital Corp. First Family agreed to pay them cash settlements and erase their remaining debts with the company, settling claims the lender had targeted minorities, the elderly and the poor for predatory loans.

"I thought that was the end of it," Buie says.

But it wasn't.

Buie is one of 50 ex-customers who claim in a new lawsuit that company employees refused to abide by the settlement, instead embarking a campaign of reprisal that continued through the spring of 2002—long after Citigroup had bought Associates and rolled First Family into its CitiFinancial network.

The suit says managers and other employees retaliated against them with harassing phone calls and other aggressive efforts to collect debts that were no longer owed. When the ex-customers brought in documents outlining the settlement, the suit says, company employees brushed them off, in one instance promising to

CITI AND CREDIT INSURA

Credit insurance is a big money-maker for Citigroup because its subprime lenders peddle insurance written by sister companies, a form of cross-selling that allows the corporate parent to reap the benefits from both commissions and premiums on the insurance.

Consumer advocates say credit life insurance is the nation's worst insurance rip-off—and statistics collected by the National Association of Insurance Commissioners show that Citigroup subsidiary American Health & Life Insurance sells some of the costliest policies in America.

NAIC says the best way to evaluate insurance pricing is to calculate how much an insurer pays in claims for every premium dollar it collects. Most types of insurance pay 65 to 85 cents in claims for every premium dollar, and NAIC recommends credit life insurance be priced so the loss ratio is at least 60 cents on the dollar.

From 1998 to 2000 (the most recent years for which figures are available) American Health & Life paid barely half that amount—just 33.7 cents in claims for every credit life premium dollar. That's a woeful figure

LEGES HARASSMENT CONTINUED CITIGROUP PURCHASE

make their lives a "living hell."

"Whoever it was who was in charge at that time," borrowers attorney Albert Lewis III says, "it certainly reflects poorly on them."

Buie says she went into the lender's Vicksburg branch again and again with proof her account was settled. Months later she got a phone call from her sister with distressing news: The company had posted a notice advertising her home for foreclosure sale on the courthouse steps.

She says her 10-year-old son was so upset "he would wake up at night crying and having nightmares, saying 'I want my home back.'" Only after her attorney intervened, Buie says, did the company put the foreclosure sale on hold and stop sending her notices.

CitiFinancial's attorneys say in court papers that the ex-customers' "insubstantial claims" have no chance of prevailing. Citi's attorneys add that one employee named in the suit wasn't working at the time of the alleged harassment and that another worked at a CitiFinancial branch that never serviced First Family loans. A Citigroup spokesman declined comment.

Buie says she "would have been at peace" if the company had just left her alone after the settlement. But now she's angry, and says the company should be punished for the way it has treated its customers.

"It's not so much about money," she says. "It's about justice."

NCE: PROFITS AND PRICE

even by the less-than-stellar standards of the credit life insurance industry, which as a whole paid 41.2 cents on the dollar during that period.

Citi spokeswoman Maria Mendler says its credit insurance is a good value for customers worried about how their families will pay the loan if catastrophe strikes: "Oftentimes there are real-life reasons why people can have credit issues—they become ill, they get a divorce, they lose a job—and often we can help them back to good credit by providing them with loans and then working with them so they can pay them off and get back on track."

Jean Ann Fox, consumer-protection director for the Consumer Federation of America, says that argument doesn't add up. "Any company that's writing insurance that pays out 30 cents on the dollar, obviously that insurance is being sold to benefit the creditor, not the borrower," she says. "This is just about increasing the cost of the credit. . . . If you want to buy life insurance, you should buy life insurance that protects your spouse, not your banker."

of misconduct in his handling of an excessive phone bill. He's now a sergeant with the Pike County (Miss.) Sheriff's Office.

"I've tried to forget everything about Commercial Credit," he says. "I sleep good at night."

By the time Smith departed, Commercial was battling lawsuits around the South. In 1999, the company agreed to pay as much as $2 million to settle a lawsuit accusing Commercial and American Health & Life of overcharging tens of thousands of Alabamans on insurance. The companies admitted no wrongdoing, saying state regulators had OK'd the way they calculated insurance charges.

More cases are still winding through the courts. In January, Jackson, Miss., attorney Chris Coffer says, he obtained confidential settlements for about 800 clients with claims against Commercial Credit or its successor, CitiFinancial. Tom Methvin's firm, Beasley, Allen, claims nearly 1,500 clients in Alabama, Mississippi, and Tennessee who had Commercial Credit or CitiFinancial loans. In Mississippi's Noxubee and Lowndes counties, these clients include Pearlie Mae Sharp, Johnny Slaughter, Mattie Henley and Martha and Arthur Hairston, five African Americans who borrowed money from Commercial in the mid-1990s. Sharp paid $1,439 to insure a $4,500 loan. Slaughter paid an APR of 40.92 and bought disability insurance even though he already had a disabling spinal injury. Henley paid an APR of 44.14.

"Once they say 'You get the money'—to me, they really didn't explain everything," Martha Hairston says. "They just said 'Sign this, sign this.'" The Hairstons paid $1,164 for five kinds of insurance on a $5,001 loan. Arthur Hairston, a church maintenance worker, says he and his wife "hit bad times a time or two," and their Commercial Credit loans made things worse. When you fall behind, he says, "they almost force you into refinancing. When you do that, boy, they give you a triple whammy then."

In March, a federal judge threw out Sharp, Slaughter, and Henley's cases, ruling they had waited too long to file their suits. Roman Shaul, an attorney for Beasley, Allen, says the firm will appeal. He says the borrowers' low reading levels prevented them from understanding disclosures informing them of the state's statute of limitations.

The finance industry argues that customers have

HOUSEHOLD NAME: CITI'S CHIEF RIVAL HAS A ROCKY HISTORY, TOO

Citigroup isn't the only big lender that's been accused of mistreating disadvantaged consumers. Just like Citi, Household International has left a trail of unhappy borrowers.

In Miami's Dade County, 89-year-old Madie Bell Wilson was evicted from her home after taking out a loan from Household that she thought was a home-repair grant she didn't need to pay back.

In San Antonio, 63-year-old Mary Salas said a Household subsidiary, Beneficial, quoted her an interest rate of less than 11 percent on a mortgage on her home. Later, she discovered the real rate was almost 26 percent.

Those sorts of cases drew the scrutiny of law enforcers. In October, Household agreed to pay up to $484 million to settle predatory-lending allegations pushed by a coalition of state regulators and attorneys general.

"We apologize to our valued customers for not always living up to their expectations," CEO William Aldinger said.

Florida Attorney General Bob Butterworth said the settlement was part of an effort "to change the way this industry does business." But housing activist group ACORN said the settlement was small compared to the $8 billion it estimates Household has plundered from customers in recent years.

Despite the history of abuse, federal regulators gave blessing this spring to London-based banking giant HSBC in its bid to purchase Household. Aldinger will be CEO of HSBC's enlarged U.S. operations.

SPIRIT AND LETTER: EX-EMPLOYEE SAID CITI TAKEOVER INCREASED RATHER THAN SOLVED PROBLEMS

Steve Toomey was working as a loan officer in Charleston, S.C., for Associates First Capital Corp. in November 2000 when Citigroup purchased the embattled subprime lender.

Toomey stayed on under the CitiFinancial banner until May 2001. Soon after, he went public with allegations that Citigroup's subprime lending practices violated "the spirit and letter" of the law and contradicted the company's public pledges to end predatory lending at Associates.

According to an affidavit Toomey submitted to federal banking authorities, CitiFinancial began compensating loan officers for refinancing customers' loans, including cases in which the borrowers' rates were raised. Employees were instructed "to only disclose their prospective monthly payments, and not the level of points and fees that were being stacked into the loan." He also alleged instances in which management "required employees to falsify information in borrowers' files."

After Citi took control, Toomey said, the Charleston branch's management began secretly taping employees' conversations. When he protested, he said, a company official told him CitiFinancial wouldn't initiate an investigation "on a mere complaint by an employee."

After news of Toomey's allegations broke in July 2001, a Citigroup spokesman said Toomey had worked for CitiFinancial a short time and had raised questions only after "he concluded that the company would not pay him monies that he demanded to resolve an employment dispute."

Citigroup said that "among the many allegations he described, we were able to corroborate only two isolated incidents and have taken appropriate corrective action." The company would not say what infractions had been confirmed.

Photo by Michael Hudson.

a responsibility to read and understand loan documents. Borrowers, the industry says, shouldn't be able to sign contracts and then try to back out later.

When Sharp, who has a sixth grade education, testified she couldn't see well enough to read her documents, the company's attorney asked if she'd told the loan officer: "Did you tell him that you couldn't understand basic sentences in the English language well enough to make decisions about it?" She acknowledged she hadn't, but said the loan officer should have explained things better.

"He should have did right," she said.

WALKING, TALKING BANK

As money poured in, Commercial's CEO hunted bigger prey. In 1988 Weill spent $1.7 billion to acquire Primerica, an insurance and finance giant. He consummated a takeover of Travelers in 1993 and, in 1997, grabbed Salomon Brothers and Security Pacific Financial Services. All that was mere prelude to the 1998 Citigroup takeover, which capped a 12-year rise that made Weill a billionaire and created the largest financial company in history.

Weill enthused about blending diverse units and creating opportunities for "cross selling," which allows affiliates to market each other's products. Primerica boasts more than 100,000 agents who can not only sell life insurance but also steer loan applicants to the parent's subprime operations. In Weill's vision, he'd created "a walking, talking bank."

Amid the excitement of the deal, the pundits failed to note the history of dubious activities at Commercial Credit and other segments of the organization that had captured Citi. Before it was absorbed into Commercial, Security Pacific Financial Services had taken heat for buying mortgages from some of America's worst loan sharks. Salomon was humbled by scandal in 1991, when it paid $290 million to settle charges it used phony bids to manipulate the U.S. Treasury bonds market. More recently, activists staged protests against Salomon Smith Barney for marketing securities backed by $3 billion in mortgages from Ameriquest, a subprime lender whose corporate predecessor, Long Beach Mortgage, had been forced to surrender $4 million to end a U.S. Justice Department lawsuit accusing it of gouging elderly and minority women.

Primerica's history of strife includes a $500,000 fine from New York authorities, who charged the company with deceptive salesmanship, and a censure from Tennessee regulators for seeking to "deceive and confuse" consumers through "a system of deliberate evasion" of the law. A spokesman said Citi has imposed "a strong compliance culture" that has made Primerica an industry model. But lawsuits in Mississippi have alleged continuing misconduct, accusing Primerica of using unlicensed agents who pose as "personal finance analysts" and use fast talk to entice people to buy insurance and refinance into higher-rate mortgages.

As for Commercial Credit, it took a new name—CitiFinancial—but seemed to do little to change its ways. In Knoxville, Tenn., CitiFinancial charged Loretta and Danny Jones $7,242 in insurance premiums on a $34,075 loan. When they signed the mortgage in June 2001, Loretta Jones says, their loan officer knew her husband had a history of heart problems that would disqualify him from getting life insurance—or disqualify his widow from collecting if the worst happened. When they were going over the insurance papers, she says, the loan officer told them to leave the section about her husband's pre-existing conditions blank. But when they got a copy of the branch's

documents later, she says, they found someone had checked "No" on the question about heart problems.

After her experiences with CitiFinancial, she says, she trusts no one. "Because everybody will screw you one way or another. They're just out for their own almighty dollar."

THE BIG SCORE

Sandy Weill's subprime operations were raking in dollars, and they weren't alone. By the late 1990s, Texas-headquartered Associates First Capital Corp. had built itself into the nation's subprime leader, having posted record profits 25 years in a row. In 1999, earnings approached $1.5 billion.

For Weill, Associates was a tantalizing target. In late 2000, market watchers cheered as Citi announced it was buying Associates in a $31 billion deal. "I really think Sandy scored," one money manager told the *New York Times*. "It may not be his biggest deal, but it may be his best deal. It's a superb strategic and tactical fit."

Fair-lending groups had a different view. They knew Associates had been built on a well-documented record of corruption. In 1997, an ex-employee from Alabama told ABC's *Prime Time Live* that his Associates branch had a "designated forger" responsible for doctoring loan papers. Associates' unabashed style spawned lawsuits and investigations, forcing $33.5 million in settlements in North Carolina and Georgia. All the while, Associates expanded its reach by serving as a clearinghouse for the remnants of other predatory lenders, buying up Fleet's loan portfolio and hiring hundreds of former ITT employees.

Why would Citi wed itself to the nation's worst subprime plunderer? "No company that values its good name would have bought Associates," said Martin Eakes of North Carolina's Self-Help Credit Union, challenging

REFORMING
HOW WELL DID CIT

In November 2000, Citigroup announced it was creating a Foreclosure Review Unit to make sure its subprime borrowers wouldn't lose their homes because of "inappropriate or abusive practices" perpetrated at the time the loan was made.

The company said its foreclosure rates were low, but promised to take a look at the issue in light of thousands of mortgages it was inheriting through its merger with Associates First Capital Corp., a Texas-headquartered lender accused of systematic abuses.

According to CitiFinancial, it suspended more than 1,900 foreclosures in 2001 and 2002, forgiving almost $13.7 million via refunds and interest-rate reductions. Citigroup calls the initiative a major achievement in its efforts to clean up Associates and establish itself as an ethical leader.

But critics question whether the foreclosure review program is reaching everyone who's entitled to relief. In a May 2001 report to New York bank regulators, for instance, Citi said that of 14,980 total foreclosures "in pipeline," 3,965 had met the criteria for review and that, after a closer look, 331 had been suspended "pending resolution." Matt Lee, director of a national advocacy group, Fair Finance Watch, says that number—just over 2 percent of the total—is miniscule considering the widespread evidence of predatory loans made by both Associates and Citi mortgage units.

At the same time, consumer attorneys around the country cite cases in which they say Citi was eager to foreclose despite evidence the mortgages weren't on the up and up. For example:

■ *September 2002, Chattanooga, Tenn.:* CitiFinancial scheduled a foreclosure sale of a home that had belonged to an elderly couple, Robert and Armanda Lane, who had signed a mortgage with Associates in 1996.

According to a lawsuit filed by a daughter who inherited the house after the Lanes' death, the loan was tainted by fraud from the start, but Citi did nothing to remedy the problem, instead seeking to take the home even though the monthly payments were current.

CitiFinancial settled the case in April, according to the daughters' attorney, Tom Greenholtz. The terms of the settlement are confidential.

■ *November 2002, Lebanon, Tenn.:* James and Margaret Lynn came within two days of losing their home to CitiFinancial.

The couple had gotten in trouble three years ago when they took out a $180,000 mortgage from Associates. The loan was inflated with a $14,689 charge for credit insurance. According to a lawsuit, loan officers lied to them about the insurance and the monthly payments and talked them into signing blank documents by claiming the branch's computers were down.

The deal left them saddled with a mortgage payment of $1,759 a month—an impossible sum for them to pay, their lawsuit says, because their

FORECLOSURES: KEEP ITS PROMISE?

combined income was barely $1,700 a month.

After the Citigroup-Associates merger, CitiFinancial took over the loan. The Lynns fell farther and farther behind, and last summer Citi obtained a judge's approval to foreclose and sell the home. The Lynns found an attorney, David Tarpley, who notified the company that they were rescinding the mortgage because it violated truth-in-lending laws.

Citi's lawyers countered that the loan was valid. They continued toward foreclosure, scheduling a Nov. 21 sale on the courthouse steps. It was only after Tarpley filed suit Nov. 19 that Citi renounced foreclosure. In April the company agreed to a settlement, forgiving about $75,000 of the couple's debt.

Tarpley says the Lynns' case raises questions about Citi's pledge to stop unfair foreclosures, because its review process failed to red-flag such an obviously predatory loan and because it continued with foreclosure efforts even after he had notified the company of the problems with the loan. "They can say they're good guys and all," Tarpley concludes, "but the fact is that in this case they were not going to call it off until something effective was done to stop them."

■ *May 2003, Brooklyn, N.Y.:* Another Citigroup subsidiary, CitiMortgage, scheduled a foreclosure of a home that had been purchased by Valmay Greene, a grandmother and immigrant from Barbados. In a racial discrimination complaint filed with the U.S. Department of Housing and Urban Development, Greene claims she got taken in by a house-sales scam that left her contending with rats, raw sewage and a $2,300-a-month mortgage—an obligation far outstripping her $1,552 monthly income as a home-health worker.

Greene got her loan in March 2001, through a Brooklyn mortgage broker, but it was transferred to CitiMortgage the same day she signed the documents. Brigit Amiri, an attorney with South Brooklyn Legal Services, contends Citi should have known the broker and the deal were shady, but the company didn't care, because the mortgage was federally insured—meaning Citi would get its money whether Greene could make the payments or not.

Amiri says Greene was able to save her home—for now—by filing bankruptcy.

Because CitiMortgage is one of Citi's prime-rate lending units, it's not covered in the company's foreclosure review process. But Amiri says her agency has settled at least a half dozen cases in which Citi was seeking foreclosure on fraud-tainted Associates loans.

"Undoubtedly, had we not been involved, people would have lost their homes," Amiri says. "They're definitely not unilaterally stopping foreclosures in the cases we've seen."

Citigroup declined to response to questions about Greene's case, or other questions regarding individual borrowers.

Weill at a stockholders' meeting in April 2001. Weill responded that Citigroup was cleaning up Associates by merging it into CitiFinancial.

The transition hit a snag that spring, however, when the FTC sued Associates over its credit insurance practices. Citigroup fought back, seeking to dismiss the case by arguing Associates no longer existed. The FTC countered with affidavits from two former managers who said CitiFinancial was just as bad as Associates. Gail Kubiniec said CitiFinancial packed loans with insurance if a customer "appeared uneducated, inarticulate, was a minority, or was particularly young or old. The more gullible the consumer appeared, the more coverages I would try to include in the loan." Michele Handzel said CitiFinancial created so much pressure to "flip" customers into new loans "that some employees did not even bother to obtain customers' signatures" on the refinancings.

Gaylon Barnes didn't want credit insurance, but a loan officer talked him into it. Photo by Michael Hudson.

The company called the allegations "an affront to the thousands of CitiFinancial employees who every day work in the best interests of their clients."

With attention expanding beyond Associates, Citi moved to prevent the investigation

from spinning out of control. It cut a deal. This past September the FTC announced Citigroup had assented to settlements totaling $240 million. As many as two million customers might benefit.

Media coverage accentuated what the FTC and Citigroup wanted in the headlines: the deal was the largest consumer protection settlement in FTC history—and an effort by Citigroup to straighten out an old mess. "These problems basically related to a company before we acquired it," Weill explained.

But behind the spin, questions remain. Matt Lee, director of the Bronx-based Fair Finance Watch, contends the FTC "let Citigroup off absurdly cheap." Simple math shows the average payout will be just $120 per victim; even the $240 million grand total represents less than two weeks' profits for Citigroup. And because the deal covers only Associates, it does nothing to hold CitiFinancial responsible for its own transgressions.

NO MYSTERY

The FTC settlement was part of Citi's long-term strategy for repelling attacks on its subprime operations. It has quietly settled some lawsuits, fought off others by forcing customers to take their complaints into arbitration (see "Access denied," p. 40), and, most notably, announced a series of reforms designed to forestall stronger regulatory initiatives.

Many reforms were unveiled after objections to the Associates purchase emerged. Others came just before the FTC settlement.

Some appear authentic, including the directive that employees quote monthly payments without insurance included. *Southern Exposure* checked 20 CitiFinan-

COLLECTIN[G] LAWSUITS CLAIM HAR[A]

Dorothy Polis and her fiancé, Marshall Jarrell, needed money to pay bills and put a porch on their home in Ashland, Ky. They crossed the Ohio River into Huntington, W.Va., and signed a stack of mortgage papers with a loan broker called American Liberty Financial. They didn't realize, their lawyer would say later, that the deal had raised their annual percentage rate from 8.9 to 13.4 and socked them with hidden charges and an abusive broker's fee.

Their debt was transferred to Associates First Capital Corp. and then to CitiFinancial Mortgage—a standard practice in the subprime industry, where brokers and small lenders frequently originate loans and then sell them to larger companies.

In February 2002, the couple moved to cancel the loan, alleging violations of federal credit laws. They instructed CitiFinancial to contact their attorney. Nevertheless, the couple maintains, CitiFinancial launched a series of harassing calls.

Things came to head in May 2002. Polis, a disabled mother of two, says a collector told her she was "stupid" and she was going to end up "out on the streets" if she listened "to a slick-talking lawyer." Jarrell, a utility contractor, says the collector called him and asked: "How many children do you have? Where are you going to keep them?" The next day, the collector left an answering machine message that said: "I spoke with your lawyer regarding the account. He is a public interest lawyer and is not representing you."

Their attorney, Bren Pomponio of the non-profit legal center, Mountain State Justice, says the collector called him, too—but only to warn him "you are getting these folks in a lot of trouble" by trying to use their case to "graduate to the big leagues" of the law.

The couple sued in federal court, alleging fraud and collection harassment. Citi said the couple had failed to show violations or injury. Because the calls were legitimate efforts to collect a debt, Citi's attorneys added, the company could not be responsible for any alleged harassment.

The judge rejected those arguments. In March, Pomponio says, Citi agreed to a settlement totaling nearly $40,000.

For critics of the company, the experiences of consumers such as Polis and Jarrell raise questions about Citi's commitment to cleaning up problems with loans it acquired when it purchased Associates in November 2000.

Determining how well CitiFinancial currently treats customers at the loan-making level is difficult, Pomponio says, because there's a lag time before victims of predatory lending realize they've been taken and seek help. In contrast, "debt collection is something that you can see right now," he says. "If they're changing their ways, you can see from their debt collections." But in fact, he says, the company has shown "equal or increased vigor" in trying to collect from victims of Associates' abuses. His assessment is supported by other customers who say they've had uneasy encounters with Citi's collectors:

- In Huntington, Pomponio is pressing the case of a 64-year-old widow who alleges she, too, was badgered by CitiFinancial. The lawsuit claims Sue Cary Smith was the victim of a series of 10 predatory loans with Associates over less than six years.

TROUBLE: SSMENT OF BORROWERS

Rather than take action to make amends for Associates' abuses, Pomponio says, Citi turned up the heat on Smith, calling her an average of more than five times a day. According to the lawsuit, CitiFinancial collectors called her at least 711 times between Nov. 8, 2001 and March 12, 2002, as recorded by her answering machine and caller ID. Attorneys for CitiFinancial could not be reached for comment on the case.

■ In Jacksonville, Fla., a 72-year-old homeowner filed a suit in March claiming that after CitiFinancial took over her loan from Associates, it began sending her incorrect and conflicting statements. The lawsuit alleges Citi collectors called Emily Sampson "at all times of the day and night." Her attorney, Lynn Drysdale, says the incessant barrage of abuse began in mid-2001 after the loan was transferred from Associates to CitiFinancial and continued into early 2003.

Drysdale says Sampson was current on her payments, but the calls and Citi's muddled accounting caused damage to Sampson's health; Sampson worried she was going to lose her home. "She just keeps paying because she's scared to death," Drysdale says.

Drysdale says Sampson's case and at least three others she's handled indicate CitiFinancial's records on Associates loans are in disarray. In Sampson's case, she says, Citi lists three different account numbers for the same loan. Drysdale says the company refuses to provide basic information to borrowers or their attorneys that might help clean up the problems.

"It's more of the same garbage," she says. "Basically what you've done is taken an Associates loan and made it worse—put it in the hands of someone who's going to compound the problem."

David Tong, an attorney for CitiFinancial, has asked that Sampson's suit be dismissed, arguing it fails to give specifics of the alleged harassment. "It's not very clear from the complaint" what Citi is supposed to have done wrong, Tong says.

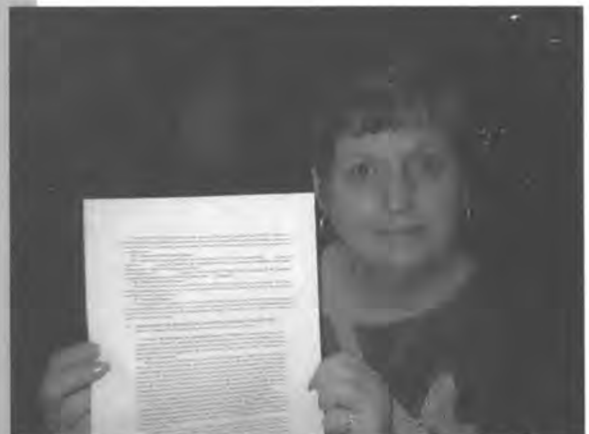
He adds that Citi never received the letters from Drysdale requesting information about Sampson's account, apparently because the letters had incorrect addresses on them. "CitiFinancial will comply with any written request they receive," Tong says. "Because they're required to under federal law and they want their customers to be able to get this information."

■ In Decatur, Ga., CitiFinancial customer Jackie Wash claims a Citi manager called and told her 13-year-old son that "he was coming to take our house and that I needed to come give them some money."

Wash says she fell behind on her loan in 2002 because she hit a financial snag after starting her own business. Citi allowed her to defer one month's payment, but she says it also tried to intimidate her into paying money she didn't have. "I told them: I'm trying to work with you, but I'm not going to let you violate my rights. You've got the wrong person if you think you're going to do that." Her attorney, Gary Leshaw, maintains Citi also "totally screwed up" how much she owed on the loan, claiming $12,462 when it should have been well under $10,000. "They made an effort to publicize they've cleaned up their act," Leshaw says. "But I don't buy it."

cial offices around the country and found almost all took pains, over the phone at least, to emphasize insurance was optional. However, some still used the euphemism "payment protection," rather than simply saying "insurance."

On the whole, the company's reforms seem more about image polishing than genuine remedies. For example, Citi promised to dispatch undercover staffers to make sure employees follow the rules. Then it gave a heads-up about when the testers were coming. In November 2000, the head of CitiFinancial's Southeast division instructed regional managers to inform district managers and branch staffers that "we will begin a Mystery Shopping



Donna Durick: CitiFinancial ran a bait and switch on her mortgage. Photo by Michael Hudson.

Test in December and complete in January. A minority and a caucasian [sic] will visit the same or separate branches and request an identical loan."

Citigroup said the memo did not undermine the testing, because the company had already announced the effort. "That we conduct mystery shopping is no mystery," a spokesperson said. But critics say divulging time windows defeats the pur-

UPFRONT COSTS: "SINGLE-PREMIUM" INSURANCE DISAVOWAL ONLY GOES SO FAR

Citigroup has made much of its decision to stop fattening real-estate loans with "single-premium" credit insurance, an exceptionally costly product because it rolls the high price of the insurance onto the front end of the loan, thus allowing the company to collect interest on the tacked-on premiums. Citi notes it was the first in the industry to drop the controversial product. But it doesn't dwell on the fact that it still sells other kinds of costly insurance on mortgages—and that it has yet to disavow the sale of "single-premium" insurance on non-real estate loans.

Take, for example, the case of a Morristown, Tenn., customer who got a personal loan from CitiFinancial in May 2002. According to documents on file with banking regulators, her $5,000 loan was topped by $1,166 in "single-premium" life, disability and property insurance. With a $333 "service charge" and a $150 "maintenance fee" thrown in, her total principal surpassed $6,500—all financed at an annual percentage rate of 24.99.

A Citigroup spokeswoman explains that "the critics of single-premium credit insurance on real estate-secured loans claimed that when tied to a mortgage, this product could lead to the loss of a home. That is not an issue with credit insurance on a personal loan. Additionally, these products have been approved by state regulators and voluntarily purchased by borrowers for decades and have provided important benefits to many customers who would not otherwise be able to obtain insurance."

Matthew Lee of Fair Finance Watch says selling single-premium insurance is predatory whether its on a personal loan or mortgage; if it's wrong for one, he says, it's wrong for the other.

CITI'S REFORMS: REAL OR IMAGINED?

Citigroup says it "has raised the bar in the consumer finance industry by making significant changes in its lending practices" since it absorbed Associates First Capital Corp. into its subprime operations two and a half years ago. By putting strict standards on its brokers, reducing loan-closing costs, and instituting an array of other reforms, Citi says, it has made things better for its borrowers and even for the customers of other subprime lenders that have followed the company's lead.

But many anti-predatory lending activists have their doubts about Citi's reforms. John Taylor, president of the National Community Reinvestment Coalition, says some of NCRC's member organizations have told him the changes are more public relations than genuine remedies: "There's one set of facts that says: 'This is our policy.' There's another set of facts that says: 'This is what we're really doing.'"

Martin Eakes of North Carolina's Self-Help Credit Union agrees: "I really think that the reforms that Citi announced are cosmetic. There was absolutely no substance. It's infuriating for me to watch the media and policymakers and regulators fall for this."

Some activists are more hopeful. Peter Skillern of the Community Reinvestment Association of North Carolina believes Citi has worked to halt its many of the most outrageous abuses that Associates was known for.

But Skillern says Citi still exhibits "more discrete but nonetheless unfair lending practices," such as charging subprime rates to customers who actually qualify for "A-credit" prices, a practice that disproportionately affects black borrowers.

"I will give them recognition that they have moved farther along than the blatant theft that Associates practiced," he says. "But they're still costing people billions of dollars. Because of their size, any one of their unethical practices has an impact on the whole country."

pose of testing how customers get treated under normal circumstances.

As part of its initiatives, Citi also promised to terminate relationships with many mortgage brokers affiliated with Associates, offer lower-cost refinancings to customers who have good credit but are paying subprime rates, and likewise have subprime units redirect "A-credit" applicants to Citi's prime lenders.

But a reading of Citi's own reports shows these changes are more about symbolism than substance:

- CitiFinancial suspended more than 5,500 brokers; only about 2 percent of them were excluded due to "integrity concerns." Most were terminated because of "inactivity" or failure to return paperwork.

Photo by Michael Hudson.

- CitiFinancial identified more than 25,000 subprime customers who qualified for prime-rate mortgages; by the end of 2002, only 110 had "graduated" into lower-rate loans.
- Citi's subprime units referred 12,141 new applicants to prime-rate affiliates in 2002; by year's end, just 278 had found prime loans through the "Referral Up" program.

The reform process has been called into question, too, by continuing allegations the company is using harsh collection and foreclosure tactics to keep squeezing money out of fraud-tainted Associates accounts (see "Reforming Foreclosures," p.35, and "Collecting trouble," p. 36). And it's been called into question by the experiences of borrowers who took out loans long after Citi's reforms were supposed to be in place.

In Chicago, the National Training and Information Center studied a sample of mortgages made in the first half of 2001 and concluded that "CitiFinancial continues to engage in predatory lending practices despite the company's promises of reform." Of the borrowers surveyed, 56 percent said Citi engaged in insurance packing, "bait and switch," or other trickery.

In Tuskegee, Ala., Belinda Patrick says she came away feeling targeted because of her race after she and her husband signed loans with CitiFinancial in November 2001 and February 2002. The first one, a $5,515 personal loan, carried a 28.96 APR and was topped by $2,024 in insurance premiums. The next one was a mortgage with a 21.99 APR and still more insurance. She says the money was much needed, but the rates were exorbitant and insurance was included without the couple's approval.

In Woodstock, Ga., Donna Durick says CitiFinancial ran a bait and switch on her July 2002 mortgage. She says she was told her 9.39 APR would be fixed for two years. It turned out, she says, that her mortgage rate could increase 1.5 points every six months, and could go as high as 28.89. Durick says she has been trying for months without success to get signed copies of her loan documents.

In Atlanta, Gaylon Barnes says a loan officer talked him into buying three kinds of insurance—life, disability, and unemployment—when he took out a second mortgage in November 2002.

"I didn't want this at first. He explained to me it was a great deal. So I said 'OK, I'll get it'." CitiFinancial didn't explain, Barnes says, that the insurance would spike his monthly payments from $213 to $280, costing him more than $800 extra in just the first year.

The cost of the $15,262 mortgage was pushed even higher by a $457 origination fee and a 14.99 APR. Barnes, a heating and air conditioning repairman, says that if Citi is changing its ways, "I can't tell."

Barnes's story is evidence that selling insurance is still a big part of CitiFinancial's business model—a reality borne out by the fact that the company still uses insurance-sales

ACCESS DENIED: CITI'S HEAD OFF THREAT

A day in court is supposed to be a basic American right. But for customers who've borrowed from Citigroup's subprime units, that right is fast disappearing.

That's because, along with insurance and fees and interest, there's another provision tucked into CitiFinancial's loan contracts: an arbitration agreement.

The provision gives Citi the right to divert lawsuits into binding arbitration. Consumer attorneys say it's an end run around the jury system—a way for Citi to shield itself from verdicts that might force it to change its predatory conduct.

"Arbitration favors the powerful over the poor," says Tom Methvin, a Montgomery, Ala., attorney whose firm represents nearly 1,500 clients who had problems with loans from Citigroup-affiliated lenders. "Arbitration is not fair to consumers because the lender has so much say in who the arbitrator is."

Because it's the lenders that bring them business, critics say, arbitration services have a financial incentive to keep the companies happy with favorable rulings. "The big companies that spread a lot of money around on arbitration institutions, they control them," says Tuscaloosa, Ala., consumer attorney Eason Mitchell. "They're the big customers."

CitiFinancial is one of many subprime lenders that include mandatory arbitration in their loan contracts. The industry argues that arbitration spares both lenders and borrowers from long, contentious court battles that only benefit plaintiffs' attorneys looking for big paydays.

Richard Naimark, a senior vice president with the American Arbitration Association, says that all consumers "need some kind of, quote unquote, day in court." But arbitration "can be a mechanism to do that because it is relatively fast, relatively inexpensive, and relatively accessible."

ARBITRATION CLAUSES OF JURY VERDICTS

He says his organization has "extensive safeguards" to ensure the fairness of its arbitration proceedings.

Citigroup says it follows standards recommended by regulators and the arbitration industry, and that its arbitrators are free to grant the same relief any judge could give.

The company lists a number of provisions that it offers for customers' benefit: arbitration is held in the borrower's home county, the first day's expenses are covered by CitiFinancial, and customers have clear notice of the arbitration provision and how the process works.

Methvin and Mitchell counter that arbitration can still cost consumers thousands of dollars, whereas courts are public forums available for a filing fee of about $100 in most cases. And they say consumers rarely are aware they're signing away their rights to sue when they sign a loan contract.

Most courts have upheld CitiFinancial's arbitration policies, citing the Federal Arbitration Act, which gives companies wide latitude to compel arbitration when customers or employees file lawsuits. Citi did suffer a setback in the case of a Pennsylvania couple seeking class-action status for their claim the company gouged them with prepayment penalties and other add-ons when they refinanced with another lender.

The company required Robert and Judith Lytle to pay $18,579 on top of the $124,554 they owed in principal. A judge ordered the couple into arbitration. In October, Justice Stephen McEwen of the Pennsylvania Superior Court threw out the lower-court ruling, evoking in his decision images of "pinstriped exploiters" and bankers stuffing "ever larger vaults" as they use arbitration to thwart "every state consumer statue enacted to balance the economic disparity" between lender and borrower.

goals to help determine managers' and loan officers' compensation.

CitiFinancial has told regulators that insurance sales are not "an overriding factor" in employee compensation, and that it has safeguards to ensure its bonus system doesn't encourage workers to oversell insurance.

But Fair Finance Watch's Lee says the bonus system is at the heart of how management controls employees' actions—and how it cultivates predatory practices with top-down, scientific precision. "The moment people's compensation is based on how much they sell, they're going to be hard-selling it," he says. "Citigroup knows that's exactly how it works."

Penny Fielder and Kelly Raleigh, two former CitiFinancial employees from Tennessee, agree. Fielder says management was still "pushing to max out all the loans" well into 2002, prodding employees to make sure customers had "full insurance" and were as deeply in debt as possible. Raleigh, a branch manager in Jefferson City until last summer, says the pressure to meet goals for insurance and refinancings makes abuses inevitable, regardless of what the company's reform pronouncements say.

The message, Raleigh says, was clear: "Don't get in trouble," but "if you don't hit your quota, you're not gonna have a job."

A LOUSY PERIOD

As CitiFinancial has crafted a public persona of reform-mindedness, it has also worked in other, behind-the-scenes ways to protect its image and reduce its legal vulnerability. Critics say these damage control efforts include aggressive attempts to muzzle whistleblowers.

In July 2001 Reuters news service reported Citigroup had hired a famed litigator "to help fight allegations of illegal lending practices and prevent former employees from bad-mouthing the financial services giant." Reuters said Mitchell Ettinger, who defended Bill Clinton in the Paula Jones case, met with at least 15 current or former employees to remind them to keep quiet. A Citi spokeswoman explained that the "standard non-disparagement clause" in the company's severance agreements wouldn't apply to reporting illegalities.

Raleigh says CitiFinancial threatened her with jail and fired her after falsely accusing her of leaking information to critics. She says her problems began when she complained to management about disreputable practices, such as falsifying documents to qualify customers for insurance and collecting property insurance premiums to cover bogus items, such as cars that didn't run. "They didn't like me telling on anything that was being done wrong," she says.

Fielder says she and two other employees were forced

out last fall at CitiFinancial's Morristown branch because the company suspected them, too, of leaking documents. According to Tennessee's labor department, Citi suspended Fielder without pay and froze her 401K. CitiFinancial also tried to block her unemployment benefits, arguing she had been suspended for misconduct. The agency concluded Citi had "offered no proof" of its allegations.

Fielder spent 11 years with the company. She was there through the growth of the Commercial Credit era, the mega-deal that created today's Citigroup, the warfare over Associates. "It just seemed like every year there would be more pressure to beat the numbers," she says. "They're so big now, and I think the little people are taken advantage of. . . . It just seems like the bigger they got, the harder it got."

Citigroup is certainly big. It boasts $1 trillion in assets. Since 1986, Sandy Weill has spent $147 billion to acquire more than 100 companies. As he's built this empire, he's depended on the aides who helped him resurrect Commercial Credit. Prince, his longtime advisor, has taken charge at Citi's investment banking operations. Robert Willumstad, another Commercial veteran, is Citigroup's president. Both have been mentioned as a possible heir apparent.

These are tough times, however, for the CEO and his team. Weill became ensnared in allegations that he ordered a Salomon analyst to improperly upgrade AT&T stock. Citigroup will pay $400 million in a recently announced settlement with the Securities and Exchange Commission related to brokerage scandals, and Weill himself has been barred from talking to his own stock analysts without company lawyers present. "This has been a pretty lousy period to go through," he said last fall.

For Lee, a long-time Citi critic, it's no surprise these "ex-subprimers" who learned to operate "at the very edge or over the limits of the law" would engage in sharp practices once they gained control of a global conglomerate. At the same time, he believes the less-publicized problems inside Citi's subprime operations won't be solved so long as Citi is run by the same people who used subprime as their path to power.

"The guys at the top are not going to reform CitiFinancial," Lee says. "Because they designed everything that is there."

THE MEETING

On a Tuesday morning in April, Sandy Weill stood alone on stage at New York's Carnegie Hall. The occasion was Citigroup's annual ritual, its stockholders meeting.

The gold-gilded hall was filled with a sea of yellow t-shirts emblazoned "Stop Loan Sharks." An activist group, the Neighborhood Assistance Corporation of America, had brought 300 borrowers and supporters from around the country as a show of force in its campaign against Citigroup

SPECIAL CHILD: FOR MENT ARBITRATION A L

John Brown is 44 years old. In court papers his attorney, Eason Mitchell, calls him "a special child of God" whose mental development essentially stopped when he was an infant. His mother interprets for others who can't understand "John's language" of hand gestures and labored speech.

His disability did not prevent him from co-signing a mortgage contract alongside his mother, who says she took out the loan because she was having trouble making ends meet and "I didn't want my baby to starve and have nothing to eat."

Mitchell says John's mother, Catherine Brown, is illiterate and mildly retarded herself and that she was manipulated into taking out a loan that fleeced her and John of thousands of dollars. Mitchell filed suit in Macon, Miss., on behalf of John—in a state where juries are known for returning harsh verdicts against lenders who target disadvantaged borrowers.

But John's case never made it before a jury. The lender, CitiFinancial, invoked the loan contract's arbitration clause.

Last August the Fifth Circuit U.S. Court of Appeals ruled that the issue of whether John was competent to sign an arbitration clause was a question that should be decided in, well, arbitration.

One of the judges added, however, that if the facts were as they seemed, "I can conceive of no way in which the contract underlying this action could be enforced against the profoundly retarded and incompetent Mr. Brown."

The arbitrator hired by CitiFinancial saw things differently. In February, he ruled John *was* subject to the arbitration clause, because his

(see "Journey for Justice," p. 62).

The day before, in an effort to head off protests, Citi had promised to consider reworking the loans of borrowers who'd contacted the advocacy group for help. As part of the arrangement, four borrowers stood at the meeting and gave Weill brief accounts of their experiences. They had come too far to remain silent.

Among them was a family of six that had driven 22 hours from Tampa, Fla.: Doreen and Alan Fawkes and their four children, including the youngest, 22-day-old Joshua.

The family's problems began with a high-interest loan from Associates. By the spring of 2001, the Fawkeses recall, they were struggling to keep up, and the new owner of their account—CitiFinancial—promised to refinance them and ease their burden.

Instead, the family says, the deal raised their monthly payments and spiraled their total debt upward. Keeping up became even more of a struggle. "If we were two days late, they would start calling at 8 o'clock, 8:30 in the morning," Doreen Fawkes says. "The manager was very nasty."

The worst blow came this spring. After Joshua was born on March 24, they arrived home from the hospital to discover CitiFinancial was putting their home up for sale in less than a week.

Only by scrambling to file bankruptcy did they put a brake—they hope—on the foreclosure.

"I've had awful nightmares about CitiFinancial," Doreen Fawkes says. "We've lived in fear. If we did not have Jesus in the middle of our marriage, this would have torn a good family apart."

At the stockholders' meeting, she thumbed through Citigroup's report on its subprime reforms. She didn't buy Citi's documentation of its good citizenship. "It just reminded me of a roll of toilet paper," she says.

Early in the meeting, the chief executive had noted Citi's securities scandals, acknowledging his company had engaged in some practices "which in hindsight did not reflect the way we want to do business."

His semi-confessional tone changed, however, when the subject turned to the question of predatory lending. Weill offered no apologies to the Fawkes family. He offered no apologies to others who say their experiences belie CitiFinancial's promises of reform.

"I think that CitiFinancial has been a leader in making changes" for the better in the subprime industry, the CEO told the Carnegie Hall crowd. He said CitiFinancial serves "millions and millions" of people who couldn't get credit otherwise. "It helps raise up their quality of life and opportunity."

Sanford Weill's unwavering denial of misdeeds at CitiFinancial—and, before it, at Commercial Credit—is an indication of how important subprime is to his company's past and to its future.

And it raises one more uncomfortable question: If Citigroup won't admit it's done wrong, how can it

ALLY RETARDED BORROWER, OSING PROPOSITION

mother was acting as his guardian and had authority to bind him to the contract. The arbitrator then dismissed the fraud and negligence claims against the company.

Mitchell argues the loan was abusive because it moved Mrs. Brown from a government-subsidized, low-interest mortgage to a high-interest CitiFinancial mortgage. He notes that the refinancing also forced her to repay nearly $8,000 in government interest subsidies.

But the arbitrator said the loan helped the Browns, reducing their monthly debt payments and saving them from bankruptcy. He said he found no evidence of fraud or economic harm to John. "Because he is profoundly mentally retarded," the arbitrator wrote, "John Brown was not, in fact, could not, be defrauded since he relied on his mother, not CitiFinancial."

Mitchell, the Browns' attorney, says the ruling is flawed, because the law doesn't allow parents to bind their children to contracts except for true necessities. And while the deal reduced Mrs. Brown's monthly payments, he says, it did so only by stretching them out over a longer term, ratcheting up her overall debt and rolling unsecured credit card balances into a mortgage that could endanger ownership of her home.

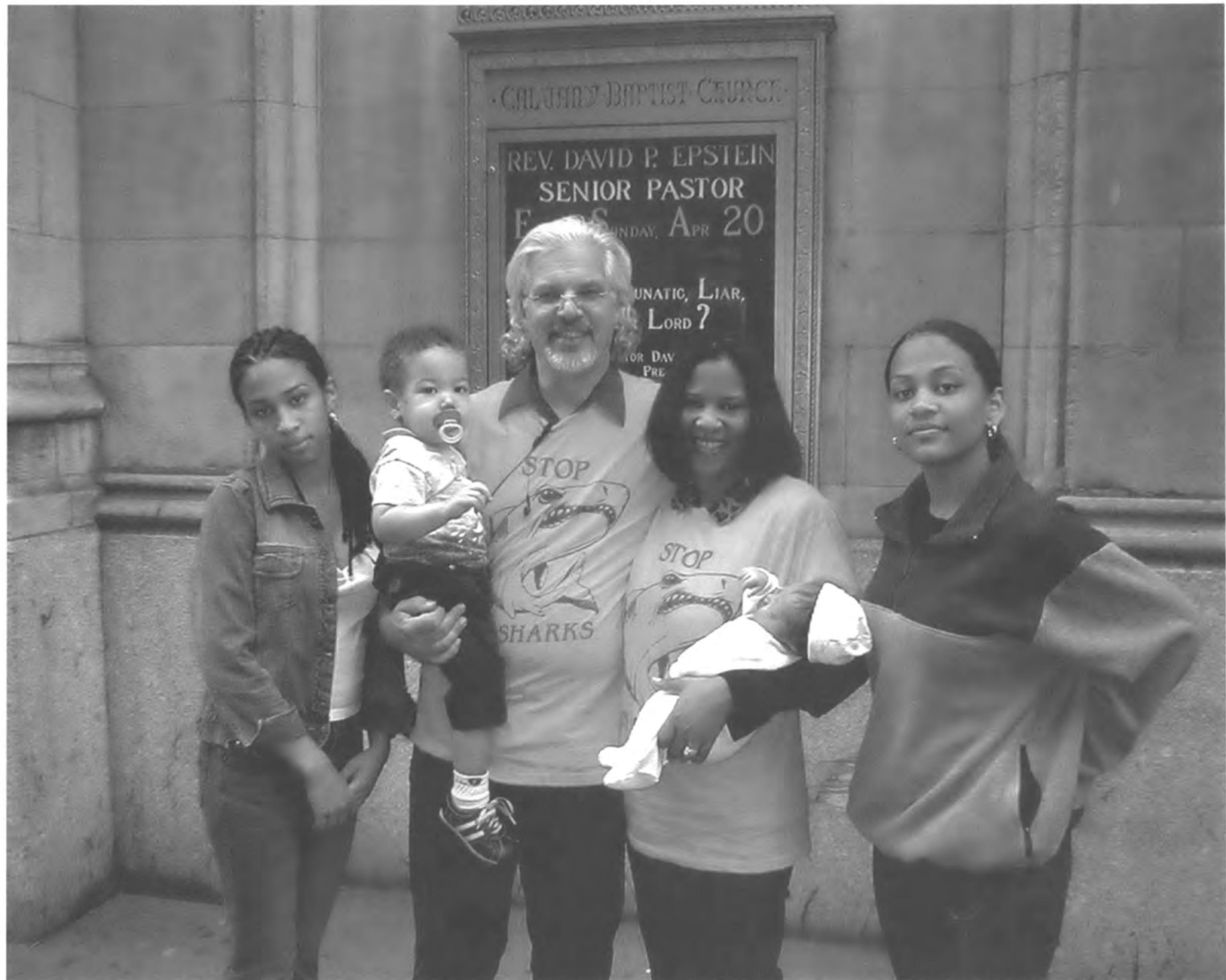
Mitchell says he hopes to appeal the arbitrator's decision into the courts, even though Citi's arbitration program provides for no appeal. The attorney says John Brown's case shows the arbitration system is hopelessly flawed.

"If that one is lost, the cause is lost," Mitchell argues. "There is no way to obtain any fairness in the process."

reform itself? Millions and millions of borrowers, ripped off and exploited by America's largest financial institution and its corporate forebears, are still waiting for an answer. SE

Michael Hudson is a contributing editor with Southern Exposure. *He is co-author of* Merchants of Misery: How Corporate America Profits from Poverty *(Common Courage Press).*

Jason Wilson contributed research assistance to this project.



The Fawkes family made a 22-hour trek to confront Citi management in New York City. Photo by Michael Hudson.

CITI RESPONDS

For this story, Citigroup declined to answer questions about specific customer or ex-employee complaints. CitiFinancial spokesman Steve Silverman says the company would not respond "to each individual scenario. We just don't do that." He said that "when customers have questions and complaints, we have a toll-free number and want customers to use it. . . . And we try to be responsive." The same holds true, he says, for employees, who can use an ethics hotline to voice their concerns.

Many questions about the company's policies were answered with the suggestion that *Southern Exposure* look at its Real Estate Initiatives Report, which covers the changes the company has made in its subprime mortgage practices [see www.citigroup.com/citigroup/citizen/consumerfinance/data/li200212.pdf].

However, in response to questions from *Southern Exposure,* CitiFinancial did issue a general defense of the company's practices:

ON PREDATORY LENDING AND CITI'S COMMITMENT TO ITS CUSTOMERS

"CitiFinancial opposes predatory lending. CitiFinancial supports efforts to provide credit to individuals with less than perfect credit history—oftentimes those who need it most—enabling them to pay for emergencies, pay for education, better manage their finances through bill consolidation, and establish a strong credit record for the future. These customers are often working people like teachers, firemen, nurses and secretaries who simply need access to credit. Our customers come back to us time and again because they like our service, our people and our product; it's a very personal decision for them."

ON CITI'S REFORM EFFORTS

"CitiFinancial has raised the bar in the consumer finance industry by making significant changes in its lending practices since acquiring The Associates in 2000. We eliminated single premium credit insurance on real estate secured loans, we required our brokers to adhere to strict standards, we implemented a referral-up program, we reduced the maximum number of points charged on real estate secured loans to three from five and we enhanced our closing procedures to make the process more clear and customer friendly.

"We have ongoing, constructive dialogue with advocacy groups, regulators and elected officials. We appreciate the feedback as we continue to make changes as appropriate."

In May, Citi announced it had reached a peace pact with the National Training and Information Center (NTIC), a Chicago-based advocacy group that had previously been a harsh critic. Under the agreement, NTIC will review the progress of CitiFinancial's reform initiatives and work in partnership with the company to "promote affordable mortgage product solutions for customers."

In a prepared statement, CitiFinancial said: "Input from consumer groups such as NTIC has contributed to our efforts to make a series of important changes to our lending practices over the past two years."

NTIC added: "CitiFinancial has made tremendous progress. We now have the opportunity to affect change in a broader capacity within our communities. We are excited by the potential impact of this agreement."

PERPETUAL DEBT, P

From the company store to the world

Photo by Hart Matthews.

REDATORY PLASTIC

of late fees and overlimit penalties

ROBERT D. MANNING

Last year John, a 55-year-old African American living on public assistance in Takoma Park, Maryland, a Washington, D.C., suburb, received an invitation in the mail promising him a chance to join millions of other Americans who enjoy the convenience and status of credit-card membership. In its direct mail solicitation, United Credit National Bank Visa declared, "ACE VISA GUARANTEED ISSUE or we'll send you $100.00! (See inside for details.)" For the unsuspecting, it might have sounded like a terrific opportunity to enter the credit mainstream. But a closer look inside showed that the primary beneficiary was the credit-card company:

> Initial credit line will be at least $400.00. By accepting this offer, you agree to subscribe to the American Credit Educator Financial and Credit Education Program. The ACE program costs $289.00 plus $11.95 for shipping and handling plus $19.00 Processing Fee, a small price to pay compared to the high cost of bad credit! The Annual Card Fee [is] $49.00. . . . For your convenience, we will charge these costs to your new ACE Affinity VISA card.

In other words, getting the card would cost John $369, leaving a net credit line of as little as $31—all financed at an annual percentage rate (APR) of 19.8 percent. As a poor, minority consumer, John's been gouged often enough to recognize a come-on: "Man, they just want to rip me off." He didn't go for the offer.

The credit card industry tries to whitewash such usurious and predatory practices by arguing that it is "democratizing" access to credit through its offers to households previously limited to "second-tier" lenders such as pawnshops and rent-to-own stores.

But not everyone has John's hard-earned savvy. Many impoverished consumers are blinded by financial desperation, low literacy skills, and a desire to part of what the TV commercials tell them is an exclusive club: the fellowship of consumers lucky enough to have earned bank credit cards. After all, exclaim the well-dressed actors, "You work hard for your money. Don't you deserve some credit?"

Not surprisingly, they sign up and become willing subjects of America's new credit economy, a brave new world where technology, marketing innovations, and deregulation have transformed old ways of lending and borrowing. The only thing that hasn't changed is this time-honored principle: The most profitable way to make money off the vulnerable is to keep them in debt at the highest rates for as long as possible.

IN THE 1940S, when folksinger Merle Travis was memorializing the harsh life of Southern coal miners in his famous ballad "Sixteen Tons," consumer debt served as an effective management tool for lowering both wages and worker turnover. Coal miners became indebted to the company store through high prices and excessive finance charges in an era when *"saving for a rainy day"* reflected the vagaries of the business cycle (unemployment) and the physical risks of the job (accidents). As a result, company scrip often replaced government currency, and miners' household debts bound them to their employers in a form of debt servitude.

You load sixteen tons what do you get
Another day older and deeper in debt
Saint Peter don't you call me 'cause I can't go
I owe my soul to the company store

As mail order retailers like Sears Roebuck expanded into the hamlets of the American South in the early 20th century, the growth of working class consumer markets became intertwined with access to credit. Unlike the company stores of Appalachia, where extending credit was a profitable business practice, the "open book" credit policies of local merchants (usually interest free), as well as credit lines at retail chains, were designed primarily to promote sales volume and customer loyalty. Although household incomes rose throughout the 1950s and 60s, the popular Sears credit card—the largest proprietary consumer credit system in the post-World War II era—featured an onerous finance charge of 1.5 percent per month on outstanding balances. Even so, the high costs of administering these low volume "revolving" accounts typically resulted in annual losses to the company; retail profits were made from selling rather than financing consumption in the golden age of U.S. manufacturing.

The recent revolution in consumer financial services dates to the 1970s and the increasingly successful assaults against Depression-era banking regulations. For example, the 1933 McFadden Act limited national banks from crossing state boundaries and competing with state-chartered banks. Until the 1980s, these restrictions protected the community banking system and its conservative installment lending policies. Significantly, the best customers of these local banks were those with the lowest outstanding debts—the borrowers who were most likely to repay their loans within an agreed period.

By the late 1970s, high inflation and declining real wages encouraged families to embrace debt as a strategy for coping with financial hardship. State usury laws and interstate banking restrictions, however, limited the growth of the "all-purpose" or "universal" national bank credit card until 1978, when the U.S. Supreme Court ruled that nationally chartered banks could charge the highest interest rate permitted by their "home" states and export these rates to their out-of-state credit card clients. Banks quickly relocated their "brick and mortar" offices to states without usury ceilings—Citibank, for example, moved from New York to South Dakota. In this way, the universal credit card (led by Visa and MasterCard) was transformed into a high profit product that could hurdle state banking regulatory barriers.

The universal bank credit card played a major role in the deregulation of the U.S. banking industry in the 1980s. National "money center" banks faced mounting losses on Third World, residential, and commercial real estate loans following the 1981-82 recession. Credit cards became the banks' means of profit salvation. Although Citibank's credit card division bled over $500 million in red ink between 1979 and 1981, the sharp reduction in inflation and advances in computer technology sparked a dramatic shift toward consumer financial services over the next two decades.

In the 1980s, an average of one million blue-collar workers lost their jobs each year, swelling the pool of families struggling to make ends meet and increasing the demand for quick, unsecured consumers loans. The consumer services revolution shifted into high gear. Soaring bank profits fueled unprecedented consolidation. In 1977, the top 50 banks accounted for about half of the credit card market. Twenty-five years later, the top ten banks controlled over 80 percent of the market. In the process, "net" revolving credit card debt climbed from about $51 billion in 1980 to over $610 billion in 2002. At the same time, more than half of all outstanding credit card debt is resold in the secondary financial markets as securitized bonds, at a typical premium of 15 to 18 percent in 2001. Many institutional investors such as pension funds

purchase these bonds for their portfolios.

Today, the ascendance of credit cards marks the shift from installment lending to revolving loans, where the "best" bank customers will never repay their high interest credit card balances. In this new world of consumer finance, the most disadvantaged (debtors) subsidize the low cost of credit for the most advantaged (convenience users). It is this moral divide that leads banks to refer to those clients who pay their charges in full each month (39 percent of all customers in 2002) as "deadbeats."

The other 61 percent are the ones who fuel the banks' profits, and for them the price is growing ever higher. The true cost of borrowing on bank credit cards has more than doubled since the advent of banking deregulation in 1980, thanks to painful interest rates and escalating penalty and user fees. The upward spiral began in 1996, when the U.S. Supreme Court invalidated state limits on credit card fees by ruling that fees are part of the cost of borrowing. This decision produced a striking change in the way card issuers do business, along with some striking numbers:

- The average late fee jumped from $13 in 1996 to $30 in 2002.
- Penalty fee revenue climbed from $1.7 billion in 1996 to $7.3 billion in 2001.
- Total fee income rose more than five times faster than overall credit card profits between 1995 and 2001.
- Together penalty ($7.3 billion) and cash advance ($3.8 billion) fees equaled the after-tax profits of the entire credit card industry ($11.1 billion) in 2001.
- Three out of five families (61%) now carry a balance on their credit cards each month. Their average card debt has risen from over $10,000 in 1998 to over $12,000 in 2002.

In response, banks argue that they provide an efficient service to consumers in urgent need of cash or a necessary purchase. Also, they emphasize the payment flexibility credit cards give their clients, many of whom face increasing financial demands and prefer to carry balances from month to month.

AS PROFITS HAVE CLIMBED, corporate retailers have become increasingly dependent on finance revenues to make up for shrinking margins on consumer sales. In 2001, for instance, Sears and Circuit City reported that more than half of their profits were due to finance-related revenues. This is not surprising since credit cards are the most profitable product of the financial services industry. Even during the current recession, pre-tax profits of the credit card industry (measured by Return on Assets) jumped 20 percent from 2000 to 2001. The industry pulled in record pre-tax profits of nearly $18 billion in 2001, or a whopping 4 percent of assets—three times greater than the average of the banking industry.

Not incidentally, the growing burden of high-cost credit card debt is borne by middle-income and working poor families. The current recession, which elicited President Bush's patriotic exhortations to spend more time and money in the malls, has highlighted the critical role of consumer spending to the vitality of the corporate economy. Although government policy-makers have encouraged household spending by reducing interest rates (the Federal Funds rate was cut from 6.5 percent in 2000 to 1.75 percent at end of 2001), the sharp decline in the cost of borrowing by banks has not been passed on to consumers. For the major credit card companies, the Federal Reserve's low-interest rate policy has produced a windfall, given that they had reduced their rates only modestly—from an average of 18 percent in 2000 to about 16 percent in 2001.

The industry, meanwhile, has fought to stop or hinder any state regulation of credit card interest rate ceilings and fees—or requirements that consumers be given meaningful notice of rate hikes or other changes in their contract provisions. For example, Maryland-based Chevy Chase Bank promised its credit card clients not to raise the top interest rate above 24 percent. In 1996, however, it moved its credit card headquarters to Virginia and raised its interest rate to a high of 28.8 percent. It also changed the terms of its contract to include higher late fees, a new overlimit fee, and a more costly "daily" calculation of finance charges—all without the sort of effective notification that would give customers a chance to reject these unfavorable amendments to their existing contracts.

Real disclosure would cut into profits, so the industry has fought to keep customers in the dark. If credit card clients understood the long-term cost of their accounts, they might make higher monthly payments—something banks don't want. The American Bankers Association has sued to prevent the enactment of a 2002 California law that requires banks to use clients' monthly statements to inform them of the number of years necessary to pay off the outstanding balance, assuming there are no additional charges and only the minimum payment is remitted.

Although banks emphasize the availability of low-interest balance transfers, the most indebted rarely qualify for these

promotional programs or benefit for only a short period of time (two to six months). More frequently, heavily indebted households encounter "bait and switch" offers, where low-interest promises are quickly replaced with high-interest realities. Furthermore, credit card companies have adopted a stringent policy of imposing penalties on promotional interest rates for minor payment infractions or simply due to high outstanding balances on other consumer loan accounts.

In Houston, Texas, for example, Doug received an enticing six-month, 1.9 percent balance transfer offer from Chase MasterCard and shifted $5,000 from his MBNA credit card account. Unfortunately, Doug's wife mistakenly sent $80 instead of the required $97 for the first month's minimum payment. Even though it was received two weeks before the due date, his next statement reported $17 past due plus a $35 late fee. More striking was the increase in the interest rate, from 1.9 percent to 22.99 percent, even though he had not had a late payment in over two years. A Chase customer service representative informed Doug he would have to document six months of on-time payments before the bank would consider his request for a lower interest rate. This followed a previous "bait and switch" from Chase on the same card in 2001, where the 4.9 percent promotional rate was raised without warning—simply because the bank had decided that the balances on his other credit cards were "too high."

The passage of the Financial Services Modernization Act of 1997, which authorized the Citibank and Traveler's Group merger, marks the end of Depression-era regulation of retail banking as separate from commercial banking/insurance services. Moreover, the ability to acquire companies across financial services sectors and share client information with corporate subsidiaries underlies the rise of "cross-selling" financial products such as investment services to credit card clients. This explains Citibank's 1997 purchase, at a substantial premium, of AT&T's unprofitable credit card company (eighth largest), with its disproportionate number of high-income customers. For Citigroup, this corporate synergy produces multiple revenue flows by originating high interest loans through credit card and subprime lending, which are then resold through its Salomon Smith Barney division to individual and institutional investors.

Not incidentally, access to personal consumer credit information enables predatory lenders to identify highly indebted households that are susceptible to slippery solicitations for "debt consolidation." According to a 2002 California lawsuit, Household Finance obtained lists of prospective clients from Best Buy, K-Mart, Costco, and other retailers. Homeowners with high debts were identified from these lists and contacted by account executives at nearby-branches. Household promised these potential customers that their debt consolidation loans would save them money after the refinancing of their credit card, consumer loan, and mortgage debts into a single monthly payment. In the process, the lawsuit alleged, Household deliberately sought to "upsell," or persuade their clients to accept consolidated loans in amounts so high in relation to the value of their homes that it would be nearly impossible to sell or refinance in the future.

By misrepresenting the total cost of these debt consolidation loans (origination fees, mandatory insurance, high interest rates), the suit claims, Household Finance Corporation generates high profits from the initiation of these loans as well as from their resale in secondary mortgage and securitized bond markets.

Today, high credit card interest rates are no longer sufficient to satisfy the financial services industry's voracious appetite for profits. Penalty and transaction fees continue to rise while new fees are imposed, such as overdraft transactions, foreign currency conversion, and "double billing" cycles which reduce the payment "grace" period. In addition, banks have begun aggressively marketing financial-related services that offer little practical benefits for their clients. These include credit protection programs ($9.99 per month from Citibank) that cannot prevent identity fraud, and unemployment and injury insurance (typically 0.5 percent of outstanding monthly balance) with premium costs that usually exceed the minimum credit card payments provided by the insurance. The proliferation of these products yields big profits for the banks and only modest benefits for consumers.

For American families and consumer advocates, fighting back isn't easy. The industry has thwarted state and local attempts to create better consumer protections by invoking the principle of federal preemption—the U.S. Constitution's provision that public efforts to regulate the national banking system can be legislated only by Congress. The influence of the banking industry on both the U.S. Congress and the executive branch (MBNA was the largest contributor to George Bush's Presidential campaign) seemingly ensures that no significant pro-consumer bills will see the light of day in the next couple of years. At the same time, the industry has reduced its vulnerability to class-action lawsuits by specifying arbitration agreements in their credit card

contracts that deny consumers their right to a day in court.

Now, with the threat of regulation and litigation diminished, the credit card industry is focusing its efforts on passing the Bankruptcy Reform Act. President Clinton vetoed the measure at the end of 2000, but other versions of this industry-written bill were passed by both houses of Congress in 2002, and again by the U.S. House of Representatives in April 2003. The aim of the bill is to increase the amount of unsecured consumer loans (especially credit card debts) that must be repaid before the approval of a bankruptcy petition. If this bill is enacted into law, it will expand the U.S. government's role as a *de facto* debt collector and increase the costs assumed by the public in extending consumer credit to the most risky credit card clients. In doing so, it will provide banks even greater incentive to push high-cost credit to their most marginal clients. For an industry whose motto is "Greed is Good," this legislative distortion of the free market system could enable it to top even its current record profits and spiraling executive bonuses. SE

Robert D. Manning is Caroline Werner Gannett Professor of the Humanities at the Rochester Institute of Technology, and the author of Credit Card Nation:The Consequences of America's Addiction to Credit *(Basic Books, 2000). Dr. Manning frequently testifies before Congress to defend citizen consumer rights, and also maintains a website, www.creditcardnation.com, which features financial education programs and quizzes, statistics, and other information on credit card dependency and financial literacy. His next book,* Give Yourself Credit! *(Alta Mira, 2004), offers advice on how to minimize the cost of consumer credit.*

SIX MONTHS OF FINANCIAL FREEDOM
CAN YOU AFFORD IT?

Ann saw the promotional offer in the weekend edition of the *Orlando Sentinel*. She thought it sounded almost too good to be true: a Home Depot credit card with a promise of 10% off the first purchase (up to $2000), zero percent financing, and no payments for six months. She called the Home Depot credit approval office, toll-free, and received a $1,000 line of instant credit, courtesy of the new "partnership" with Citibank's private issue credit card subsidiary. She thought it would be a good chance to replace the 20-year-old carpet in her home.

The first hitch came when Ann's local Home Depot in suburban Orlando refused to honor the discount coupon. But the sale price of $1,619 with free padding for wall-to-wall carpeting was too good to pass up.

To Ann, six months without payments seemed like a long time. She couldn't wait to feel the plush new carpet under her bare feet. She didn't realize the free financing clock started ticking on the date of the sale contract, not the day of installation. So instead of six months of no payments, it was really only five months.

Then, when the second bill arrived, to Ann's surprise there was a monthly finance charge of $20.88, even though the Home Depot salesman had assured her the purchase was interest-free.

Only after several more months had passed did Ann grasp the reality of the promotional offer. The purchase would have been interest-free only if she paid off the bill in its entirety before the six-month period ended. Because she hadn't, Home Depot started applying the credit card's annual interest rate of 15.5 percent to the carpet purchase.

In their defense, Home Depot and its finance partner Citibank emphasize the convenience and generosity of their "instant credit" promotional offers. Clients can immediately begin necessary repairs or improvements to their homes and can even take advantage of sale discounts while enjoying a short-term "free" loan (during which cheaper financing can be obtained) or the long-term "flexibility" of low monthly payments.

In the end, Ann's loan proved to be far from "free." With a minimum monthly payment of $25, the bill is manageable but will require 15 years to pay it off, assuming no additional charges. What's more, the low minimum payment obscures the total cost of the carpet at the end of the 15 years: $4,489. Of course, no one mentioned to Ann that increasing the monthly payment by only $10 would cut the payoff period in half, to only seven years, thus reducing the total cost to $2,811.

FROM PAWNSHOPS TO "F

FRINGE BANKING GAINS A FO

MARY KANE

PHOTO BY HART MATTHEWS

WHEN IT'S FRIDAY, THE RUSH STARTS EARLY AT ACE CASH EXPRESS INC., a tidy storefront along a busy highway in a working-class and minority section of Arlington, Va., an otherwise mostly affluent Washington, D.C., suburb.

By 9:15 a.m., just after the store lights up its welcoming green neon sign, three people are already lined up at the bulletproof cashiers' window, paycheck stubs in hand. They are applying for short-term, high-rate cash advances known as payday loans—money they hope will tide them over until their next paycheck arrives.

It's quick and easy for customers to dash in and out. And it's a regular routine. Many say they work at a nearby Head Start but don't earn enough money at the federally-funded early childhood development program to make ends meet.

"Just more bills," one woman says, explaining her rationale for yet another payday loan as she counts out her money from the cashier.

For her, and for the tens of thousands of other regular payday loan customers, a transaction once considered on the fringes of the financial system now has become a part of everyday life.

Fringe banking—an umbrella term that covers payday lending, check cashing, prepaid phones and cards, bill paying services, and more—no longer exists on the fringes. In the decade since these non-mainstream financial services began to gain a foothold in people's lives, their image has changed from seedy or unsavory to ordinary and accepted, if not outright embraced.

Take a look around. Fringe banking thrives in your neighborhood, at the 7-Eleven, where you can cash your paycheck or make a money transfer on an ATM-like machine. Going shopping in the suburbs? Check out the pawnshop, right next to the Chili's restaurant. Or cruise a typical suburban highway like Columbia Pike in South Arlington, which features a half-dozen check cashers and payday loan stores interspersed among the dry cleaners, pharmacies, grocery stores, and ethnic takeouts.

In California, New York, and Baltimore, credit unions and even banks work side-by side with check cashers. And soon to come to a Wal-Mart near you: an in-store check-cashing service.

Fringe banking operations have also grown from single-service storefronts into more diverse businesses, allowing people to handle all their financial needs in one spot, for a fee, of course. Send a fax. Pay the phone bill. Buy a bus pass. Get a tax refund. Take out a loan. Cash a check. All without going to the bank.

"These places have now have become financial supermarkets," said Jean Ann Fox, Director of Consumer Protection for the Consumer Federation of America.

And their growth has exploded. Since 1993, the number of check cashing stores has increased from 4,000 to over 16,000, research by John Caskey, an economist and Swarth-

"FINANCIAL SUPERMARKETS"

FOOTHOLD IN THE MAINSTREAM

more College professor, shows. Payday lending has grown even more rapidly. So rare before 1995 that no state regulators kept data on them, payday lenders now number 25,000, according to industry research. And last year, these lenders made between 95 and 100 million loans, generating $4.3 billion in fee revenues.

One constant has been the cost—financial transactions with dizzyingly high rates. Payday loans of 400 percent or more. Pawnshop loans amounting to 240 percent. Check cashing fees amounting to $25 per $100.

Because of these kinds of profits, people the banks wouldn't touch a decade ago

have grown into hot commodities. To critics, this has furthered a worsening financial divide between those who can afford credit at decent prices and those who can't. And it has underscored the continuing plight of low-wage workers who don't earn enough to cover their basic needs.

Industry defenders reject that notion. They say that people consistently need short-term loans and other financial services that they can't get from a bank. Consumer advocates who fight fringe banking, they say, simply are out of touch with how working class people live.

"Banks are not customer-friendly," said Paul Hauser, president of The Check Cashing Store, the largest chain of check cashers and payday lenders in South Florida. "And besides, where else does the person go who needs $100 for their broken-down car when they don't have a rich Uncle Harry to turn to?"

In increasing numbers, they've been turning to payday lenders.

Consider ACE Cash Express Inc., a publicly traded company located in Irving, Tex. In 1998, payday lending accounted for 10 percent of its overall revenues, with the rest provided by check cashing. Total revenue per store was $154,000.

By 2002, 32 percent of ACE's revenues came from payday lending, and total revenue per store had climbed to $230,000, Caskey reported.

"There is a real need in the marketplace for short-term, immediate credit," said Eric Norrington, an ACE spokesman.

ACE is among a handful of major chains that dominate the industry, most located in the South. How do they make their money? A customer brings a personal check to a lender. The lender, in turn, agrees to hold it for two weeks before depositing it. The lender advances the customer the amount of the check, minus the fees, usually $15 to $25 for every $100. So the customer seeking a two-week loan on a $200 check pays $30, or 390 percent interest.

Studies of the industry by regulators in Indiana, Illinois, Wisconsin, and North Carolina have found that payday lenders make even more money from repeat customers who pay another fee to take out a new loan as soon as the old one is paid.

What's somewhat surprising about borrowers is that they are not completely cut off from the traditional financial world. A typical customer must have a banking account. Most of them, research shows, earn between $15,000 and $60,000. Half own credit cards. Most are under 40, with high school educations or more, and have kids at home. More than half are women.

Conversations with customers at the ACE store in suburban Virginia revealed a range of reasons for using the payday lender, from short-term problems like a high utility bill to repeat customers in a financial bind they hope to climb out of—someday.

Wendell Lewis, 49, said he finds himself a regular customer because of his continual struggle to meet his $800 a month child support obligations. Lewis, a transportation supervisor at Head Start, earns about $30,000 a year, a salary at the low end in the affluent northern Virginia area.

Lewis took out payday loans for about three months, stopped, and then returned. This time it's because he needed a car. With past credit problems, the interest rate on his loan would have been about 18 percent, so Lewis used his last $2,800 in savings to cut that cost. The move lowered his monthly payment from $570 to $370, but left him in a deficit when it came to covering his bills.

continued on page 59

A RECORD OF STRIFE: AUTHORITIES ACCUSE MANY PAYDAY LENDERS OF BREAKING THE LAW

PAYDAY LENDING IS PROVING TO BE AS CONTROVERSIAL AS IT IS PROLIFIC. GOVERNMENT REGULATORS AND CONSUMER ADVOCATES HAVE TAKEN ACTION IN MANY STATES BOTH TO CURB PAYDAY LENDING AND TO TARGET SOME OF ITS WORST PRACTICES:

QUESTIONABLE PARTNERSHIPS WITH BANKS

The most aggressive crackdown so far has come from federal regulators, who say the entry of banks into payday lending is risky and worrisome. The Office of the Comptroller of the Currency, which regulates federal banks, has taken action four times since January 2002 to stop banks from partnering with payday lenders. That put an end to lucrative arrangements that existed among the banks and major payday lenders such as Advance America, Cash America, ACE Cash Express Inc., and Dollar Financial.

OCC chief John Hawke describes payday lenders who pair with banks as "third parties who want to evade state and local consumer protection laws."

In one case, ACE and its partner, Goleta National Bank of Goleta, Calif., were ordered to pay a total of $325,000 in fines. Regulators not only stopped their payday loan business, but they also accused the two of violating federal rules protecting customers' privacy after finding 641 ACE loan files in a dumpster in Portsmouth, Va.

Things are different at the state level. In March the Federal Deposit Insurance Corporation issued draft guidelines that would allow for state-chartered banks to participate in payday lending, a move that angered consumer activists. Those guidelines permit payday lenders in states with restrictive usury laws to charge more, because their bank partner is governed by the laws of its home state, which are usually more lenient or non-existent.

ILLEGAL DEBT COLLECTION

Payday lenders accept personal checks knowing the customer probably doesn't have enough on deposit to cover the check. But many payday lenders cry fraud—and threaten to use the power of the criminal justice system—when customers can't manage to deposit enough money in their bank accounts to cover the debt when the post-dated check is finally cashed. In Texas, payday lenders flooded the court system with 13,000 criminal complaints in a single year in a single Dallas County precinct.

In Illinois, state authorities alleged that payday lender Nationwide Budget Finance, Inc., mailed fake warning letters to delinquent customers. Nationwide's employee manual also instructed workers to call a borrower's personal references and falsely tell them Nationwide was issuing a warrant for the borrower's arrest.

In West Virginia, 81 consumers won cash refunds and debt cancellations in a state settlement that came after a customer complained that Ohio Valley Check Cashing and Loan sent him threatening letters and warned of criminal prosecution if he didn't pay his loan in full. In Georgia, two payday lenders were convicted of using threats of violence and arson to collect debts.

HIGH FEES

In an Arkansas case, authorities found Advance America was charging interest rates of between 336 and 720 percent, far in excess of the state's 17 percent limit.

In Texas, a study by the Consumer Federation of America found that only 40 payday loan outlets complied with state limits, while 895 partnered with state banks to charge higher rates.

In Colorado, ACE Cash Express paid $1.3 million in restitution and agreed to abide by payday laws after state authorities found the firm charging illegal fees for loan rollovers. It marked the largest fine ever paid in a consumer case brought by the state.

Paul Hauser, a check cashing store owner and president of the industry's Florida trade group, says payday lenders have been the victim of overzealous regulation by the OCC's Hawke. He says the lenders don't oppose reasonable limits set by states, but that they still must to be able to charge enough to cover their costs.

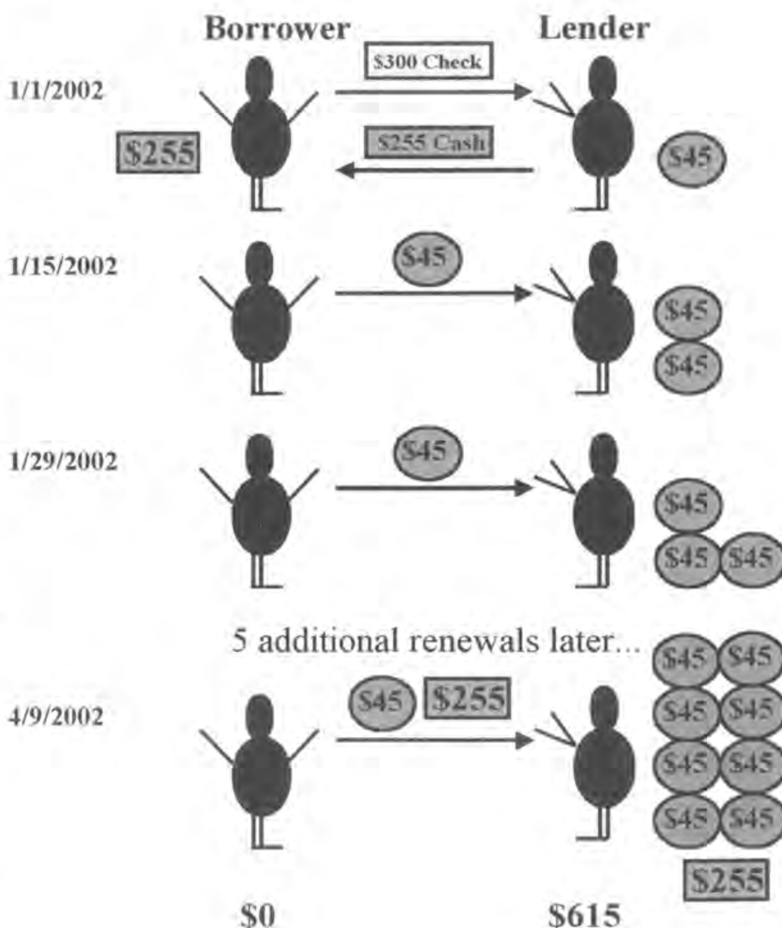
As for excesses in fees, Hauser says the market will take care of itself. "There's enough competition that the higher-priced outlets will go out of business."

PAYDAY LOANS:
THE TRAP

PAYDAY LENDING TRAPS BORROWERS IN A CYCLE OF DEBT. While payday loan rollovers were illegal under former North Carolina law, lenders use back-to-back transactions to accomplish an effective rollover at the same high cost to borrowers. Borrowers who cannot repay their entire $300 loan in two weeks pay $45 in fees every two weeks to 'renew' the loan. These high renewal fees make it less likely that the borrower will have the funds to repay the $300 loan. Borrowers continue to pay fees and *still owe the $300*. This is the debt cycle.

EXAMPLE BORROWER (SEE CHART): The average North Carolina borrower takes out eight payday loans from a single payday lender. In the example below, the borrower spends 14 weeks in the debt cycle (original loan plus seven renewals). Receiving only $255 cash, the borrower must repay $615 to close out the loan ($360 in fees plus the original $255 cash received).

FEES PAID OFTEN EXCEED THE AMOUNT OF CASH RECEIVED BY A BORROWER. When a borrower does six repeat loans they have paid more in fees than they received in cash. This cycle of debt can go on for years, with the borrower paying $45 every two weeks without receiving "new money."



continued from page 56

Savvy enough to cut his subprime loan rate, Lewis said he's well aware of the high interest rate on his payday loan. But he doesn't feel he has any other choice.

"Well, it's not great. But you can get right in here and get right out," Lewis said. "And hopefully it's just one more time that I have to do this."

For Frances Jackson, it was a harsh winter that sent her to the payday lender. Jackson, 37, the sole supporter of two children, also works at Head Start, earning about $30,000 a year. She gets some government help with her $1,300 rent payment. But a $349 electric bill sent her over the edge.

"The banks just tell you your credit is no good," Jackson said. "If I don't come here the utilities will just cut me off."

Not everyone comes to ACE for loans. Dashing in and out, a young construction worker quickly cashed his paycheck. It was quicker to come to ACE than to stand in line at the bank, he said, so the convenience outweighed the fees.

But others consider a payday lender their last resort. A private security guard, who declined to give her name because she is looking for a job, was recently laid off from a government position. Now, earning half her old salary, she goes to the payday lender to make it through the last 26 payments on the car she bought when she made more money. If only she could get a 30-day loan, she sighed, clutching a file of her resumes in her hand, she might be able to make it.

Payday lenders try hard to make their stores welcoming to customers like her. The Arlington ACE employs a smiling bilingual cashier who seems to know many of the people coming in. Stacks of Latino yellow pages and a free Latino weekly newspaper are displayed. ACE has a valued customer program, with discounts for people who cash checks frequently.

The industry is constantly trying to improve its image, said Rick Lyke, spokesman for a trade group representing fringe bankers. Members are moving away from the term "payday loans," referring instead to such services as "deferred deposits." Advances in technology also mean new fringe banking products always are in the works, he said.

Check cashers and payday lenders also continue to move even more into the mainstream by offering such services as state motor vehicle registration, Lyke said. And more businesses are diving into the market.

But consumer advocates are fighting back.

Some 17 states do not authorize payday lending, but companies operate in some by partnering with state-chartered banks. These rent-a-bank arrangements allow payday lenders to bypass state usury laws and other regulations.

Regulators in some states are challenging these arrangements and others are trying to restrict fees or outlaw rollovers. Should opponents win the battle, Caskey believes payday lenders will have to withdraw from some 30 states, a severe blow to the industry.

But nothing will put a final stop to payday lending until either Congress steps in or the detrimental consequences to consumers become more apparent to the public, said Consumer Federation's Fox. She predicts many more battles ahead.

"This is going to be a long, drawn-out fight," she said. SE

Mary Kane is a freelance business journalist in Arlington, Va. She covered finance for Newhouse News Service in Washington for 11 years.

Simple Courtesy

OVERDRAFT FEES FERTILE GROUND FOR INNOVATIONS IN PROFIT-MAKING

TAYLOR LOYAL

PHOTO OF SCHARLOTTA GARDNER BY RICK BARBERO

In 30 years, Scharlotta Gardner never bounced a check. One day she forgot to write an entry in her checkbook, and overdrew her account. It was a $35.79 mistake that cost her $75 in fees.

Like many other banks, her bank, City National in Charleston, W.Va., covers the debts of customers who bounce checks. While this spares them embarrassment and legal hassles, it also can stick them with costly "non-sufficient fund" fees.

Banks call it a courtesy. "It saves customers money," Houston-based banking consultant Bill Struck told the *Dallas Morning News*. Strunk and Associates has set up overdraft programs at nearly 600 banks. "This is a value-added service for customers. They like it."

Critics counter that "courtesy overdraft" programs are disguised loans carrying interest rates that can exceed 500 percent. These services differ from traditional bounced-check penalties because instead of being one-time hits, the fees often keep accumulating until the debt is covered.

They also differ because banks encourage customers to go in the hole; some banks now list depositors' overdraft cushions on their ATM screens. Many also offer overdraft services not only for checks, but also on ATM withdrawals and debit-card purchases.

The lesson in all this is that "courtesy" pays—for the banks, that is. They reap an estimated $5.2 billion in profits each year from bounced-check fees alone, according to a study by the Consumer Federation of America and the National Consumer Law Center.

And why shouldn't these transactions be profitable? An earlier CFA study found it costs banks about $1.50 to cover a bounced check—meaning fees of $20, $35, and even $50 represent almost pure profit for the banks.

So it's no wonder at least 1,000 banks use these overdraft programs. The number keeps growing thanks to the efforts of Strunk and other mostly Southern-based consultants who market overdrafts as a path to bank profits. Six of the nation's eight major "bounce protection" consultants are headquartered in Texas, Kentucky, and Arkansas.

Some people are fighting back. More than 50 consumer groups have asked the Federal Reserve to require more protections against overdraft fees. The groups say, for example, that banks shouldn't be able to institute these programs without getting customers' permission first.

"You ought to have the right to make that choice," Louisiana banking commissioner John Travis told the *Baton Rogue Advocate*. "Why should they have the right to set up another program without your consent?"

In Scharlotta Gardner's case, the bank says it informed her. She says she never got the letter.

The retired cook lives on an income of less than $600 a month. She got into trouble because she wrote a check for $124, but had only $88.21 in her account. City National slapped her with an initial $30 fee plus $5 a day until she could borrow from a friend to cover the debt.

She's now suing the bank. After she filed the lawsuit, City National modified its overdraft program by dropping the daily fees.

"Ms. Gardner is a real good example of how this can be abusive to people," her attorney, Bren Pomponio, says. "Especially people on fixed incomes."

Pomponio notes that banks often pay the largest checks first, increasing the likelihood that smaller checks that follow will bounce, thus producing more fees for the customer and more profits for the bank.

People with fat bank accounts have a margin for error when they make mistakes. So it's people who can least afford it, Scharlotta Gardner among them, who end up paying the most.

"She didn't write down an entry," Pomponio says. "It's a very simple thing that can happen to people." SE

Taylor Loyal is a staff writer at the Bowling Green (Ky.) Daily News.

JOURNEY FO

BORROWERS' GROUP PACKS CITI SH

MICHAEL HUDSON

PHOTO BY MICHAEL HUDSON

They said a prayer in a parking lot in Memphis and clambered into four rented vans. They drove the length of Tennessee, traveling all night, watching the sun rise over Northern Virginia's commuter lanes and pushing on up the New Jersey Turnpike. It was a grueling, almost non-stop journey, but they were determined to reach their destination: New York City and Citigroup's annual shareholders' meeting.

Eddie Smith, a laid-off truck driver from Arlington, Tenn., drove the entire 20 hours, piloting the last van in the Memphis convoy. He and his wife Trudy had been struggling to make their payments on a CitiFinancial loan secured against their double-wide manufactured home. It's not a mansion, but it has a white picket fence around its well-kept yard, and they don't want to lose it.

"I worked my tail off for years and years just to have a box to live in, and eventually they're going to take it from us," Eddie Smith said as he wheeled the van northward. That's why the Smiths were heading to New York—to try and get someone to listen to their complaints that CitiFinancial has misled and mistreated them.

And they weren't alone. Resolute vanloads of people came from Charlotte, Tampa, Columbia, S.C., Mobile, Ala., and many other places, a contingent of about 50 borrowers and 250 family members and activists from across the Northeast, Midwest, and South.

The Smiths and other borrowers never would have imagined dropping everything and traveling to New York. But they were given the opportunity by an advocacy group, the Neighborhood Assistance Corporation of America (NACA), which has spent more than 15 years making a name for itself by fighting lenders that prey on low-income, blue-collar, and minority homeowners.

This spring NACA spent $250,000 on the first phase of its campaign against Citigroup, sending out 142,000 surveys to CitiFinancial customers, fielding thousands of calls from disgruntled borrowers, and coordinating the transportation, lodging, and meals for 300 people to attend the stockholders' meeting.

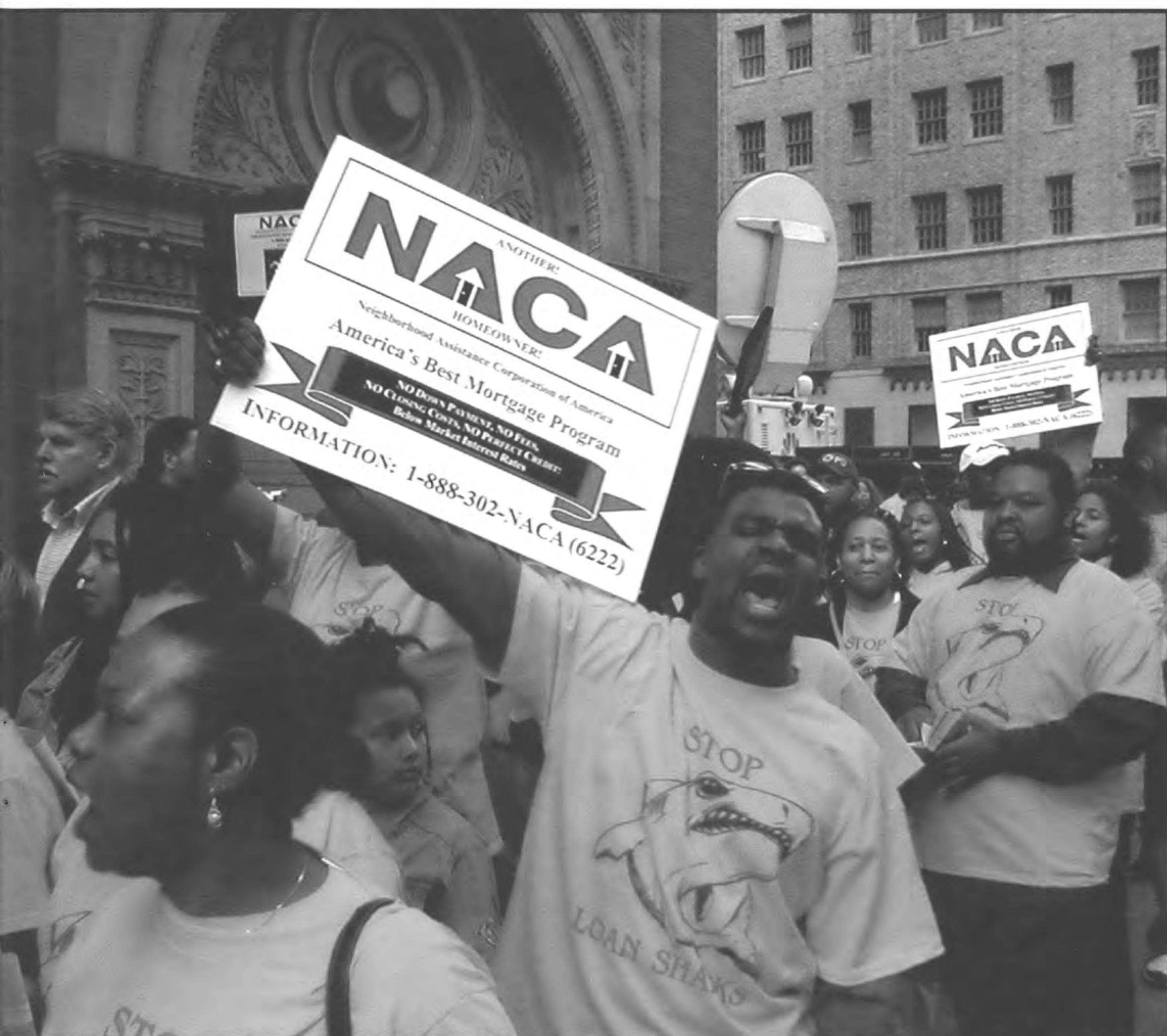
At 9 a.m. on April 15, the NACA borrowers and activists packed Carnegie Hall for the event, having gained the right of entry thanks to the 300 shares of Citigroup stock that NACA had purchased in anticipation of this moment. It was an impressive accomplishment, so impressive that even before the meeting Citigroup agreed to consider amending or rewriting the loans of all the borrowers who'd contacted NACA about their problems.

NACA chief executive Bruce Marks says the key to kicking open the door at Citigroup's highest levels was a combination of research, grass roots organizing, and tactical planning. "They don't fear individuals acting out," Marks says. "They fear people who are organized and speaking with one voice.

Determined activists and borrowers in New York to confront Citi management.

R JUSTICE

AREHOLDERS' MEETING



That's what scares the hell out of them."

Marks's organization is one of a growing number of groups—including ACORN, Fair Finance Watch, and others—that are now fighting battles against abusive "subprime" lenders.

Marks says the key to organizing the victims of predatory lending is convincing them they're not alone. "People think it just happened to them, and blame themselves," he says. When they discover they've been systematically targeted and ripped off, they're eager to link arms and fight back.

That sort of grassroots work has made NACA the scourge of bankers since the early 1990s. Marks and his Boston-headquartered group first gained national prominence by taking on Fleet Finance, an Atlanta-based company accused of defrauding low-income and elderly African-Americans.

As part of a series of settlements, the company's parent, Fleet Financial Group, agreed to funnel loan money through NACA, allowing the group to offer low-interest mortgages to consumers who otherwise might be stuck with high-cost subprime ones. The victory over Fleet gave Marks the clout to force still more loan commitments from First Union, Bank of America, and other big institutions.

In all, NACA claims $4.3 billion in commitments that have allowed it to open 30 advocacy/loan offices around the nation, half of which are in the South, with more opening soon.

How well NACA will fare in its campaign against Citigroup is unclear at this point. In recent years, the company has rewritten some borrowers' loans at the behest of activist groups, but it is yet to end unfair and exploitative practices in its subprime lending empire.

Can NACA accomplish what others haven't, not just resolving the problems of a few thousand wronged borrowers, but forcing relief for millions of customers who've been mistreated and ensuring lasting reforms that prevent more Citi borrowers from getting gouged in the future?

Peter Skillern of the Community Reinvestment Association of North Carolina worries that deals between Citi and activist groups can "stymie systematic reform" by providing the company with public relations cover without truly forcing it to change its practices.

Marks says Citigroup has made "a positive first step" and that his group's record as the nation's most relentless opponent of predatory lending makes it clear that NACA won't give up until the job is done.

Given NACA's earlier promises to "take over" Citigroup's stockholders meeting, the event itself was something of an anti-climax. Because it was in the midst of negotiations, and because it was hoping to get satisfaction for the borrowers who've come to it for help, NACA offered a subdued presentation rather than fiery protests. Marks listed concerns about CitiFinancial's practices, brought forward four borrowers to describe typical complaints, and thanked Citigroup for its promise of cooperation.

NACA didn't press Citigroup CEO Sanford Weill to answer questions about CitiFinancial's conduct. That was left to another advocacy group, Responsible Wealth, which has been pushing a stockholders resolution that would tie executive compensation to progress in ending predatory lending. In the face of Responsible Wealth's challenge, Weill flatly denied that Citi engages in predatory lending.

Borrowers who attended the meeting said afterward that they were thankful to NACA for giving them a fighting chance in what, for them, had seemed a hopeless battle. Maria Flores, who rode 17 hours from Atlanta to be there, says she's heartened to know "someone is willing to help" and do the hard work of bringing together people like herself. Still, she's skeptical about how willing Citi is to make amends.

Like other borrowers who attended the stockholders gathering, Flores met afterward with a CitiFinancial counselor. She says he showed little interest in acknowledging the abuses involved in her loan, telling her it was "not that bad" and "it will pay for itself at the end." "He asked me what I did want to happen with the loan," Flores says. "He said, 'Keep in mind that you did borrow the money.' I said, 'I never said I didn't.' To me that was kind of confrontational." Marks says there was one counselor "we didn't feel comfortable with. Those issues were addressed, and they were resolved."

Whatever happens with her case, Flores believes it will take a long battle before the people at the top of Citigroup are willing to change their company's ways. "They're trying to pacify the activists," she says. "I think they'll take their sweet time responding, until they're really forced to. They say CitiFinancial promised in 2000 to stop doing what they did to me. And here I was in 2002 with the same kind of loan." SE

BATTLING THE ODDS

Consumer Advocates Fight for a Voice in Alabama's Legislature

BILL BARROW

AMID A FLURRY OF CONTENTIOUS NEGOTIATIONS among lawmakers, payday loan industry representatives and consumer advocates, two veteran lobbyists stepped aside in a busy hallway of the Alabama State House in Montgomery.

"Just give them what they want," Joe Fine whispered to Jerry Spencer. "We'll change it in the Senate."

Fine is among the state's most powerful lobbyists. Spencer represents, among others, Express Check Services Inc.

Minutes after their conversation, the Alabama House of Representatives ended six hours of debate and voted 88-1 to pass a so-called compromise bill that would legitimize an estimated 750 payday loan shops around the state—and provide legal cover to what one activist calls "legalized loansharking."

The hallway strategy session and the ensuing vote were testaments to the power that the young but flourishing industry wields in a legislature known for its friendliness to business and resistance to consumer-protection legislation.

If business lobbyists are confident they can get most everything they want in the Senate, then consumer activists know it will be tough going for them.

There the proposal's prospects will be subject to the whims of Senate President Pro Tem Lowell Barron, a partner in at least six payday loan operations in northeast Alabama. Barron says he will abstain from voting on any payday loan bill, but Senate rules give him considerable power over the chamber's agenda and over col-

leagues eager to stay in his favor.

As the battle raged, consumer advocates faced a tough choice: whether to accept a bill that puts some oversight on unregulated lenders but allows effective annual interest rates surpassing 400 percent, or take a chance that they could get nothing at all.

One church-based advocacy group, Alabama Arise, decided to abandon efforts to lower rates and threw its support behind proposals to give borrowers the choice of long-term repayment plans (now only available at the lender's discretion).

Another activist group, Alabama Watch, is still calling for tougher regulation. It wants the lenders to be put under the state's small-loan act, which limits borrowers to annual percentage rates (APRs) of 36 percent.

But Alabama Watch's executive director, Barbara Evans, knows the odds are against her group's stance. In Alabama, lobbyists and their clients are able to wield influence without much scrutiny, because the state's campaign-finance laws allow political action committees to transfer money between accounts before giving to politicians, thus obscuring the actual source of funds. Low-income and blue-collar consumers, by contrast, don't have much of a presence in the State House, save for a couple of advocacy groups that rely on persuasion alone to influence measures that come before the legislature.

Evans says this is partly because poor people are so busy struggling to survive they don't have the time or energy to take on the people with money and clout.

"Nobody's telling their story," Evans says. "What are they going to do? Go on TV and say, 'My credit is shitty, my life is ruined and I'm glad to pay 25 bucks to borrow 100 for a week' because they're so desperate? Poor people are used to being ripped off. They go into a convenience store in a poor neighborhood and they pay higher prices. They've been taught by the power structure not to complain."

The bill passed by the House would allow a $16.50 fee for every $100 borrowed on a 14-day loan, an effective APR of 429 percent.

It does include one consumer-friendly provision pushed through by Alabama Arise: a requirement that lenders use a database to track loans, in hopes of limiting borrowers to one loan at a time.

As *Southern Exposure* went to press, some senators were pushing an even more industry-friendly bill than the House version. Consumer advocates promised to fight, but feared industry lobbyists had the votes.

Because it currently lacks regulatory authority, the Alabama Banking Department has no records on payday lenders or the amount of money they have on the street. But a glance at yellow pages and billboards in Alabama makes it clear that the industry is booming.

The industry's supporters cast payday loans as a needed service for working-class citizens deemed unworthy for loans at mainstream banks. They argue that the interest rates are part of lending to "higher risk" debtors. Regulation is needed, they add, to stop some lenders from fleecing borrowers at rates well beyond the 429 percent APR allowed in the bill.

Many lawmakers have lambasted the industry, but in the same breath say they don't want to over-regulate it.

Alabama Watch's Evans told those lawmakers that they could kill the industry quite easily, if they truly disapprove of its practices. The solution: make the businesses explicitly subject to the Alabama Small Loan Act, already part of state code.

The act limits small lenders to a 36 percent APR, or $1.50, for a $100, 14-day loan. A state circuit judge ruled in 2001 that the act did not adequately define a loan, so payday lenders—who say they provide a "service" for a "fee" rather than a "loan" with "interest"—were not specifically subject to the act. That ruling is on appeal to the business-friendly Alabama Supreme Court. The case would become moot with the passage of any payday loan regulation.

Evans found just two supporters of her position on the House floor. One of them, Rep. Alvin Holmes, an outspoken Montgomery Democrat, reminded legislators of the faith they frequently espouse in political campaigns and public discourse.

"You people vote for the Ten Commandments and talk about your faith. . . . Jesus was about nothing but helping poor people, not taking advantage of them," Holmes said angrily. "The Bible talks about Jesus throwing money changers out the temple. It's talking about these people."

For their part, Evans and her year-and-a-half-old group, Alabama Watch, aren't going to let the losses in the payday battle stop them from fighting to build a grassroots consumer movement.

"They're pounding us bad—they're really going after us," she says. "We scratch for money. But we're determined to be independent." The key is educating "regular Alabama folks" so they'll have the tools and information to fight back. "We go over there and lobby. But our big activity is taking consumers over and showing them how the political system works, so they can do it for themselves." SE

Bill Barrow is a capital bureau reporter for the Mobile (Ala.) Register.

THE SOUTHERN PEACE RESEARCH AND EDUCATION CENTER

A NEW VISION FOR THE SOUTH

More than any other region of the country, the South is most tied to, and most impacted by, the "war on terror" and U.S. military ventures abroad. The Southern Peace Research and Education Center (SPREC) is grounded in the reality that prospects for a peace agenda in this country are dim unless a bold, alternative vision takes hold in the South. The Southern Peace Research and Education Center was launched to provide this new vision.

SPREC CREATES PROGRESSIVE CHANGES BY

- **investigating the impacts of militarism** on the South and nation at large.
- **providing vital information and education** to community leaders and policy-makers.
- **assisting grassroots groups** with information, analysis and strategy.
- **countering the media blockade** of alternative voices through publications and media appearances.
- helping to **unite activists** across lines of races, class and gender to build an inclusive movement for peace.

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Cynthia Brown

Cynthia Brown: Candidate for N.C. Senate, 2002; former director, Southerners for Economic Justice. TOPICS: Impact of militarization on domestic spending and local communities, especially women.

Stan Goff: Retired Master Sergeant, U.S. Special Forces; Author, Hideous Dream: A Soldier's Memoir of Haiti. TOPICS: U.S. Military Doctrine; Race & Class; Colombia; The Energy Crisis.

Stan Goff

Robert Jensen: Associate Prof. of Journalism, University of Texas–Austin; Author, Writing Dissent. TOPICS: Following the Flag: The Failures of Journalism During War; Saying Goodbye to Patriotism.

Catherine Lutz: Prof. of Anthropology, UNC–Chapel Hill; Author, Homefront: A military City and the 20th Century. TOPICS: Social, Cultural and Economic Impact of Military Spending; Repression of Social Justice Movements; Racism, Sexism and the Military.

Rania Masri

Rania Masri: Director, Southern Peace Research and Education Center; Contributor, Iraq Under Siege and The Struggle for Palestine. TOPICS: Impact of U.S. Military Contractors & Foreign Policy on Palestinians, Iraqis and Americans; Civil Rights in Times of War.

David Potorti: Co-Director, September 11th Families for Peaceful Tomorrows; former TV producer and journalist. TOPICS: Remembering 9/11; Media Ownership and Coverage of War.

FOR MORE INFORMATION

To invite a speaker, or to learn more about the Southern Peace Research & Education Center, please contact us at **rania@southernstudies.org** or **919.419.8311 x27**.

To support the Center's work promoting alternatives to war, please make contributions to ISS/SPREC and mail to **SPREC, P.O. Box 531, Durham, NC 27702.**

"YOU CAN'T PASS IT ON IF IT BELONGS TO SOMEONE ELSE"

A South Carolina Woman Speaks Out Against the People Who Took Her Family's Home

KENNETH A. HARRIS

Near Columbia College, just on the outskirts of downtown in South Carolina's capital, sits a brick house with "flowers galore" whose azaleas are fresh in Mildred Watson's mind.

The three-bedroom house with white columns marking its entrance belonged to Watson's mother and late stepfather. Watson, 74, wanted to keep it in the family and sought to pass the home on to her children.

"But you can't pass it on if it belongs to somebody else," Watson says. "The way things went, we had to get out of there and forget it."

Watson says her mother, now in her early 90s and residing in a nursing home, lost her home through a series of refinancings that stripped the equity from the property.

The saga moved Watson to share her experiences with others so they could avoid a similar fate. She spoke up for others, who often prefer to suffer in silence.

Earlier this year, she testified before a South Carolina House subcommittee as it deliberated legislation designed to protect consumers from unfair lending practices—called predatory lending—that threaten the loss of homes and automobiles.

"Don't just go borrowing money," Watson says. "Know the ins and outs of it." Otherwise, she added, the creditors will have it. "Then, no house."

Sue Berkowitz, director of the South Carolina Appleseed Legal Justice Center, an organization that advocates for low-income residents, says too many in the Palmetto State are losing their homes to schemes that promise easy money or credit.

"It's literally siphoning wealth from the people who can least afford it," Berkowitz says. "They've worked very hard for the American Dream of having that home and suddenly it's being taken away from them."

Here, the state House of Representatives and Senate have adopted different versions of legislation to curb predatory lending. Now, a joint House-Senate panel will attempt to broker a compromise measure that will be endorsed by the General Assembly.

If lawmakers reach an agreement, Berkowitz says Watson deserves some accolades.

"I give her so much credit for having the strength to get up there and testify," Berkowitz says. "(Many people) don't want to let their friends and neighbors know what happened to them or what happened to their parents."

But Watson, a retired elementary school teacher, says she just drew on lessons learned in the classroom when she testified before lawmakers.

"If you don't talk much, you don't teach much," Watson says. "You have to keep on talking." SE

Kenneth A. Harris is a freelance journalist in Columbia, S.C.

PREDATORY LENDING AND THE LAW

INGREDIENTS OF REFORM

KEITH ERNST

Legal reforms that work must address the specific practices used by lenders to strip borrowers' equity and avoid the loopholes that have plagued Federal efforts. North Carolina passed the nation's first anti-predatory lending law in 1999, but other states, such as New Mexico and New Jersey, have recently enacted laws expected to deliver even more protection.

Each of these states has one thing in common—they rely on substantive protections rather than increased disclosure requirements. In the blizzard of paperwork that has become common at loan closings, disclosures become just another "sign here" moment. Successful reforms should accomplish the following objectives:

APPLY TO FULL RANGE OF HOME LOANS. Many industry proposals have excluded certain types of loans (such as increasingly popular home equity lines of credit), loans made by certain groups of lenders (such as mortgage brokers and their partners), and even loans used to purchase homes (as opposed to refinances).

SCRUTINIZE ALL THE FEES PAID BY BORROWERS. Any law that creates a loophole for fees will surely miss the mark. Most laws have points and fees "triggers" that activate protections, but if the definitions are unclear, a loophole results. Among the fees most likely to be omitted are the two biggest loopholes in federal law—prepayment penalties and indirect mortgage broker compensation, where the lender pays the broker up-front and subsequently charges the borrower a higher interest rate over the life of the loan.

PROVIDE MEANINGFUL PROTECTION AGAINST FLIPPING. Flipping describes situations where lenders make a loan to generate fee income without providing the borrower with a tangible net benefit. The abuse often takes place just below designated levels of points and fees or interest that would trigger additional protections. For example, a lender who did not want to comply with consumer protections required on a loan with fees above five percent might simply make two loans at 5 percent in fees—stripping 10 percent in equity.

TARGET MOST PROTECTIONS TO HIGH-COST HOME LOANS. In some instances, practices that are appropriate in the competitive prime market are abusive in higher-cost loans. For example, some sophisticated borrowers elect to use negative amortization (where a loan balance actually increases over time) to limit their payments. However, this same technique is used by abusive lenders to hide the true cost of high-cost home loans. Successful legislation should require applicants for high-cost loans to receive counseling on the advisability of the transaction before putting their homes at risk.

PROVIDE STRONG INCENTIVES FOR COMPLIANCE. To prove effective, a successful reform will give lenders a reason to comply with the law. Part of that solution must include provisions for court awards to deter predatory lenders. Without such strong incentives for compliance driven by individual homeowners, reforms prove little more than speed bumps.

ENABLE BORROWERS TO DEFEND THEIR HOMES AND HOME EQUITY AGAINST ILLEGAL LOANS. Borrowers must have an effective tool for defending their home against illegal loans that have been resold on the open market, as is the case for the clear majority of home loans. Without special provisions addressing this issue, sometimes called "assignee liability," borrowers whose loans have been sold will be unable to defend against foreclosure even when the foreclosing company has been collecting on an illegal loan for years. The failure of legislation to provide such a mechanism would create a powerful incentive for illegal loans to be sold on the open market and, in effect, laundered—leaving only the borrower and his community to bear the weight of the loan and subsequent risk of foreclosure. SE

Keith Ernst is an attorney for the Center for Responsible Lending, and a member of the editorial board of Southern Exposure.

SEVEN SIGNS OF PREDA

WHAT TO L

BORROWERS should remember that they are not obligated to sign a loan just because they are at closing. If the terms of a loan look different at closing than expected or if the borrower has second thoughts, seeking legal or financial counseling is a far better bet than getting locked into a loan that can turn the American dream into a nightmare. For more information, borrowers should look at www.dontborrowtrouble.com. According to the Center for Responsible Lending, these are warning signs of predatory lending borrowers should look for:

CREDIT INSURANCE IS USUALLY A LOUSY DEAL.

1 Buying life, disability, unemployment, or property insurance with your loan is almost always a bad idea. Credit insurance is overpriced and hard to collect on. When the cost of the insurance is rolled into the loan, the lender makes even more money by charging high interest on the premiums. Some subprime mortgage lenders have begun charging a monthly fee for insurance rather than rolling it into the debt and charging interest. But even that is expensive and abusive, sometime costing the borrower hundreds of dollars each year. If you feel you need protection, an independent insurance agent can usually sell you insurance that is not only cheaper but provides much higher coverage in the case of death or other misfortune.

EXCESSIVE FEES CAN ADD THOUSANDS TO THE COST OF YOUR LOAN.

2 Traditional banks, credit unions, savings and loans, and thrifts have seen increased competition to offer the lowest fees. However, predatory lenders see fees as the best way to make quick money. In one infamous example, a lender faced a class-action lawsuit for charging borrowers 25 percent of a home loan amount in fees while portraying the loans as "no-cost" since they were all financed and the borrower did not have to pay out any cash at closing. Borrowers should insist on receiving a "good faith estimate" at the time of application, and on their right to review documents the day before closing to scrutinize fees. If fees paid to a lender and/or mortgage broker total more than three to five percent of the total loan amount, borrowers should consider putting off closing and looking for another loan.

WATCH OUT FOR ABUSIVE PREPAYMENT PENALTIES.

3 One fee that is often overlooked by borrowers is called a prepayment penalty. Rare in the prime market (less than 2 percent of prime loans contain them), prepayment penalties are contained in 80 percent of the loans in the subprime market. These hidden, confusing fees trap borrowers in high-rate loans, which can lead to foreclosures. A common example of an abusive prepayment penalty is six months' interest on prepayments made in the first five years of a loan. So, for example, a $100,000 loan at an interest rate of 10 percent could have a prepayment penalty of as much as $5,000.

MANDATORY ARBITRATION TAKES AWAY YOUR RIGHT TO A DAY IN COURT.

4 Mandatory binding arbitration clauses insulate unfair and deceptive practices from effective review and relegate consumers to a forum where they may not obtain injunctive relief against wrongful practices, proceed on behalf of a class, or obtain punitive damages.

MORTGAGE BROKER KICKBACKS ADD TO THE HIDDEN COST OF THE LOAN.

5 Brokers are paid in several ways—including out-of-pocket payments from a borrower, financed payments from a borrower, and indirectly by a lender for the borrower. In the latter, the lender pays the broker a kickback for placing a borrower in a loan with an interest rate higher than that for

TORY LENDING

OOK FOR IN A LOAN

which the borrower qualifies. These payments show up on a closing statement as yield spread premiums, service release premiums, or as "paid outside of closing" (sometime abbreviated at YSP, SRP, or POC). While borrowers are often told not to worry since the payment is from the lender, the truth is that the only one paying money in a transaction is the borrower. Borrowers should look to see if they think *all* compensation paid to a mortgage broker is fair—not just payments from their pocket.

SUBPRIME LENDERS WANT TO STEER YOU INTO HIGH-COST LOANS, EVEN IF YOU HAVE GOOD CREDIT.

6 While lenders often send borrowers with less than perfect credit to their subprime affiliates, too few refer borrowers up for a better loan. In fact, some lenders "steer" borrowers into higher-cost loans. Studies by the U.S. Department of Housing and Urban Development have suggested that steering has a racial impact since borrowers in African-American neighborhoods are five times more likely than whites to get a subprime loan. To protect themselves from this abuse, borrowers can shop around and consult with housing counselors certified by state agencies before entering a loan.

LOAN FLIPPING CAN MAKE YOUR DEBT SPIRAL OUT OF CONTROL.

7 "Flipping" is the practice of refinancing subprime loans over and over, taking out home equity in the form of high fees each time, without providing the borrower with a net tangible benefit. Borrowers are often baited for a flip when they are given a loan with unwanted terms (such as a variable rate) and then encouraged to refinance. On each loan, the lender strips out equity through fees. SE

THE MOST IMPORTANT FINANCIAL ADVICE YOU'LL EVER GET:

DON'T SIGN ANY DOCUMENT YOU DON'T UNDERSTAND.

Read everything you sign. If you have trouble reading or understanding financial documents, bring along someone you trust who does. Just because a loan officer is friendly doesn't mean he or she is on your side. Check and question everything: the interest rate, the closing fees, the insurance, whether it's a mortgage on your home or not. And if your loan officer tries to rush you through signing, that's a clear indication that someone's trying to pull the wool over your eyes. Loan officers often try to flip and fold loan documents so you can't see everything before you sign. If something like that happens, walk away. The only thing worse than being in financial trouble is signing for a predatory loan that traps you in even deeper trouble.

■ ■ ■

WHAT LOAN OFFICERS SAY—AND WHAT THEY REALLY MEAN

- **What they say:** "Oh this is just 'payment protection.' Just in case something happens, you're covered. It's a small price for peace of mind."
- **What they mean:** "We're selling you overpriced credit insurance. And if something happens, we collect the money instead of your family."

- **What they say:** "This is what we talked about over the phone. We don't need to get into a lot of detail. So sign here, here, and here."
- **What they mean:** "We don't want you to read your loan documents. If we rush your through, you won't see all the nasty surprises we've hidden in the contract."

- **What they say:** "Our computers are down. Just sign these documents and we'll fill in the details later."
- **What they mean:** "We're about to take you for a ride."

- **What they say:** "We just need to 'renew' your loan, so we can help you catch up on your payments and help you make a fresh start."
- **What they mean:** "Now that you've fallen behind, we're going to force you to refinance, and sock you with new fees and make your debt higher than ever."

—Michael Hudson

RESOURCES F AGAINST PRED

COMMUNITY-BASED ORGANIZATIONS THAT WANT TO TAKE ON PREDATORY LENDERS ARE NOT ALONE. A GROWING NUMBER OF NATIONAL ORGANIZATIONS HAVE DEVELOPED RESOURCES AND ARE READY TO WORK FOR CHANGE.

ACORN members and victims of Household International loans protest the Household shareholders' meeting in rural Kentucky on May 14, 2002. Photo courtesy of ACORN.

American Association of Retired Persons (AARP)
www.aarp.org/consumerprotect

Since elderly borrowers are often targeted by predatory lenders, the AARP has resources dedicated to researching the issue and advocating for change. In addition, state level coordinators often are key to successful state reforms, presenting some interesting coalition-building opportunities. Online, AARP offers particularly strong materials for community education or individual learning.

Association of Community Organizations for Reform Now (ACORN)
www.acorn.org

ACORN, perhaps the nation's largest community-based organizing effort, has made predatory lending one of its main focuses in recent years. Just how involved a local chapter becomes in predatory lending depends on local priorities. Resources available on its website include a spotlight on abusive lenders.

Center for Community Change
www.communitychange.org

A national technical assistance provider on community development, the Center has released a report thoroughly documenting the extent to which subprime lending, where most predatory lending is concentrated, is targeted at African-American and other communities of color.

OR THE FIGHT
ATORY LENDING

Center for Responsible Lending
www.responsiblelending.org

The Center for Responsible Lending's staff provides responsive technical assistance to policymakers and community leaders seeking solutions to abusive financial lending practices, including predatory home lending, payday lending, and more. In addition, its website includes news stories, groundbreaking studies on predatory lending, and resources for creating policy change.

Consumer Federation of America
www.consumerfed.org

With factsheets, studies, and testimony on predatory home lending, payday lending, credit card abuses, and bankruptcy-related issues, CFA's website is a great place to plug into many issues.

Consumers Union
www.consumersunion.org

The Consumer Reports people have become a frequent commentator on predatory lending related issues. They also have released studies showing how predatory lending affects women and the elderly.

Fair Finance Watch/Inner City Press
www.innercitypress.com

This organization's wide-ranging and assiduously updated Web site is a must-read for developments relating to redlining and predatory lending.

National Community Reinvestment Coalition
www.ncrc.org

A long-time leader on community reinvestment strategies, NCRC has taken a leadership role on predatory lending. Perhaps more importantly for local contacts, though, is the responsive research assistance they make available to members. Contact NCRC for a list of members in your area.

National Consumer Law Center
www.consumerlaw.org/publications/guides/index.shtml

The National Consumer Law Center is home to some of the nation's top experts on predatory lending. The Center provides technical assistance to attorneys, and has also published *Stop Predatory Lending: A Guide for Legal Advocates*. In addition, NCLC regularly hosts conferences where national experts gather to discuss the latest research and legal developments.

National Training and Information Center (NTIC)
www.ntic-us.org/index.htm

NTIC is a Chicago-based non-profit that serves as a resource center providing training and research on issues of concern to grassroots or neighborhood groups. Members of NTIC have been involved in local organizing efforts to stop abusive practices by specific lenders as well as enact state legislation or regulations. NTIC has also partnered at the national level to raise awareness of the issue and explore tools for refinancing borrowers out of predatory loans.

Neighborhood Assistance Corporation of America (NACA)
www.naca.com

NACA is a longstanding combatant in the wars over subprime lending. It has extracted $4.3 billion in commitments from financial institutions, allowing it to offer lower-cost mortgages to homeowners who might otherwise be victimized by predatory loans.

U.S. Public Interest Research Group (U.S. PIRG)
www.uspirg.org

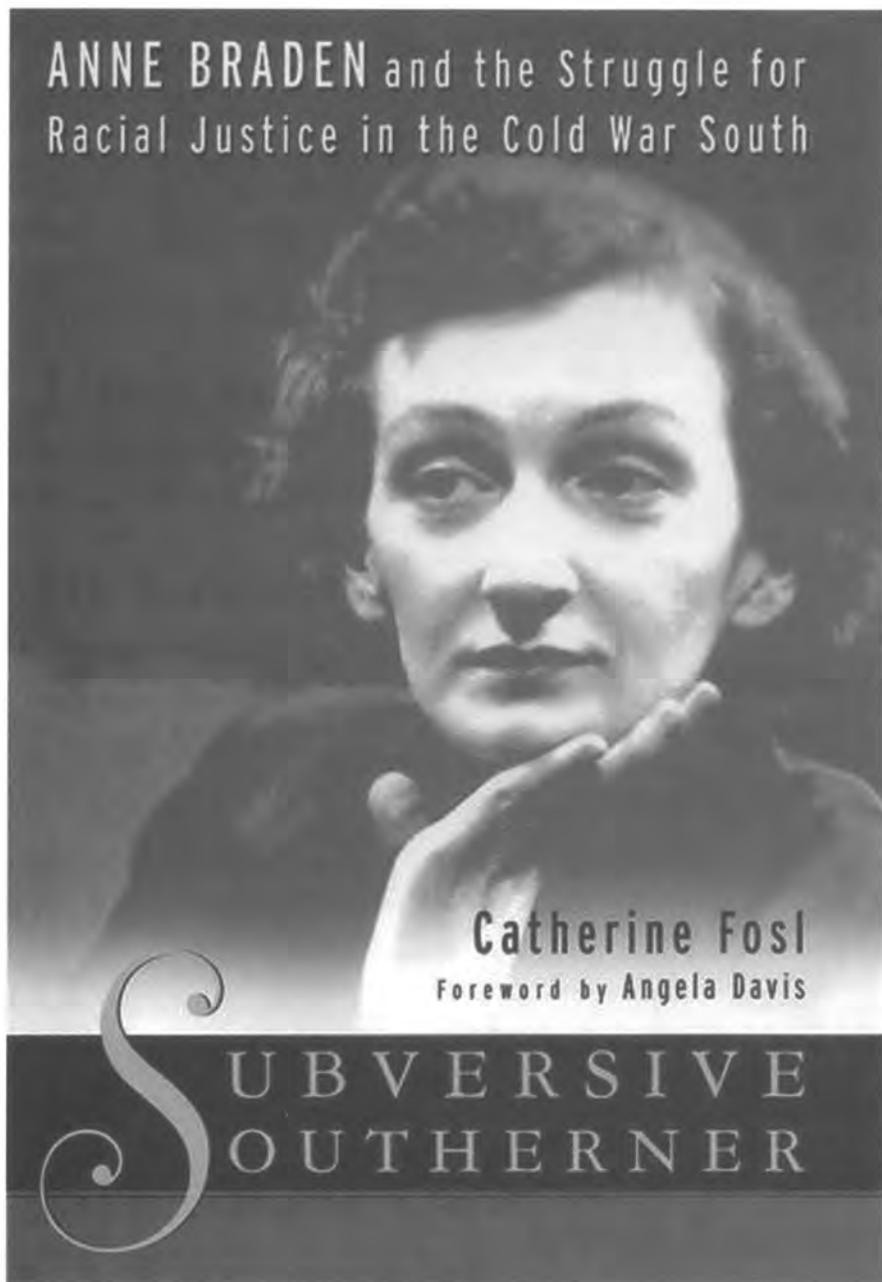
Recent reports on payday lending make clear that U.S. PIRG is ratcheting up its long-standing interest in addressing predatory lending.

Woodstock Institute
www.woodstockinst.org/predatorylending.html

This research-focused organization's website is a great place to look for new research related to predatory lending. SE

SUBVERSIVE SOUTHERNER

Review by William P. Jones



Subversive Southerner: Anne Braden and the Struggle for Racial Justice in the Cold War South

By Catherine Fosl
Illustrated, 418pp.
Palgrave Macmillan, $35 (cloth)

In March, 1954, Andrew and Charlotte Wade wanted to move to the suburbs of Louisville, Ky. Like millions of Americans of their generation, they had their eyes on a ranch-style home with a yard and shelter from urban commotion. The Wades, however, were black, and their search ran up against a wall of restrictive covenants, "redlining," and other schemes through which white homeowners, realtors, and government officials ensured that suburbanization remained a whites-only phenomenon. Andrew had attempted to purchase four houses over the past month. His light complexion allowed him to slip through the front line of segregation each time, but real estate agents always nixed the deal as soon as they discovered his racial background.

Their white friends mostly refused to help, out of fear for their reputations. Finally, he approached Anne and Carl Braden, a pair of white journalists with close ties to

Louisville's small left-wing labor movement. He knew the couple was critical of segregation, so he asked them to support one final attempt to integrate Louisville's "crabgrass frontier." His plan was for the Bradens to buy the house and sell it immediately to the Wades.

The Bradens agreed and they closed the deal on May 10, exactly one week before the U.S. Supreme Court ruled in *Brown v. Board of Education* that school segregation violated the Constitution. Providing a preview of the violence with which many white Southerners would respond to *Brown*, neighbors reacted hysterically upon discovering who was actually moving into the house. During the Wades' first night in their new home, someone threw a rock through the front window with a note demanding, "Nigger get out." Neighbors later burned a cross on an adjacent lot.

After a shotgun shattered more windows in the house, friends organized an armed Wade Defense Committee. The Bradens were also threatened, and Andrew Wade convinced Anne Braden to keep a pistol. A few weeks later dynamite ripped a hole in the side of the Wades' home. Charlotte and their daughter Rosemary moved back to the city for safety, but Andrew refused to give in. Finally, on July 22, he left in a police car, arrested for refusing to cooperate with officers who claimed to be protecting him from violence.

PASSAGE FROM "SECOND OPEN LETTER"

ANNE BRADEN

We must try to shape all struggles in a way that does not feed the fires of racism.

A first step might be for white women to fight as hard for victims of the racist use of the rape charge as they fight against rape. Black women and white women supported Joan Little when she defended herself against rape in a North Carolina jail. But many white women were not there when it came time to defend Delbert Tibbs on death row in Florida, although there is no evidence that he was within 150 miles of his alleged crime.

We live in a society that is fast decaying. As it moves into deeper collapse, those who own and run our country will search for sections of the population that will support police state measures in the interest of "order" and an elusive security. That's why it frightens me when I hear women calling for "law and order" solutions to rape. White women were used 100 years ago by the few who managed to fasten a kind of fascism on the South. I don't want to see us used again.

—Anne Braden, from "A Second Open Letter to Southern White Women," *Southern Exposure*, Winter 1977.

According to Anne Braden, one of the bitter ironies of this story is that Andrew and Charlotte Wade have all but disappeared from historical memory. Local officials refused to believe that black people had initiated such a scheme, and attributed the entire incident to a "communist plot" planned and directed by the Bradens and a few white supporters. They charged white Wade Defense Committee member Vernon Bown with the bombing, and accused the Bradens and four other whites of "sedition." Carl was eventually sentenced to fifteen years in prison.

The nature of the backlash convinced Anne that anti-communism posed a deadly threat to civil rights activism across the South, and she organized an international campaign that eventually succeeded in overturning Kentucky's sedition laws. Despite that victory, she lamented that in fighting anti-communism she had been unable to defeat the racism that lay behind the entire incident. She wrote in a 1999 epilogue to her 1958 memoir of the Wade case, *The Wall Between:*

> It is distressing to me, even now, to realize that, it was apparently of more consequence that a white man had been unjustly sentenced to fifteen years in prison than that an African American family had been denied a house to live in. We tried to resist this by always talking first and last about the house and the issue of segregation. I have wondered in recent years if there was something more we could have done to stop this gradual but decisive change in emphasis. I do not know.

It is her effort to reverse that "change in emphasis" that makes Anne Braden so important. She and Carl were hired by the Southern Conference Educational Fund (SCEF) in 1957, and given the task of generating white support for the emerging civil rights movement. SCEF descended from the liberal Southern conference movement of the 1930s, but the Bradens broke from the paternalism that dominated white liberalism and transformed SCEF into an ally of black-led organizations. In *The Origins of the Civil Rights Movement*, Aldon Morris described SCEF as a "movement halfway house" that provided funds and publicity at critical moments in the emergence of the Southern Christian Leadership Conference (SCLC) and later the Student Nonviolent Coordinating Committee (SNCC). Reflecting on SCEF's contribution to the Birmingham movement, SCLC leader Rev. Fred Shuttlesworth told Morris:

> Well, it helped us in the first place by white folks identifying with black folks. . . The other way, which I think historians have overlooked, if it had not been for Carl and Anne Braden, I'm sure I would have been dead already. We couldn't get the news out many times.

Catherine Fosl's *Subversive Southerner* provides a rich and insightful view into the sources of Anne Braden's commitment to the civil rights movement. A native white Southerner and an experienced journalist, Braden was in a unique position to publicize the brutality faced by black Southerners and—perhaps more importantly—the victories they started to win in the late 1950s and early 1960s.

While Carl focused on fieldwork, Anne published the Fund's monthly newsletter, *Southern Patriot*. Fosl doesn't specify how many people read the newsletter, but says that Braden tripled its circulation between 1957 and 1960. Her intention was not simply to spread news of civil rights activism, but also to lend confidence and self-awareness to the activists who remained her core audience. "Somebody's struggle is more real if they see it in print," she told Fosl, explaining that she paid particular attention to those few whites who backed the movement.

Braden's profiles of activists like Shuttlesworth and Montgomery's E.D. Nixon introduced now-legendary figures to a national audience. Few white newspapers covered these early years of the movement, and black newspapers often relied upon Anne's coverage. By the early 1960s, Fosl observes, the *Patriot* had become "possibly the only media outlet in the region that was analytical yet supportive, reflecting the perspectives of activists themselves."

Her role as an ally put Braden in a position to convince black activists of the need to confront anti-communism. Experienced movement leaders such as Shuttlesworth, Nixon, and Ella Baker were familiar with the insincerity of anti-communism, but younger activists often accepted the argument that white allies were only attempting to capture the black movement. Fosl describes how Martin Luther King

rejected such views as he observed Braden's commitment to racial justice:

> King later told his wife that he could not believe such a white woman existed, a response echoed by many African American leaders with whom Anne established close ties during this period. Anne's friendship with Martin and Coretta King solidified during the next few years as they became more convinced of her commitment and more critical of the sustained assaults on her intentions as "communistic."

King's trust in Braden proved critical to the emergence of an interracial civil rights movement in the early 1960s. In 1961, King co-sponsored a petition denouncing Carl's imprisonment.

SCEF also played an important roll in the emergence of SNCC. Anne's crusade against anti-communism established her as a hero among northern white college students, a status that allowed her to begin directing the New Left's "emphasis" from civil liberties to the struggle against racism. By 1967, when the Bradens and four young white activists were charged with sedition in Kentucky, an anti-communist prosecutor was laughed out of court and a federal hearing declared the state's sedition laws unconstitutional. Fosl claims this marked the "end of an era."

The decline of militant anti-communism is an important part of this story, but it is unfortunate that Fosl allows it to define her subject's life. As Braden has stated repeatedly, the goal she set for herself in 1957 was not to neutralize anti-communism but to create a just and egalitarian society, and she has continued to work toward that goal for nearly half a century.

Following eight chapters devoted to the 1950s and 1960s, a single chapter subtitled "The Struggle Continues" skims over the dissolution of SCEF and Braden's leadership in the National Alliance Against Racist and Political Repression, the National Anti-Klan Network, and the Southern Organizing Committee for Economic and Social Justice. In her haste, Fosl leaves readers with the impression that these were retirement projects, designed to keep her busy after slaying the McCarthyite dragon.

In addition to overlooking important parts of Braden's life, Fosl also concedes to the "change in emphasis" that Braden devoted her life to undoing. In an otherwise positive review of the biography in the *New York Times Book Review*, Diane McWhorter writes that Fosl's "main failing" is her refusal to "discuss the substance of the Bradens' relationship with the Communist Party." It is true that Fosl avoids this subject; for instance, she spends two pages discussing the possibility that Anne had a lesbian relationship in college, but fails to explore left-wing influences that clearly shaped Braden's life and politics. Braden herself has written of such influences in more depth than her biographer, as in a discussion of her respect for Vernon Bown's service in the Communist-led Abraham Lincoln Brigade and her dilemma about whether or not to address that history in the first edition of *The Wall Between*. It is certainly odd that a book subtitled *The Struggle for Racial Justice in the Cold War South* does not explore that dilemma further.

Fosl might have defused this critique by expanding her discussion beyond the Cold War. A highlight of *Subversive Southerner* is Fosl's analysis of Braden's relationship to two distinct generations of feminists. In failing to extend that analysis into the 1970s, however, she implies that Braden's anti-racism marginalized her within "second wave" feminism. Still, to her credit, Fosl points out that Braden's writing from the 1970s "echoed the calls of radical women of color to the women's liberation movement to embrace a more multicultural feminism that was not . . . 'at odds with the black liberation struggle'." We learn very little, however, about the political experiences through which Braden may have developed such an analysis. For example, both Anne and Carl Braden served as vice-chairs of the National Alliance Against Racist and Political Repression, an organization that struggled to unite radical feminists and anti-racists around the defenses of Angela Davis and Joan Little in the mid-1970s.

In addition to complicating Braden's relationship to the Communist Party (Davis and other black women who led the *were* members), her leadership in the organization provides a window into an early history of anti-racist feminism that scholars have only begun to explore. Rather than take that opportunity, Fosl diminishes Anne's significance by claiming that Carl became a national co-chair of the Alliance while Anne restricted her efforts to the Kentucky branch.

Braden's contribution to anti-racist feminism is documented in her "Second Open Letter to Southern White

Women," which *Southern Exposure* published in 1977 (see sidebar). Written in response to Susan Brownmiller's *Against Our Will*, the essay criticized white feminists who sought to confront sexism without acknowledging their own complicity with white supremacy. Using language that many associate with "third wave" feminism of the 1990s, Braden called upon white women to examine the "interrelationships" between sexism and other forms of oppression. "I believe that all issues are 'women's issues,' including war and peace, economic, and racism." she wrote. That Fosl did not explore the sources and impact of such analysis seems far more significant than her failure to identify Braden's exact relationship to the Communist Party.

What Fosl does accomplish is to introduce readers to a woman that was perhaps the most important white participant in the Southern civil rights movement. A wonderful addition to the book is a final interview, in which Fosl allows Braden to voice her own reaction to the biography. In it, Braden expresses dismay at Fosl's inattention to her ideology, which she claims was "informed by Marxism" but ever mindful of the human ability to transcend immediate material interests. "To me," she says,

> changing sides in the class struggle—deciding to be on the side of oppressed people instead of the oppressors—was the key to all the changes in my life. If I had not done that, I don't think I could have changed sides in the racial struggle. I would have just been a white liberal.

As Angela Davis writes in her foreword to Fosl's biography, Braden's ability to change sides makes her a useful role model for both black and white activists seeking to counter repression of Arab Americans following September 11. As former SNCC leader Julian Bond wrote in his foreword to Braden's *Wall Between*, "What's missing now isn't Wades who want a home, but Bradens who will help them fight for one. . . . We need to know Anne Braden's story, perhaps even more [today] than when she wrote it in 1957." SE

William P. Jones is an assistant professor of history at the University of Wisconsin–Milwaukee, and a former book review editor of Southern Exposure.

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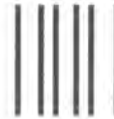

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