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WEDNESDAY, SEPTEMBER 12, 2007

TOP STORY >>Payday borrowers will get break from lenders

By JOHN HOFHEIMER

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Some local banks have shown interest in making short-term, lower-interest payday alternative loans (PAL) similar to those to be available by month's end to members of the military and their families, according to Arkansans Against Abusive Payday Lending.

These loans would be in competition with the short-term, high-interest loans made to so-called sub-prime lenders, typically \$300 for two weeks, with about \$50 additional owed in interest.

The PAL loans that some banks may soon be making will provide affordable installment loans of as much as \$500 with a unique savings component equal to 100 percent of

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the loan amount, according to Lyn Haralson, community affairs specialist for the Federal Reserve Bank of St. Louis, Little Rock branch.

Haralson is chairman of the AAAPL alternatives committee. "There is clearly a significant demand for affordable small-dollar loans," she said.

"The stories of borrowers paying 10 times the original amount borrowed before they are able to satisfy the debt is of grave concern," she added.

She said AAAPL and its founder, Hank Klein, have held workshops for interested banks, but that she doesn't yet know of any banks that have started PALs.

Arkansas Federal Credit Union will begin offering military appreciation loans at 18 percent annual interest by Oct. 1, according to Terry Vick, vice president of lending for the credit union.



A new federal law takes effect by then, limiting to 36 percent the interest rate that members of the military can be charged on a loan.

The loan is intended to help the troops get out of payday difficulties, Vick says.

Vick said the credit union would lend as much as \$750 to members of the military plus put an additional \$375 into a savings account, funded by the interest payments.

The money in the savings account is placed on hold until

the entire loan is paid off over the course of a single year. Haralson said the bank loans would be capped at 17 percent.

“These are bank customers, they already have accounts,” said Haralson. “Banks are trying to figure out how to meet those needs without going outside regulated institutions. We’re looking to create opportunities where a person banks right now.”

She said PAL loans are a good alternative not only to payday loans, which charge hundreds of percent interest, but also for those who need short-term loans to get out of so-called “courtesy pay”, also known as overdraft protection. Overdraft protection can be more expensive than even a payday loan in some circumstances.

Meanwhile, the Government Accounting Office has found fault with assumptions upon which Congress bases its new military lending law, limiting interest to 36 percent, according to a press release from the Community Financial Services Association of America—the payday lending industry’s trade group.

“Our suspicion that the (Department of Defense) worked closely with payday lending critics and relied on limited information and flawed methodology to come up with their recommendations has been confirmed,” said Darrin Andersen, president of the association.

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