



# Arkansans Against Abusive Payday Lending

[www.StopPaydayPredators.org](http://www.StopPaydayPredators.org)

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## Payday Alternative Loan (PAL) Program

Families who need affordable, small-dollar loans now have a better alternative to high priced payday lenders, thanks to an innovative program developed by Arkansans Against Abusive Payday Lending (AAAPL), a coalition of 36 consumer, military, and faith based organizations in Arkansas.

The Payday Alternative Loan (PAL) provides an affordable installment loan of up to \$500 with a unique savings component equal to 100 percent of the loan amount. Unlike traditional payday loans, a PAL has a reasonable interest rate, no hidden fees, and has safeguards to prevent borrowers from getting caught in a vicious debt trap. A payday lender's typical customer is someone who can least afford to pay the high fees associated with these revolving short-term loans, such as working mothers, military families, the elderly, and people living paycheck to paycheck.

"Payday lenders prey on desperate families and cost those who are already struggling to make ends meet billions of dollars per year in fees," said H. C. "Hank" Klein, founder and President of AAAPL. "Our Payday Alternative Loan program or what we call 'PAL' gives working people a real alternative to borrowing against their next paycheck - with lower costs, extended installment payments, a savings boost, and financial counseling for those who want additional help. The Payday Alternative Loan (PAL) helps families make ends meet without devastating their budgets."

PALs differ from payday loans in a number of important ways:

- A PAL must be paid in full before a borrower can take out another loan. This prevents a borrower from getting caught in a never-ending cycle of "rolling over," or renewing a loan on its due date and paying exorbitant fees for the privilege.
  - A PAL borrower will be loaned an additional amount of 100 percent of their loan that will be deposited in an interest-bearing savings account in the borrower's name.
  - Financial counseling will be offered to PAL borrowers if they want to improve their financial literacy and help them make smart long-term financial decisions. However, financial counseling is not a requirement to obtain the loan.
  - A PAL has no application fee regardless of the size of the loan. Payday lenders commonly charge as much as \$15 per \$100 borrowed (\$45 for a \$300, 14-day loan).
  - The interest rate charged on PALs will not exceed 17 percent a year. The typical payday loan is rolled over several times before the borrower can pay the debt creating a debt trap with an effective annual interest rate usually higher than 400 percent a year.
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- No credit check is required for a PAL; however TeleTrack, the same database used by payday lenders, will be used.
- No collateral is required. A PAL borrower does not have to provide a post-dated check as security for the loan's eventual repayment.
- The 6 to 12 month repayment term is much more liberal than traditional payday loans, which require payment in full by the next paycheck.
- Small loan payments can be made each payday in weekly, bi-weekly, semi-monthly, or monthly installments. Payday lenders will not allow borrowers to make installment or partial payments.
- AAAPL suggests that financial institutions provide the PAL to their customers who have a checking account with direct deposit.

"There is clearly a significant demand for Affordable Small-Dollar Loans," said Lyn Haralson, Community Affairs Specialist for the Federal Reserve Bank of St. Louis, Little Rock Branch.

Haralson serves as Chairwoman of AAAPL's Alternatives Committee, which developed separate PAL products for banks and credit unions. "The annual dollar volume of loans made by payday lenders is staggering. Despite their best intentions, payday loan borrowers usually are unable to satisfy their obligation on their next payday. The stories of borrowers paying 10 times the original amount borrowed before they are able to satisfy the debt is of grave concern. These individuals need assistance that ultimately provides them the opportunity to help themselves through asset building not a product that strips away what little assets they have been able to acquire.

We believe the PAL is a positive solution" Haralson said. "The savings component of the PAL is particularly attractive. When PALs are repaid in full, the borrower will have their savings available to them. They can either withdraw those funds when they have a future emergency need or they could use the savings as collateral for a future loan. By leveraging their savings they have the opportunity to obtain an even lower interest rate on future loans." Banks and credit unions usually make loans against savings at an interest rate of 3% per year above the rate paid to the consumer on their savings account.

It is sad to think that someone with a \$300 payday loan who is unable to pay it for numerous months would pay the equivalent of the down payment on a modest home before retiring the debt. That is why the savings component is built into the PAL, to start the asset building process." Haralson said.

The Federal Deposit Insurance Corporation (FDIC) has issued Final Guidelines and will now offer Community Reinvestment Act (CRA) credit for banks that choose to offer low income consumers Affordable Small-Dollar Loans, such as the Payday Alternative Loan (PAL).

If your bank or credit union is interested in helping Arkansas consumers beat the debt trap of traditional payday lending, we will be happy to help.

For more information on the Payday Alternative Loan (PAL) product contact:

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