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Federal Reserve Rep to Tout Curbing Payday Loan Excesses

ANDY MEEK | *The Daily News*

EMAIL ANDY MEEK

Lyn Haralson has an answer for consumer advocates, community leaders and anyone else befuddled by what to do about the proliferation of payday lenders and other fringe financial institutions.

Offer debtors a cheaper alternative, one that they can rely on instead of payday loan operations when their financial lifeline snaps.

Haralson, a community affairs specialist at the Little Rock Branch of the Federal Reserve Bank o St. Louis, will trumpet that idea in Memphis Thursday at a forum sponsored by the MemphisDEBT Collaborative. It's an idea she's pursued through her work with the group Arkansans Against Abusive Payday Lending.

Pocket change

A few years ago, Haralson's group came up with a series of consumer loan products, one of the major benefits of which was they lacked the high interest rates payday loans normally carry. In addition to presenting debtors with affordable access to credit, the new loan programs also force borrowers to develop a savings habit.

Haralson, who works with the anti-payday lending group in Arkansas through its alternatives an education committee, said credit unions around the country are currently using the group's loan model. The way it works is a debtor takes out a loan with a low interest rate but eventually pays back slightly more than the original amount borrowed.

The excess is used to start a savings account.

"So this model is essentially geared toward two things: giving you a small-dollar loan and, at the end of it, when it's paid off, you have a savings account," Haralson said.

She'll go into more detail at this week's forum, titled "Alternatives to Fringe Lending," which will be held at the Urban Child Institute at 600 Jefferson Ave. Representatives from financial institutions and credit unions are encouraged to attend the event, which will be from 10:30 a.m. 1 p.m.

Robbing Peter to pay Paul

Bit by bit, Haralson said her group's efforts are bearing fruit. In Arkansas, payday lending and check advance businesses - which dole out small loans that usually carry exorbitant interest rates and other fees - once outnumbered McDonald's restaurants in the state, she said.

But ever since her group came on the scene and ratcheted up its advocacy efforts, many of those institutions have either closed or been hit with major fines.

Not that there isn't still work left for Haralson's group to do. Even though the Arkansas Constitution limits interest rates on consumer loans to 17 percent, Haralson said fringe lenders i the state often skirt that requirement by simply giving the interest rate a different name.

Through her work with the anti-payday lending group, Haralson also has seen and heard stories of one debtor after another who's hit rock bottom. One of the more extreme stories she recounte is of an Arkansas man who had taken out eight different payday loans. The resulting debt was so impossible to manage that he took off work every other Monday, drove to each check advance business and rolled the loans over.

That means that, instead of paying down his debt, he continually deferred making payments. In the process, new fees were tacked on that kept him even further behind.

Leveraging alternatives

To get an idea of the scope of the problem in Tennessee, a recent report from the North Carolina based Center for Responsible Lending found more than 1,300 payday lending businesses operating in Tennessee, which dole out loans that carry an average annual interest rate of 380 percent.

The MemphisDEBT Collaborative, a group whose members represent a cross section of the government and business communities, meets regularly to discuss these and other financial issues. The collaborative was organized in 2001 under the auspices of the RISE Foundation (Responsibility, Initiative, Solutions and Empowerment).

This week's seminar is especially timely given the extraordinary concern over the nationwide credit crunch and the housing market slump that are both shaping up to be a drag on consumer finances.

"Here's the drill - obviously we're still trying to get something done on a title lending bill," said Corky Neale, director of research for the RISE Foundation. "At the same time, the push is on to get credit unions to offer smaller, affordable loan products.

"And there are great examples around the country of credit unions that have gotten into payday-type lending at a rate that's certainly less than what payday lenders charge.

"The thought is if we can offer some viable competition to payday lenders, then that becomes a better alternative for people. We don't want to deny access to credit. Let's let the market work, ar people will find their way to the cheapest alternative."

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