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Alternatives to High Interest Payday Loans are Viable Operating Rent-A-Banks Help Lenders Skirt Arkansas Law

LITTLE ROCK (January 17, 2006) – Today, Arkansas Advocates for Children and Families (AACF) released a report detailing viable and workable product models to counter the high interest rates (up to 400%) charged by Arkansas payday lenders.

The report: “Alternatives to Payday Loans” summarizes discussions with payday loan users and banking representatives about the conditions for making small loans more accessible to credit-challenged checking customers.

“The financial community is very interested in exploring payday loan alternatives in discussions with bank regulators and representatives of alternative models,” said Kathryn Hazelett, research and fiscal policy director at AACF. “In the coming months we will be holding more discussions with banks and consumers about feasible alternatives to predatory payday lenders. We are very excited that the legitimate financial community will play a major role in this effort.”

Also in the report are findings from focus groups of victims of the payday loan industry.

Some of those key findings include:

- ☐ 50 percent of focus group participants had applied for a traditional loan but could not get one because of bad credit.
- ☐ 67 percent said they had no other way to raise money to pay their debts.
- ☐ A majority of the victims learn about payday loans from advertisements.
- ☐ At the time they went to get a payday loan, 79 percent of focus group participants were getting calls demanding money from creditors.

Recently released by Arkansas Advocates: “Payday Lenders in Arkansas: Renting Out-of-State Bank Charters Help Evade State Law” details research on 281 payday lenders in the state.

Hank Klein, founder of Arkansans Against Abusive Payday Lending and report author, says while using ‘Rent-A-Banks’ may be allowed under federal law, it’s not right. This is another example of how Arkansas payday lenders scheme to take financial advantage of vulnerable Arkansas families.”

According to Klein’s research, three “Rent-A-Bank” chains are known to be partnering with Arkansas payday lenders, they include:

1. Republic Bank & Trust of Louisville (partners with America’s Cash Express for 20 Arkansas stores)
2. Community State Bank of Millbank, South Dakota (partners with First American Cash Advance in 30 Arkansas stores)
3. First Fidelity Bank of Burke, South Dakota (partners with Advance America in 30 Arkansas stores)

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Earlier this year, 37 state Attorneys General were told by Don Powell, chairman of the Federal Deposit Insurance Corporation (FDIC) that federal law “does not exempt state-chartered banks partnering with payday lenders from consumer protection and lending laws of the borrower’s home state, other than interest rate-related limitations.”

Klein says that while federal FDIC regulations allow payday lenders to partner with out-of-state “Rent-A-Banks” to charge higher interest rates than allowed under the Arkansas Constitution, they do not allow Arkansas payday lenders to avoid other consumer protection and lending laws. “But that is exactly what Arkansas is allowing them to do.”

To view the reports “Payday Lenders in Arkansas” and Alternatives to Payday Loans,” visit www.aradvocates.org.

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