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Associated Press



Largest Ark. payday lender says it will shut down

By ANDREW DeMILLO 09.24.08, 11:14 AM ET

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LITTLE ROCK, ARK. - Advance America, the largest payday loan provider in Arkansas, said it will shut down its stores in the state because of the attorney general's threat of lawsuits over its high-interest loans.

The company announced Tuesday that it will close all its stores after reaching an agreement with Attorney General Dustin McDaniel's office that no further lawsuits would be filed. McDaniel's office says Advance America, based in Spartanburg, S.C., will close its locations by Oct. 31 and has already stopped issuing loans.

McDaniel sent a March 18 cease-and-desist letter to Advance America and other payday outlets that accused the firms of charging high interest rates that violate the state's constitution. McDaniel's letter demanded that the firms stop issuing high-interest loans and forgive any outstanding debts.

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The company had initially said it would restructure its business to comply with the law in response to McDaniel's letter. Advance America's chief said the firm still disagrees with McDaniel's contention that they are violating the constitution and state law.

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"Indeed, there has been no determination by any Arkansas court that Advance America's practices ever violated state law," Advance America President and Chief Executive Officer Ken Compton said in a statement. "Still, after lengthy discussions with the attorney general's office, we have determined that it is in the best interest of both parties to avoid litigation and to resolve this matter at this time."

The Arkansas Supreme Court next month will hear arguments in a lawsuit challenging the constitutionality of the 1999 Check Cashers Act, a law that advocates say payday lenders have tried to use as a shield in charging triple-digit interest rates. Arkansas' constitution sets the state's usury limit at 17 percent.

McDaniel's office said that the company had initially said it would no longer issue loans in excess of 17 percent. Since then, the state and Advance America had disagreed over the propriety of the company's practices, McDaniel said.

"I hope the decision of Advance America will persuade all lenders that operate in violation of Arkansas law to shut down," McDaniel said in a statement.

Chief Deputy Attorney General Justin Allen said the company had initially offered interest-free loans in response to the order, but then switched to a model where they would issue a loan with an appropriate interest rate and would give customers a money order or check. The company would then offer to cash the money order in exchange for a fee.

"They took the position that the customers did not have to stay and cash their check there. They could take them elsewhere, but if they cashed the check there they could charge that fee and that fee was not interest," Allen said. "We took issue with that, and that's part of what we had been going back and forth over."

Allen said the attorney general's office agreed to allow the company to continue collecting outstanding debts from the money-order loans it had issued. The company has already stopped issuing any loans in the state, he said.

The 156 payday lenders McDaniel initially targeted make up more than half of the 277 check cashers licensed by the Arkansas State Board of Collection Agencies. McDaniel's office said it focused on companies that offer "deferred presentment loans" where the business not only exchanges cash for a check but also agrees to delay the depositing of the check for a specific length of time.

The attorney general's office in May filed lawsuits in Pulaski County court against businesses that operate about 20 payday-lending locations in the state and Allen said more lawsuits are likely to be filed in the coming weeks. An advocacy group in July said that a third of the stores ordered to shut down have remained open and restructured their businesses to avoid state regulation.

Advance America said that its revenues from Arkansas over the first six months of this year represented 0.7 percent of the company's total revenues. The company estimated the costs associated with closing the Arkansas stores would be about \$900,000.

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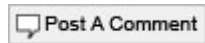
The company in August closed all nine stores it operates in [New Mexico](#) in response to new restrictions on payday lending in the state. Advance America, which bills itself as the nation's leading provider of payday loans, will operate more than 2,800 stores in 33 states, Canada and the United Kingdom after the closings.

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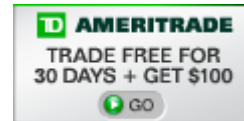
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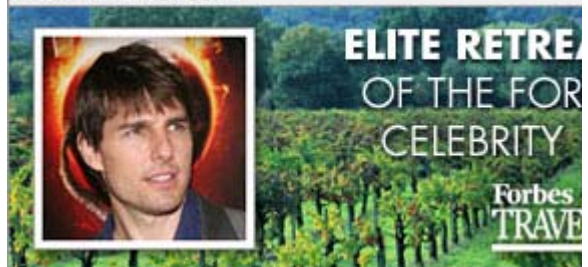
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