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GROUP CRITICAL

Who watches lenders?

IN SHORT Consumer activists identify weaknesses in the state's regulation of payday lenders.

By **JOHN HOFHEIMER**
Leader staff writer

Arkansas has 275 cash advance or payday lending stores, of which only 66 are licensed and make any pretense of being regulated by the state, according to a study to be released Wednesday morning by Arkansas Against Abusive Payday Lending (AAAPL).

"We located all the payday lenders," said study author Hank Klein, president of AAAPL.

The study, "Payday Lenders in Arkansas: The Regulated and the Unregulated" is an update of the study released in September 2004.

In addition to the 66 licensed and regulated by the state, 70 more are licensed and unregulated and the last 139 aren't even licensed, Klein said.

"The state, which has supposedly set up a regulatory agency, regulates less than 25 percent," he said.

The others are shunning regulation.

Klein said Tuesday that these were lenders of last resort, charging needy and unsophisticated borrowers hundreds of percent interest, figured on an annual rate.

He said borrowers sometimes find themselves trapped in an endless cycle of debt when doing business with payday lenders.

"The Federal Insurance Deposit Corporation (FDIC) has told banks to stop partnering (with payday lenders)," said Klein. "It's not bank-like to make 500 percent loans."

Payday loans are typically small—\$100 to \$500, made for an average of 14 days, according to Klein. "People who borrow from them may pay interest equivalent to an annual percentage rate of more than 400 percent.

The average borrower pays \$800 to borrow \$325, according to the Center for Responsible Lending. Payday lenders are disproportionately located near military bases and also target minority and low-income consumers.

Please see **LENDERS**, Page 14A

► Lenders

Continued from Page 1A

In part, payday lenders and their ilk can ply their trade because of legislation calling interest "fees," since in this state, it's against the law to charge more than 17 percent interest.

"No region of the state is unaffected," said Klein, adding that 60 of the state's 75 counties have at least one such lender. Jacksonville alone has about half a dozen, three of them near the main gate to Little Rock Air Force Base.

"The state isn't doing a very good job of protecting consumers," said Klein.

Klein said that several recent events have made things more difficult for Arkansas payday lenders, but that they tend to morph into a new shape to continue their lucrative business.

"We have categorized four or

five types of lenders," Klein said. Among them are regular cash advance stores, stores that posture as Internet providers, stores that affiliate with out-of-state banks—rent-a-bank lenders—allowing higher interest rates and larger loan amounts and yet others that do the same thing with out-of-state finance companies.

Klein says the recent decision of at least two such out-of-state banks will impact several local lenders, including in Jacksonville American Cash Express (ACE), Advance America, and First America Cash Express.

Klein said it was too early to know if the affected lenders would shutter their doors or reconfigure themselves.

AAAPL members include Arkansas Advocates for children and Families, AARP, the Arkansas AFL-CIO, ACORN, the Better Business Bureau of Arkansas, Family Service agency, the NAACP,

the Pulaski County Cooperative Extension Service, Arkansas Federal Credit Union and Todd Turner, of the law firm Arnold, Batson, Turner & Turner.

More than a third of the payday lenders in Arkansas identified by an earlier AAAPL study claimed they were independent contractors doing business with Mount Rushmore Loan Company, LLC in South Dakota, and thus able to make larger loans than the \$400 allowed by Arkansas law.

W. Cosby Hodges, Jr. of Fort Smith has incorporated about 20 payday advance companies—including two in Jacksonville—located in several Arkansas cities.

In addition to those companies, Hodges is listed as the organizer of the Mount Rushmore Loan Company, according to documents on file with the South Dakota secretary of state's Office. He and Robert Srygley of Springdale also are listed as co-managers of Mount Rushmore Loan Company.