February 27, 2011, 9:43pm

McDaniel Pans Small-Loans Bill

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Posted: Saturday, February 26, 2011 9:00 am

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LITTLE ROCK - A bill that proposes raising the maximum interest rate on small loans could open the door for the return of predatory lenders to Arkansas, Attorney General Dustin McDaniel said Friday.

A former state legislator who represents a group that helped craft the bill said he was surprised by McDaniel's opposition, but he said the group will try to retool the bill to win the attorney general's approval.

Senate Bill 568 by Sen. Michael Lamoureux, R-Russellville, would change Amendment 89 of the Arkansas Constitution, which set Arkansas' interest rate at 17 percent, to allow the Legislature to set the maximum interest rate at more than 17 percent for loans of $5,000 or less. The higher rate would be set in a second bill which has not yet been filed.

The amendment authorizes the Legislature to make relevant changes with a three-fourths vote of the House and Senate.

In 2008, McDaniel advised payday lenders to shut down or face litigation, and by fall 2009 the last of more than 250 short-term lenders in the state had closed their doors. McDaniel said the lenders preyed on consumers by charging fees that in some cases amounted to triple-digit interest rates.

On Friday, a statement released by McDaniel's office said SB 568 "is unfriendly to consumers and could reopen this state to the unscrupulous, predatory lenders the attorney general has successfully worked to shut down."

Former House Speaker Robbie Wills, executive director of the Arkansas Installment Lenders Association, said the statement took him by surprise because the association had been "going back and forth" with McDaniel's office over the wording of the second bill and had thought McDaniel did not object to the first bill.

He said the association is "hopeful that as this process continues we can find a workable solution that the attorney general and everyone else can be comfortable with."

Also Friday, the group Arkansans Against Abusive Payday Lending announced its opposition to SB 568.

"Attorney General McDaniel's decisive, pro-consumer actions helped make payday lending history in Arkansas, and we agree that this legislation could reopen Arkansas to the abuses of predatory lending," the group said in a statement. "It took nearly 10 years for payday lenders to be driven out of our state; Arkansas doesn't need to repeat this unfortunate period in its history."

Wills said that with tight regulation, short-term loans can exceed a 17 percent interest rate without taking advantage of consumers. A number of other states have passed laws that allow short-term lenders to operate under regulation that protects consumers, he said.

"What we're trying to do is provide a solution to the problem that left us vulnerable to payday lenders to begin with, and that is the fact that there are Arkansas who can't get a bank loan or a credit card or a credit union loan but have the need to borrow small amounts," Wills said.