March 17, 2011, 7:37am

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Jobless-Debt Bill Clears Panel

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Posted: Wednesday, March 16, 2011 9:31 am | Updated: 10:25 am, Wed Mar 16, 2011.

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LITTLE ROCK - Legislation intended to address the state's $330 million unemployment insurance debt to the federal government cleared a Senate committee Tuesday, but a bid to raise interest rates on short-term loans stalled.

The Senate Insurance and Commerce Committee endorsed Senate Bill 305 by Sen. Jeremy Hutchinson, R-Little Rock, which would authorize the governor to call an election to approve up to $500 million in general obligation bonds to pay off debt. It would allow a special assessment fee on workers' salaries to pay off the bonds.

The state owes the federal government for money it borrowed to keep unemployment benefits flowing to thousands of out-of-work Arkansans during the recession.

"If we don't do anything, in September the federal government is going to raise taxes on Arkansas employers," Hutchinson said in an interview after the committee meeting. "This would provide a mechanism by which we could basically refinance that debt at a lower interest rate."

Gov. Mike Beebe said Tuesday he supports the concept of the bill but wants to study it further to make sure that the financing mechanism Hutchinson has proposed is the most feasible.

"We have to look and see if that is a good financial deal for the state to handle it that way," Beebe said. "I am open, but we'll make that decision based on a financial analysis."

The bill goes to the full Senate for consideration.

Meanwhile, Senate Bill 568 appears to be headed for a legislative study between sessions.

The bill by Sen. Michael Lamoureux, R-Russellville, proposed raising the maximum interest on small loans. Lamoureux pulled the bill from consideration Tuesday amid what he described as increasing opposition. He said he would refer the measure to interim study.

The bill would have changed 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 a higher rate for loans of $5,000 or less.

Amendment 89 authorizes the Legislature to make relevant changes with a three-fourths vote of the House and Senate. The higher rate was to be set in a second bill.

Supporters said the measure would help some consumers who otherwise could not get a small loan from a traditional lender.

But Attorney General Dustin McDaniel has warned the measure could open the door for the return of payday lenders with exorbitant interest rates on short-term loans to the state.

In 2008, McDaniel, buoyed by a favorable state Supreme Court ruling, advised payday lenders to shut down or face litigation, and by fall 2009 the last of more than 250 short-term lenders had closed their doors in Arkansas

McDaniel said the lenders preyed on consumers by charging fees that in some cases amounted to triple-digit interest rates. He was joined in his opposition to HB 568 by the group Arkansans Against Abusive Payday Lending, which also worked to drive payday lenders from the state.

In a statement Tuesday, the attorney general said SB 568 would have allowed for changes to the state usury laws and would substantially alter public policy and usurp the will of the voters.

"Our constitution is clear and our current interest rate limit is fair," McDaniel said. "I recognize the need for micro-lending options that incorporate appropriate consumer protections. Therefore, I commend the committee for recommending an interim study on this issue."

During the committee meeting, Lamoureux said he thinks there was "a lot of misunderstanding and misinformation" about his proposal.

"At the conclusion of everything I've learned ... I still think Arkansas needs a low-regulated, small loan industry," he said. "I'm hoping we eventually get there."

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