



Interest-rate-setting bill sent to Senate

BY [DAVID SMITH](#)
Friday, April 5, 2013

A bill that Arkansas Attorney General Dustin McDaniel described as an attempt to restore payday lending in Arkansas cleared a Senate committee Thursday.

The eight-member Senate Committee on State Agencies and Governmental Affairs advanced Senate Bill 900 by a voice vote.

The bill seeks to amend the state constitution concerning the interest-rate limit on loans. It proposes to have the General Assembly define the maximum lawful rate of interest allowed in Arkansas.

The Arkansas Constitution sets the maximum interest rate on loans to state residents at 17 percent per year. Arkansas voters approved the constitutional amendment establishing the interest-rate cap in 2010.

"All I'm trying to do is get us the ability as legislators to define interest," Sen. Jon Woods, R-Springdale, a sponsor of the bill, told the committee. Legislatures in every other state in the country can set interest-rate limits, Woods said.

But the Arkansas Constitution does not give the General Assembly the authority to define interest, McDaniel said. The Arkansas Supreme Court has "repeatedly and historically" rejected attempts by the Legislature to define interest and has said that only the state's highest court could do so, McDaniel said.

If it becomes law, SB900 would result in lawsuits that the state would lose, McDaniel said.

"I am certainly not for payday lending," Woods said after the committee vote. "I think that there is a lot of misconception about what the bill is trying to do," Woods said. "I just want to give us the ability to define what interest means."

The only reason supporters want the bill to pass is because they want to charge more interest than the constitution allows, Michael Rowett, spokesman for AARP in Arkansas, said after the committee vote. The AARP opposes the bill.

Because it would change the state's constitution, the bill must get support from 75 percent of the Senate's 33 members - or 27 votes - for it to pass. It would then need to clear a House committee and then earn approval from 75 of the 100 House members.

If approved, a clause in the bill would allow the law to take effect immediately after being signed by the governor or immediately after a veto from the governor is overridden.

Gov. Mike Beebe does not make decisions about bills until they reach his desk, said Matt DeCample, Beebe spokesman. But SB900 is a bill that the governor has not supported, DeCample said.

Woods said he “feels good” about the bill’s chances in the Senate.

Rowett said, however, that with further education with the full Senate about the bill “hopefully we’ll be able stop [it] from becoming law. Because this is a very bad bill.”

Woods also sponsored a bill in 2011 designed to allow small loans at more than 17 percent interest. The AA and the attorney general also opposed that bill.

Language in the 2011 bill was similar to language in the Arkansas Check Cashers Act of 1999, which was deemed unconstitutional by the Supreme Court in 2008.

There were almost 300 payday lenders in Arkansas in 2008 charging annual interest rates of up to 900 percent, McDaniel said.

Before the practice in Arkansas ended in 2008, taking out a payday loan typically worked like this: A customer wrote a check to the payday lender for \$400 for which he was given \$350 in cash. The lender usually kept the check for two weeks before depositing it. A \$50 charge on a \$350 loan for 14 days equals 371 percent in annual interest.

Bolstered by decisions by the Arkansas Supreme Court, McDaniel notified the state’s payday-lending business in March 2008 that they must cease violations of the state’s prohibition against usury. By July 2009, the last of the payday-loan operations in the state had closed.

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