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Bill to override constitutional interest rate cap before Arkansas Senate committee tomorrow

AARP Arkansas opposes bill, which could reopen state to predatory lenders

LITTLE ROCK—The Arkansas Senate Insurance and Commerce Committee is scheduled to consider tomorrow, Tuesday, March 15, 2011, a bill that would override the Arkansas Constitution's interest rate cap on consumer loans.

Senate Bill 568, drafted and promoted by out-of-state lenders, is a special order of business on the Senate Insurance and Commerce Committee's agenda tomorrow. The committee meeting begins at 10 a.m. in Room 171 of the state Capitol in Little Rock.

AARP Arkansas opposes Senate Bill 568, as do Arkansas Attorney General Dustin McDaniel and the Arkansans Against Abusive Payday Lending (AAAPL) coalition, which played a key role in removing predatory payday lending from Arkansas for good in 2009. Representatives of AARP Arkansas and AAAPL will attend Tuesday's committee meeting to testify against passage of SB568.

Arkansas voters in November 2010 approved Amendment 89 to the Arkansas Constitution, which increased the maximum lawful rate of interest on consumer loans from a sliding scale to a flat 17 percent Annual Percentage Rate (APR). This increase opened many additional lending opportunities while still protecting the citizens of Arkansas from high-cost predatory loans.

Amendment 89 specifically provides that the "maximum lawful rate of interest" on consumer loans "shall not exceed 17 percent per annum [year]." SB568, using a questionable interpretation of Amendment 89, would authorize the Legislature, by a 75 percent vote of both chambers, to set a higher interest rate for so-called "installment loans" so the out-of-state lenders could set up shop in Arkansas.

"Senate Bill 568 could reopen Arkansas to the abuses of predatory lending," said H.C. "Hank" Klein, AAAPL founder and AARP Arkansas Leadership Volunteer for Senior Financial Issues. "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 our state's history. If these out-of-state lenders want to make loans exceeding the interest rate cap increased by voters just four months ago, these lenders should seek a specific constitutional amendment to achieve this, so Arkansas voters have full knowledge of what they are authorizing."

Klein noted that the out-of-state lenders successfully secured passage of another of their bills, House Bill 1846, in the House Insurance and Commerce Committee last week. HB1846, which would establish rules and regulations for installment lenders, purports to charge a maximum APR of 17 percent. "If these out-of-state lenders intend to charge no more than 17 percent APR, why do they need Senate Bill 568, which would allow them to charge higher rates?" Klein said.

In states bordering Arkansas, annual interest rates as high as 87 percent for a $500 six-month loan and 81 percent for a $1,000 one-year loan are allowed, according to the most recent *Small Dollar Loan Products Scorecard* issued by Consumers Union, the Consumer Federation of America and the National Consumer Law Center. See http://www.defendyourdollars.org/pdf/Scorecard-5-12-10.PDF

About AARP

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