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Illegal payday lenders targeted

BY JEFF LEMASTER
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The Arkansas Federal Credit Union has recently joined efforts with organizations and individuals around Central Arkansas to come up with solutions to payday lending companies which are abusing their customers.

In 1999, the Arkansas Legislature passed the Check Cashers Act, which gave the state regulatory control over businesses which offered small loans to people who could show a steady income and a bank account.

Since that time, the state has done a poor job of exercising any control over such businesses, said Hank Klein, president and CEO of AFCU. Many of these businesses prey on low income individuals, getting them into a cycle of debt from which it is often impossible to get out.

The way abusive check casher businesses typically work is that an individual will write them a check for anywhere between \$100 and

\$700. The business will pay out that amount in cash, and hold the check until the individual's next payday. The individual can pay a roll-over fee to keep the check from being cashed.

Annual finance charges on such loans often exceed 300 percent, and have gotten as high as 600 percent. There are about 22,000 payday lenders in the U.S., and they pay out \$40 billion annually in loans, collecting \$6 billion in finance charges. Payday lending is authorized by 33 states and the District of Columbia.

Arkansas' usury limits, or the maximum amount of interest that non-banking businesses can charge, prevent such high finance charges. This is where many states, including Arkansas, have become impotent in policing payday lenders, said Jean Ann Fox, director of consumer protection for the Consumer Federation of America.

Fox said that check cashing companies often use various ruses to mask their violation of usury laws.

Some of these ruses include offering internet rebates and internet access.

"By internet access, they usually have a couple of computers that customers can come use to connect to the internet," Fox said. "But it's just another way to hide their loans."

The task force, which comprises such organizations as the Arkansas Better Business Bureau, Arkansas Advocates for Children and Families, AARP and the NAACP, hopes to educate people about the financial dangers and illegality of payday lenders, as well as motivating legislators to pass new legislation prohibiting check cashers altogether.

A recent study shows that Jacksonville has the second highest number of payday lenders in the state behind Fort Smith. Fox said that payday lenders often target areas near military bases because military personnel are required to have a bank account and have a steady income.