



Payday lenders under fire

IN SHORT Critics charge cash advance businesses prey on desperate customers, especially military personnel, who pay high interest rates even on the smallest consumer loans.

BY JOHN HOFHEIMER AND TOM GALANTE

Payday advance businesses, like the half-dozen that have sprung up in Jacksonville over the past few years, prey on people in the military, according to one ex-GL.

"The process sets you up to fail," said the man, who asked not to be identified.

"You borrow money and pay it back on payday, but then you find yourself with no money again and have to go back. Once you get started, you have to keep going back," he said.

"These kinds of places prey on people who are young and do not have a lot of experience in financial matters, aren't paid a lot and are sometimes foolish with their money," he said with a hint of embarrassment.

Payday lenders typically make two-week loans to customers at annual interest rates starting at about 350 percent and running to 1,700 percent or higher, according to consumer groups.

A high credit card interest rate, by contrast, would be about 21 percent.

The Arkansas Constitution sets interest rates on consumer loans at 5 percent above the federal reserve discount rate or less. That would be a current ceiling under 10 percent.

Opponents of the payday advance lenders and check cashers say the businesses flock to neighborhoods of low-income people likely to need ready cash without a lot of sophistication about their other options, according to Hank Klein of the Arkansas Federal Credit Union, an organizer of Arkansians Against Abusive Payday Lending.

Klein and others say they are out to regulate, if not shut down, these places, which charge exorbitant interest for loans, secured by the promise of a customer's next paycheck. Interest rates like these were illegal, considered usury or loan sharking, until the payday lenders pushed their own bill through the state legislature in 1999, according to Klein.

LAWMAKER INTERESTED

State Rep. Will Bond of Jacksonville said the General Assembly tried to crack down on some predatory lending practices last session, and he would be in favor of taking a look specifically at the payday lending business.

"Obviously, if these things look like high-interest loans, the legislature would love to take a look at them," he said Friday.

He said the legislators should ensure that "people outside the traditional borrowers market don't get their heads ripped off."

"If there's something that needs to be done, I'd be happy to sit down with anyone," Bond said.

Currently, there are six businesses in Jacksonville that either make payday loans, cash checks for a percentage, or both. At least two of them are headquartered out of state.

In state, W. Cosby Hodges Jr., of Fort Smith, owns two payday lending business in Jacksonville and another in Sherwood.

Hodges has 40 different businesses incorporated with the secretary of state's office—at least 22 of them for payday lending or check cashing. Incorporating businesses separately would help insulate Hodges' businesses one from the other in the case of a legal judgment, according to one lawyer.

About 20 of Hodges' businesses include "American Check Cashers" or "ACC" in the corporation name. In addition to two in Jacksonville and the Money Depot, incorporated in Sherwood, Hodges has at least one business incorporated in Fayetteville, Jonesboro, Fort Smith, Little Rock, North Little Rock, Conway, Bentonville, Greenwood, Pine Bluff, Rogers, Russellville, Springdale and Van Buren.

Hodges was not available for comment.

JACKSONVILLE LENDERS

Hodges' two Jacksonville locations, American Check Cashers, 509 J.P. Wright Loop Road, and also at 912 W. Main St., make payday loans, according to the coalition of opponents. Interest on a two-week payday loans is about 426 percent, according to the study. It advertises loans of as much as \$700, although Arkansas law limits such loans to \$400, according to Klein.

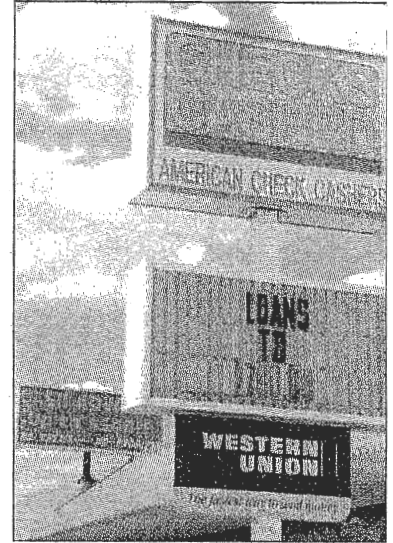
That business has affiliated itself with the Mt. Rushmore Loan Company in Sioux Falls, S.D. Klein said the payday loan businesses operate under the notion that by associating with an out-of-state bank or savings and loan, they can skirt such limitations. That tactic is known as rent-a-bank or rent-a-finance company, he said.

Hodges' two Jacksonville locations settled class-action lawsuits, according to Klein, then converted to a rent-a-finance company.

OUT OF STATE

Other payday loan businesses in Jacksonville are Advance America, 2021 N. First St., incorporated in Spartanburg, S.C., and First American Cash Advance, 2126 N. First St., incorporated in Cleveland, Tenn.

Two check-cashing businesses that don't make payday loans but charge a percentage include C&B Jewelry Exchange and Loan Co., 84 Municipal Drive, owned by Charles Myers; and E-Z Check Cashing, 424 W. Main St., owned by Tracy Hall.



TOM GALANTE/Leader photo

Check cashers often move into military communities knowing that service members' pay is guaranteed by the federal government.

In March 2000, the Federal Reserve board of governors ruled that "regardless of how the fee is characterized for state law purposes," it was interest and must comply with the consumer disclosure requirements—effective Oct. 1, 2000.

Arkadelphia attorney Todd Turner has sued often, winning class action lawsuits. He has filed a lawsuit, currently on appeal, seeking to have the Check Cashers Act of 1999 declared unconstitutional.