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News

Payday Lender Act Introduced as FDIC Cracks Down
 By Gwen Moritz
 Arkansasbusiness.com Daily Report - 3/2/05 3:49:52 PM

State Sen. Tracy Steele, D-North Little Rock, introduced on Wednesday a bill that would gut the check-casher industry in Arkansas by prohibiting "payday loans" of less than \$3,000 and closing loopholes that have been used to circumvent the existing Check Casher Act of 1999.

The bill, **SB948**, was introduced the same day the Federal Deposit Insurance Corp. issued new **guidelines** cracking down on payday lending by commercial banks. A small but increasing number of banks have been involved in payday lending, the FDIC said in issuing a warning against making short-term loans to borrowers who really need longer-term loans.

"The FDIC believes that providing high-cost, short-term credit on a recurring basis to customers with long-term credit needs is not responsible lending, and increases banks' credit, legal, reputational and compliance risks," the FDIC said in a news release. "If institutions engaged in payday lending activities fail to limit their risk exposure, operate in a safe and sound manner, or comply with all applicable laws, the FDIC may take a range of actions, including formal and informal enforcement actions, which may require institutions to discontinue payday lending."

Steele's bill, called the Payday Lending Act, is modeled after one adopted in Georgia after the U.S. Navy warned that bases would be closed if the state allowed payday lenders to continue preying on young sailors. Steele's bill includes special protections for members of the military and their families who patronize payday lenders.

It has been championed by a coalition of consumer advocates called Arkansans Against Abusive Payday Lending, which was formed last year by Hank Klein, the retiring CEO of Arkansas Federal Credit Union of Jacksonville.

The controversial Check Casher Act of 1999 regulates the payday lending industry in Arkansas and limits the amount of the loans to \$400, but it has been circumvented by out-of-state lenders and repayment contrivances that would be barred by Steele's bill. Payday lenders around the state have repeatedly been found to be in violation of the state's constitutional usury limit, but the state Supreme Court has not addressed the question directly.

For a recent article on the subject, [click here](#).

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