The Dow Jones industrial average closed at 10,811.97. −18.03

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Bill filed to stifle payday lending in state

BY DAVID SMITH
ARKANSAS DEMOCRAT-GAZETTE

A bill that likely would stop the practice of payday lending in Arkansas was introduced in the state Senate on Wednesday.

Sen. Tracy Steele, D-North Little Rock, is sponsor of the bill that would make it illegal for payday lenders to make loans of less than $3,000.

Payday-lending companies typically agree not to cash a customer's check for two weeks if he pays a high fee for the service. If the customer cannot buy back the check in two weeks, he is charged another fee to keep the check from being cashed.

Payday-lending companies rely on making short-term loans for small amounts of money, usually much smaller than $3,000.

The bill, if passed, also would:

- Prevent a payday-lending company from garnisheeing the wages of a member of the military.
- Impose a 50 percent tax on loans that violate the provision to limit loans to $3,000 or more.
- Make it a misdemeanor to make loans less than $3,000, with punishment of not more than a fine of $5,000 or imprisonment of not more than a year, or both.

Steele's bill is patterned after a law in Georgia, said Hank Klein, chief executive officer of Arkansas Federal Credit Union, who helped form an organization to oppose payday lending. The Georgia law eliminated payday lending in that state.

Efforts to reach Steele on Wednesday were unsuccessful.

The Legislature passed the Arkansas Check Casher's Act in 1999. It says that fees charged by check-cashing companies, better known as payday lenders, "shall not be deemed interest."

Transactions under the Check Casher's Act involve charges that if considered interest would violate the usury provision of the Arkansas Constitution. Currently, the constitution limits interest rates on loans to 8.5 percent a year.

Steele's bill, if enacted into law, essentially would supersede the Check Casher's Act.

"To be making loans to people who can barely afford them, and to be making them at the kind of interest rates that are charged, is bad for consumers and I think that something needs to be done about it," Klein said. "Most people who go to payday lenders just can't get out of it. It's a horrible way to make loans to expect it all back next payday."

Jim Mead of Jonesboro, president of the Arkansas Check Cashers Association, said that when the Check Casher's Act passed in 1999, all but a couple of legislators favored it.

"I don't know why it would change in any kind of drastic way now," Mead said. "I don't know why they would have decided that it was needed then but is not now."

Check cashers "pay people's bills," Mead said.

"We pay the rent when they can't pay it," Mead said. "We pay the utilities when they've been turned off. We buy their prescriptions when they don't have the money to buy them. There is not any other place in the whole United States of America where people can go to let them get a small amount of money for a short period of time. I don't know what the Legislature can come up with as an alternative."

On Tuesday, the Federal Deposit Insurance Corp. issued guidelines to banks that finance some payday-lending companies in the country. The FDIC said payday loans "pose a significant safety and soundness concern" for banks supplying funds to payday lenders.

After the lengthy guidelines were issued, the stock of publicly traded payday-lending companies dropped 10 percent or more.

Arkansas Attorney General Mike Beebe indicated in a letter late last year to a national consumer advocate that his office is investigating 18 payday-lending companies in the state.

In the letter, Beebe told Jean Ann Fox, director of consumer education with the Consumer Federation of America in Washington, D.C., that Arkansas' Check Casher's Act has not been repealed.

"It is up to the Arkansas Legislature to repeal or amend the law, should they see a need to do so," Beebe said in the letter.

Fox had written Beebe requesting that he conduct an investigation to stop check cashers from using out-of-state finance companies "to evade Arkansas consumer protections."