The Dow Jones
ndustrial
average closed
at 11,274.53.

BUSINESS & FARM

D

Arkansas Democrat-Gazette

: www.arkansasonline.com

TUESDAY, MARCH 21, 2006

No more bank loans for Advance America

Payday lender buys license to keep stores open

BY DAVID SMITH
ARKANSAS DEMOCRAT-GAZETTE

Advance America Cash Advance Centers Inc. cannot continue making payday loans in Arkansas by funding the loans through a bank, the Spartanburg, S.C., firm said in a federal document filed last week.

But apparently it can remain in business — though making smaller loans — by getting Arkansas-approved licenses for its 30 stores in the state.

Advance America uses a federally regulated bank, First Fidelity Bank of Burke, S.D., to make loans in Arkansas, but the Federal Deposit Insurance Corp. told the bank last month that it must cease providing funds to payday lenders for risky loans.

So Advance America said in its annual financial report filed with the Securities and Exchange Commission last week that it planned to stop making loans at its 30 stores in Arkansas next month. It said it would keep the stores open until September to continue to service existing loans.

But Advance America paid $15,000 earlier this month to buy an Arkansas license, which indicates it can keep the 30 stores open although it can't finance loans through First Fidelity, Peggy Matson, executive director of Arkansas' Division of Check Cashing Companies, said Monday.

If it keeps the stores open, Advance America would be required to operate them in compliance with the Arkansas Check Cashers Act, Matson said. That

See LOANS, Page 2D

Loans

• Continued from Page 1D

means instead of making loans of more than $700, Advance America would be limited to accepting checks from customers of no more than $400, Matson said.

H.C. "Hank" Klein, president of Arkansans Against Abusive Payday Lending, questioned whether Advance America can operate in the state because of a law passed last year by the state Legislature.

When the Check Cashers Act passed in 1999, it said that charges made by payday lenders were considered fees and not interest, which meant the charges did not violate the state's constitutional limit of 17 percent annual interest on a loan.

The law passed last year deleted that language from the Check Cashers Act, meaning the fees now are considered interest.

"I believe [the loans] are unconstitutional now because they exceed Arkansas' [interest] limit," Klein said.

In Arkansas, a typical payday loan works like this: The customer writes a check for $400, for example, and receives $350. The lender keeps the check for two weeks but does not cash it. The $50 charge on a $350 loan for 14 days equates to 371 percent in annual interest.

The customer often doesn't have the money to buy back the check for $400 in two weeks. So on payday, the customer is required to bring in $400 to get his original check back. Then the customer writes a new check for $400 and gets $350 back from the lender.

This adds another $50 charge for the customer, who still must repay the loan in two weeks or repeat the process. This procedure keeps payday lenders from rolling over fees on a single check.

Advance America's stores generated $6.1 million in revenues and $1.9 million in profits last year, Advance America said.

It probably couldn't generate as much in revenues and profits with the lower limits on loans, Matson said.

Advance America's intent is to keep the Arkansas stores open, although it is not ready to announce exactly how the stores will operate, said Jamie Fulmer, the firm's investor relations director.

Two other payday lenders in the state use bank financing, ACE Cash Express and First American Cash Advance. Matson said ACE Cash Express will decide on a store-by-store basis whether it will get a state license to keep some open. First American said it is considering applying for licenses, Matson said.