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TOP STORY >>Check cashers getting squeezed

It's getting harder and less profitable for payday lenders to make short-term, high-interest loans to Arkansas residents and to prey on members of the military as state regulators begin regulating, Congress ponders new laws and the military tries to discourage such borrowing.

That's according to Hank Klein, who, first as president of Arkansas Federal Credit Union, and later, in retirement, has doggedly helped lead the battle to drive these moneylenders from the Natural State. Studies have shown that payday lenders and the subspecies called check cashers tend to congregate near military bases, and in fact, three of four Jacksonville payday lenders are within a half mile of base property outside Little Rock Air Force Base's Vandenberg gate. Clustered just east of state Hwy. 67/167 are Advance America, First American Cash Advance and American Check Cashers.

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Cashers is south of the other three. (See related story, p. 11A.)

Klein said payday lenders are three times more likely to locate near a military base.

Because of changes in the Federal Insurance Deposit Corp. regulations, Arkansas payday lenders can no longer “import” and operate under bank rules from other states. As a result, the Arkansas Bureau of Collection Agencies, Division of Cashers, now licenses all four, but only First American and Advance America are regulated for payday lending.

The two American Check Cashers locations, owned and operated by Cosby Hodges of Fort Smith, maintain they can operate under the banner of Hodges Finance Company, located in South Dakota. None of the four locations allow for partial payment.

Advance America, which now limits itself to \$350 loans plus \$45.19 in interest for two weeks, is charging an effective interest rate of 336 percent, according to Klein.

Both of Hodges’ American Check Cashers stores here will lend up to \$500 for two weeks with \$89 interest for an effective annual interest rate of 464 percent, according to Klein’s figures. Only Advance America is actually complying with Arkansas law, he said.

“We are definitely making progress,” said Klein. “Peggy Matson is doing a pretty good job of regulating, now that we finally got her attention,” said Klein of the agency



chief. "But it's like trying to corral cats."

Last March, only 24 percent of the state's payday lenders were licensed and regulated, he said. Now 52 percent are. He credited Second Dist. Cong. Vic Snyder of Little Rock with trying to help protect active-duty members of the military.

Snyder took the lead late last month, asking Cong. Duncan Hunter, chairman of the House Armed Services Committee, to include language in the 2007 National Defense Authorization Act limiting to 36 percent the interest that can be charged to members of the service or their dependents.

"It's still not clear what the final language will be in the defense bill," Snyder said Tuesday, "but I'm hopeful." Currently, payday lenders charge 300 percent in interest or more on what are known as deferred presentment checks—that's post-dated checks.

In his letter, signed by 11 other congressmen, Snyder asked that lenders be required as well to "disclose in writing the applicable annual percentage rate, a clear description of the payment obligation and any other disclosures required by the Truth in Lending Act," and to establish penalties for violators.

Last year, a Defense Department report found that "predatory lending practices are prevalent and target military personnel, either through proximity and prevalence around military installations or through the

use of affinity marketing techniques, particularly on-line.”

“Predatory lending not only hurts service members and their dependents, it is having an impact on our nation’s security.”

Those in deep debt have sometimes lost security clearances and even discharge from the military.

Testifying before the Senate Committee on Banking, Housing and Urban Affairs, Adm. Steve Abbot (ret.) said, “I have personally witnessed the downward spiral of debt suffered by our sailors, Marines and their families who seek financial assistance from predatory lenders.”

Abbot is president of the Navy-Marine Corps Relief Society, founded by President Theodore Roosevelt in 1904 to provide emergency financial assistance in the form of interest-free loans and grants to sailors, Marines and their families.

Abbot said that since August 2001, the society had assisted more than 5,500 Navy and Marine Corps clients victimized by predatory lenders in the amount of \$2.6 million.

Abbot shared horror stories with the committee. He told of one place where a client can borrow \$150 for three days with a finance charge equivalent to 3,220 percent.

Another lender will loan \$5,000, said Abbot, and by making scheduled payments only — 120 payments over 10 years — it will take \$30,000 to pay off the loan.

Neither of these lenders operates in this area.

Abbot would have congress cap the interest rate at 36 percent, eliminate all loan rollovers, require all payday lenders to have a clearinghouse to make sure no one has more than one loan, allow monthly payments and regulate on-line payday loan transactions.

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