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**TOP STORY >>Borrowers could get help**

IN SHORT: Despite progress, critics propose new laws and new style loans to combat abuses by payday lenders.

By JOHN HOFHEIMER  
Leader staff writer

More Arkansas payday lenders are licensed and regulated than a few months ago, but opponents of the so-called predatory lenders hope to pass new laws come January aimed at driving the moneychangers from the Natural State.

Payday lenders had special legislation written in 1999 to allow them to circumvent the state's 17 percent interest rate cap.

They have regularly charged at least 300 percent interest. Since then, the lenders have lobbied successfully to defeat attempts to put teeth into existing laws that would limit their activities.

Not only have they been reluctant to be licensed or regulated by the state, but with the help of Gov. Mike Huckabee, they have stacked the five-member regulatory board with two employees of payday lenders, according to Hank Klein, a leading critic.

Gary Frala, who works for a payday lender and is a member of the Arkansas Board of Collection Agencies, voted successfully to ex-empt companies claiming affiliation with out-of-state lenders from being regulated here. Klein calls Frala's action a conflict of interest and violation of state law.

The high interest lenders say they are filling a void left by banks and credit unions by making small, expensive, short-term loans to help consumers out of a momentary financial crunch.

**NEW IDEA**

The credit unions are working on an alternative to help borrowers through a rough patch, according to Klein, founder of Arkansas Against Abusive Pay-day Lending and retired CEO of Arkansas Federal Credit Union. As currently envisioned, it would loan consumers \$1,000, half of which goes into a savings account, the other half

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toward their short-term need.

Then they pay off the entire loan at maybe 17 percent instead of at least 304 percent, and when the loan's paid off, they have \$500 in a savings account.

#### JACKSONVILLE LENDERS

The Jacksonville payday lenders or check cashers make short-term loans of as much as \$900 to Arkansans for two weeks at annual interest rates ranging from 306 percent to 464 percent despite the state's 17 percent usury cap, according to an AAAPL study released at a press conference at the state Capitol Nov. 15.

All of the four payday lenders or check cashers in Jacksonville now are licensed by the state but just two are regulated, and only one of those actually abides by state regulations, according to information provided by Arkansans Against Abusive Pay-day Lending, AAARL.

The two American Check Cashers stores, owned by W. Cosby Hodges of Fort Smith, claim affiliation with Mount Rushmore Loan Co. in South Dakota and hold that they are bound by that state's more lenient banking rules.

Hodges, who owns 20 or more high-interest lenders in the state, and Robert Srygley, of Springdale, who owns or manages 32 more are the incorporators of the Mount Rushmore Company, which critics say is just a shell company, a front that allows them to lend under South Dakota law.

#### GUARD HENHOUSE

Two associates of Hodges and Srygley are among the five directors on the state Board of Collection Agencies, which regulates such lenders.

Frala, treasurer of 32 payday lenders in Arkansas, voted to exempt the company he works for from state regulation in January 2005.

Frala's term expires January 1, 2007, meaning Huckabee will have the opportunity to appoint him to another four-year term.

Denise Stewart's term expires January 1, 2009. She is director of operations for Cosby's American Check Cashers. So far, lawsuits seeking to declare such lending unconstitutional have ricocheted around the courts, bounced back and forth between Judge Barry Sims' circuit court and the state Supreme Court.

#### LEGISLATION

AAAPL failed in its efforts to make the lenders comply with interest rate caps in the last regular session of the General Assembly, when two bills failed to get out of committee.

They are drawing up similar legislation for another run this time, according to Mark Johnson, a lobbyist for the American Association for Retired People. AARP is one of many groups in AAAPL.

Johnson said he expects the bills to have plenty of support this time around.

One bill, which would create a criminal usury penalty of \$300 per instance, will be sponsored by state Sen. Shawn Womack, R-Mountain Home and state Rep. David Johnson, D-Little Rock, according to Johnson.

It is nearly identical to the bill sponsored last session by Sen. Tim Wooldridge, D-Paragould and Rep. Jay Martin, D-North Little Rock.

"The second bill is a little more complicated," said Johnson. "We were hoping for guidance from the Supreme Court." They are still working on language for that bill.

#### SOME SUCCESS

In reporting some success, Klein noted that while there were 275 cash advance or payday lending stores operating in Arkansas last March, only 66 of them were both licensed and regulated.

In the follow-up study released last week, more than half of them were licensed and regulated. But while a dramatic increase in that number is progress, they all continue to make loans in apparent violation of the 17 percent interest cap.

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