

Payday Lending Industry Promises Reforms

THIS ARTICLE WAS PUBLISHED ON WEDNESDAY, FEBRUARY 21, 2007 5:33 PM CST IN BUSINESS

By Aaron Sadler
Stephens Washington Bureau Asadler@Stephensmedia.Com

[EMAIL THIS STORY](#)

[PRINT THIS STORY](#)

[COMMENT ON THIS STORY](#)

WASHINGTON -- Facing pressure in half the states including Arkansas, payday lenders promised Wednesday to give customers extra time to pay off loans as they launched a nationwide advertising campaign.

Payday loan industry officials said customers who have trouble paying off cash advances may take advantage of a no-interest plan to retire the debt.

The industry is spending \$10 million on a television and newspaper campaign and have banned advertisements selling payday loans as ways to pay for vacations and gambling.

Arkansas and two dozen other states are considering legislation this year to restrict the practice. Arkansas House Bill 1036 would cap interest rates on consumer loans.

The key element of reforms announced Wednesday allows customers the option of taking about eight weeks to repay short-term loans, with no accrued interest or financial penalty.

Some payday lenders have already implemented the payment plan option, said Don Gayhardt, a payday lender and a director of the Community Financial Services Association of America.

Between five percent and 10 percent of customers use the option, he said.

"We have listened to concerns raised about our industry and have developed innovative solutions to address them," said organization president Darrin Andersen.

Arkansas Rep. Bruch Maloch, D-Magnolia, said it was clear the industry's announcement is a direct response to political pressure.

"I think there's a public outcry and they have had abusive practices," Maloch said.

Payday lenders exchange cash for personal checks from customers, most often written for the amount of the loan plus fees.

The lender holds the check until the customer's next payday. Borrowers have the option of paying just the finance charge and rolling the loan over until another pay period.

The Consumer Federation of America estimates that the average annual interest on a payday loan is 470 percent.

Payday lenders argue that their costs should be considered fees, not interest, since their average loan term is about two weeks.

A lawsuit is pending in Pulaski County Circuit Court as to whether loan charges in Arkansas are fees or interest. Arkansas usury laws cap interest rates at far below the average annualized rate for most payday advances.

The consumer federation counts 25 states considering bills to regulate payday lending this year. The Arkansas measure has passed the House and is now in the Senate.



"Obviously, this industry is responding to a coast-to-coast assault on their high-cost industry and their loan terms," said Jean Ann Fox, the federation's director of consumer protection.

Payday lenders said they offer consumers an option for dealing with short-term emergency expenses, and as such, the trade association is asking members to place notices on all advertising and marketing materials.

The notice states that: "Payday advances should be used for short-term financial needs only, not as a long-term financial solution. Customers with credit difficulties should seek credit counseling."

Reader Comments (0)

The following comments are provided by readers and are the sole responsibility of their authors. The Morning News does not review comments before their publication, nor do we guarantee their accuracy. By publishing a comment here you agree to abide by our [comment policy](#). If you see a comment that violates our policy, please [notify the web editor](#).

Leave Your Comment

Name:

Comments:

Current Word Count:

Image Verification: 

BACK AT THE RANCH
WESTERN AND LODGE FURNISHINGS

[EMAIL THE WEBMASTER](#) | [SEE JOB OPENINGS AT THE MORNING NEWS](#)

[UPLOAD A DISPLAY AD](#) | [SITE CREDITS](#)

ALL CONTENT © THE MORNING NEWS. UNAUTHORIZED DISTRIBUTION PROHIBITED.