

R A T E S

Topic of interest

MICHAEL ROWETT

"Special to the Guard"

How much is too much for Arkansas consumers to pay in interest on a loan? According to the Arkansas Constitution, the limit is 17 percent a year.

Yet customers of so-called payday lenders are typically charged the equivalent of 372 percent to 869 percent in annual interest for a 14-day loan. Numerous studies have shown that the payday lending business model is designed to cultivate repeat borrowers and trap them in a cycle of escalating debt.

The average payday borrower pays \$800 to borrow \$325, according to the Center for Responsible Lending. An August 2006 U.S. Department of Defense report found that payday lending "undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force."

Amendment 60 to the Arkansas Constitution, approved by Arkansas voters in 1982, limits interest rates on consumer loans to a maximum of 17 percent annually. But there currently is no provision in state law to enforce the 17 percent limit.

The good news is that Arkansas lawmakers, including Senate President Pro Tempore Jack Critcher of Batesville, have a historic opportunity during this legislative session to take real steps to protect Arkansas consumers from these high-interest loans.

House Bill 1036, which passed the Arkansas House of Representatives on Feb. 8 by a vote of 90-3, would create an offense of "unlawful consumer loans" for knowingly charging more than 17 percent annual interest on a consumer loan, and prescribe a \$300 fine upon conviction for a violation. Each transaction involving an unlawful consumer loan would be a separate offense. HB1036 would put teeth into our Constitution's protections and give local prosecutors the tool they need to enforce the 17 percent limit.

HB1036 currently is before the Senate Insurance and Commerce Committee, where it is scheduled as a special order of business on Tuesday. Senator Critcher is one of the committee's eight members.

In 1885, President Grover Cleveland refused to support a bill because he believed it was unconstitutional. Timothy J. Campbell, a congressman and leader of New York's infamous Tammany Hall political machine, reportedly told President Cleveland: "What's the Constitution between friends?"

In 2007, Arkansans deserve to have their state's Constitution taken much more seriously than that. If you agree that payday lenders should be required to abide by our state's Constitution, please contact your senator at (501) 682-2902 and urge him to support HB1036.

Michael Rowett is Chairman of Arkansans Against Abusive Payday Lending, a coalition of 32 organizations working to address issues related to abusive payday lending.