Publication: Arkansas Democrat-Gazette; Date:2007 Feb 28; Section:Business; Page Number: 27

Senate panel holds back payday-loan bill

BY DAVID SMITH ARKANSAS DEMOCRAT-GAZETTE

A bill to severely limit the interest rate on “payday loans,” which easily passed the House of Representatives earlier this month, hit a roadblock Tuesday in a Senate committee.

Jim Argue, D-Little Rock, was the only member of the Senate Committee on Insurance and Commerce who voted for the bill; five members chose not to vote. Two of the eight members of the committee were not present for the vote.

Not voting were Sens. Paul Miller, D-Melbourne; chairman; Percy Malone, D-Arkadelphia, vice chairman; Barbara Horn, D-Foreman; Robert Johnson, D-Bigelow; and Paul Bookout, D-Jonesboro.

Absent from the vote were Sens. Jack Critcher, D-Batesville, and Terry Smith, D-Hot Springs. Critcher asked several questions about the bill but left the room before the vote.

The bill needed five votes to get out of committee and onto the floor of the Senate for a vote before Arkansas’ 35 senators. The measure can be brought up one more time.

House Bill 1036 would create a $300 fine per transaction for anyone charging more than 17 percent annual interest on a loan, the maximum allowed by the Arkansas Constitution.

If it became law, it would put every payday lending store in Arkansas, about 275, out of business, supporters of the loans say. Payday lenders say a 17 percent interest ceiling is too low to make a profit on the risky loans.

Several Arkansas residents who said they had been victimized by payday lenders spoke in favor of the bill. A representative of the Arkansas Education Association said workers in schools, such as janitors and maintenance employees, have lost money by borrowing from payday lenders. A sergeant from the Little Rock Air Force Base said payday lending offices destroyed families and affected the readiness of the military base.

North Little Rock Mayor Patrick Henry Hays also spoke in support of the bill.

“It’s infuriating to sit here and listen to all the testimony and [the committee] not do anything about it,” said Hank Klein, president of Arkansans Against Abusive Payday Loans.

Only Tom Hardin, an attorney with the Rose Law Firm who was an author of the Arkansas Check-cashers Act in 1999, spoke against the bill.

Rep. David Johnson, D-Little Rock, the primary sponsor of the bill, said a compromise on the issue will be hard to reach.

“We knew from the start that [the Senate committee] might be a tough hurdle to cross,” David Johnson said. “The heart of the matter is whether you let payday lenders charge 17 percent or 617 percent [interest] or more. That is such a huge gap to bridge that I think a compromise ill be tough to accomplish.”

Shawn Womack, D-Mountain Home, the lead sponsor in the senate, said supporters of the bill thought they had the support of a couple of other members of the committee.

“But they didn’t vocalize their support when it came time to vote,” Womack said. He didn’t name those senators.

Two members of the committee who didn’t vote on the bill — Robert Johnson and Malone — said there may be a way to resolve the issue.

Robert Johnson said all eight members of the committee favor changes to payday lending.

“There is some talk out there about another measure that might go even further than this measure does,” he said. “It is my intention to leave this session voting for reforming payday lending.”

Robert Johnson did not indicate what the new bill would be or who might introduce it.

A payday loan in Arkansas works like this: A customer writes a check for $400, for example, and receives $350 in cash. The lender normally keeps the check for two weeks before cashing it.

A $50 charge on a $350 loan for 14 days is the equivalent of 371 percent in annual interest. Under the Arkansas Check-cashers Act, the customer must repay the loan before the agreed-upon date or the lender must deposit the check.

Once the loan is repaid or the check deposited, the customer takes out another loan by exchanging another check for cash and promising to repay the loan.

If the customer takes out consecutive loans every two weeks, he could pay more in fees than the amount of the original loan.

Some borrowers spend more than $1,000 before paying off the original loan, consumer advocates say.

Bradley Rodgers, president of the Arkansas Financial Services Association, which consists of payday lenders in the state, said in a statement that the group is pleased the committee rejected the bill.

"We believe this bill would have further restricted the free choice of hardworking Arkansans in securing short-term credit used to meet family and personal emergencies between paychecks," Rodgers said in the statement.

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State Rep. David Johnson (left), DLittle Rock, and state Sen. Shawn Womack, R-Mountain Home, discuss the payday lender bill that they sponsored.