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Payday-loan bill penalizes 'rollovers'

BY DAVID SMITH

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LITTLE ROCK — State Sen. Shawn Womack, R-Mountain Home, filed a bill Thursday that would

allow financial penalties against payday lenders who permit "rollovers" of checks.

Womack also is the lead Senate sponsor of a House of Representatives bill that would prevent payday lenders from charging interest higher than the 17 percent limit allowed by the Arkansas Constitution.

House Bill 1036, which passed the House easily in February, stalled in the Senate Committee on Insurance and Commerce on Tuesday, receiving only one vote.

Womack and Don Tilton, a lobbyist for the payday-lending industry, approached Rep. David Johnson, D-Little Rock, on Thursday afternoon with the new bill to see if he would sponsor it, said Johnson, who is the primary sponsor of HB1036.

"I just see [Womack's bill] as window dressing," Johnson said. "It seems to be similar to a bill that was circulating in the House when [Johnson's bill] was pending in the House. I told them that I would not sign onto that bill."

HB1036 would create a fine of \$300 per transaction for anyone charging more than 17 percent annual interest on a loan. Payday lenders have said if HB1036 becomes law, it would put them out of business. They say it is impossible to make a profit on the loans if interest is capped at 17 percent.

Womack's Senate Bill 824 would prevent payday lenders from rolling over loans to their customers. A rollover is the renewal of a payday loan with only an additional fee being paid by the borrower.

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The Arkansas Check-cashers Act already prohibits rollovers.

HB1036 focuses on the issue of interest rates charged by payday lenders, Womack said.

"[Senate Bill 824] goes more specifically into some of the practical applications of the Check-cashers Act," Womack said. "It addresses some of the issues that are of concern that we're trying to stop as far as the abuses in the [payday lenders] industry."

Womack's bill also would allow for an extended payment plan on a payday loan, allowing the customer to make four equal installments on the loan over a 60-day period instead of being required to pay the loan off in a shorter period, often two weeks.

If a payday lender is found to have rolled a loan over, the new bill allows the customer to recover twice the amount of the original loan, or \$1,000, whichever is greater.

In Arkansas, a payday loan 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.

"The heart of the dispute is about the interest that [payday lenders] charge," Johnson said. "We're saying it ought to be at 17 percent and they say 500 or 600 percent. Their new bill doesn't appear to do anything about interest rate violations."

Johnson said it will be very tough for his HB1036 to pass the Senate committee.

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