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THE LARGEST PAID NON-DAILY NEWSP

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FROM THE PUBLISHER >>Payday series wins award in competition

(The Arkansas Press Association awarded The Leader first place in the Better Newspaper Contest for our in-depth reporting on payday lenders. This column from March 22, 2006 was part of that series.)

A populist state like Arkansas, which once had the lowest usury rate in the nation — 10 percent was the interest limit until 1982 — now allows payday lenders to charge outrageous interest rates — often several hundred percent interest.

"How do you go from there to over 800 percent?" asked Cliff Hoof-man, a former legislator from North Little Rock, referring to predatory check cashers who've been known to charge more than 3,000 percent interest.

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He was addressing lawmakers at last week’s Joint House and Senate Judiciary Committee meeting, which heard testimony about abuses in the payday lenders industry and ways to regulate the businesses.

That won’t be easy: Check cashers keep bending the rules and ignoring interest limits that are in the state Constitution. Even when the Federal Deposit Insurance Corp. tells banks they cannot loan money to check cashers, they find other sources for operating capital.

Arkansans were once protected from predatory lenders, who were fined if they charged more than 10 percent interest. Contracts were voided and lenders had to repay twice the interest they charged.

Laws were in place to protect consumers, but not anymore: Amendment 60, passed in 1982, raised interest rates, but even so, Arkansas prided itself in protecting consumers from unscrupulous lenders. There is a 17 percent limit on interest rates, but almost everyone, not just the payday lenders, is flouting the law.

No wonder check cashers are protesting that everyone’s picking on them. In a way, they have a point: Credit card companies charge whatever they want and banks charge $30 overdraft fees, which are really short-term loans. Mob juice loans are 25 percent or higher, but at least no one’s pretending they’re legal.

But payday lenders are the worst: They charge the most and exploit the most vulnerable: The working poor. How did these check cashers sneak into Arkansas, which, as I say, had the strictest rules against gouging consumers?

Well, if you attended last week's Joint House and Senate Judiciary Committee hearing at the Capitol, you would have learned that they sneaked in here under false pretenses, which figures, since they lie about everything.

The check cashers came here in 1999 and wrote the law on payday lenders, which the Legislature duly passed after the usual suspects were paid off in the form of campaign contributions.

Officially, these operators said they wanted to provide a public service to poor working people by cashing their paychecks.
"It proved to be a little more than that," Hoofman told legislators and reminded the committee that Arkansas has "gone from being one of the most protective to totally unprotected" when it comes to shielding borrowers from predatory lending.

Hoofman gave the committee a little history lesson, admitting his own complicity in helping to pass Amendment 60, which raised the state's usury limit but set no penalties on lenders who violated the new ceiling.

"We failed to do what the people asked us to do," Hoofman said.

But, in any case, he said the check cashers are violating the state's 17-percent interest limit, and "the Legislature ought to set a penalty."

As Sen. Tracy Steele, D-North Little Rock, told the committee, check cashers have moved into Arkansas because of a lack of regulation, although he, along with consumer groups, believes that the state's interest ceiling is being violated and laws must be passed to "stop these bad actors in their tracks."

The problems with the payday loans, apart from the interest rates they charge, is that they're not installment loans. They must be repaid in full within two weeks. If they're not repaid, they're rolled over and interest rates skyrocket. If borrowers are charged more than 3,000 percent interest, they must pay back thousands of dollars on a small loan. As Hank Klein, a former credit union executive, said last week, if you compare those rates with an automobile loan, a car buyer would have to pay back $9,000 every payday, or $1.2 million on an SUV.

If that's how banks operated, only millionaires would drive cars.

Editor's note:

When my earlier column on check cashers appeared last weekend on our Web site www.arkansasleader.com, Google, to our horror, placed several payday-lender ads above the column.

That's like putting anti-semitic ads on Web sites honoring Holocaust victims. Google is not a very nice company — it runs ads for crooks and profits hugely from pornography and makes lucrative deals with dictators. So payday lending fits right in with their philosophy.

Needless to say, we have canceled our agreement with Google to place national advertising on our Web site.

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