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Center for Responsible Lending NewsBrief

Arkansas enforces 17 percent interest rate cap, chases out payday lenders

Good news out of Arkansas: after a hard-fought legal and political battle, the state should soon be rid of predatory payday lending.

Arkansas Attorney General Dustin McDaniel ordered all payday lenders operating in the state to cease and desist their practices yesterday, insisting that the lenders void all current and past due debts. The attorney general threatened litigation should payday lenders fail to comply with his order.

Arkansas has a constitutional interest rate limit of 17 percent, but payday lenders have been charging over 300 percent interest in the state since 1999, when a state law was passed declaring that their fees were not interest. Attorney General McDaniel said a state Supreme Court ruling last month makes it clear that payday lenders are subject to the interest rate limit.

"These businesses have made a lot of money on the backs of Arkansas consumers, mostly the working poor. Charging consumers interest in the range of 300 to 500 percent is unlawful and unconscionable, and it is time that it stops," McDaniel said in a press release. "It is my hope that they comply with my demand but, if they do not, I stand ready to take them to court."

Payday loans are predatory for two reasons: the triple-digit interest rates and the loan terms, which force borrowers who are already cash-strapped to pay the loan off in full on their next payday or re-open it for more interest with no reduction in the principal. This system traps borrowers in debt they can't afford to pay off, systematically stripping their weekly earnings to pay interest for a loan that never goes down. The average payday borrower has nine transactions, and ultimately pays more in interest than they borrow.

Arkansas joins a growing number of jurisdictions that are poised to end the predatory practice by enforcing a two-digit interest rate cap, the only legislative reform that has been effective in preventing predatory payday lending.Oregon, New Hampshire and the District of Columbia have passed caps within the last year and legislative proposals are on the table in several states including Ohio, Colorado, and California. Virginia passed payday lending reform that failed to cap interest rates to two digits after intense lobbying from the payday industry, although the Governor still has an opportunity to amend or veto the legislation.

A broad-based coalition of non-profit, consumer, community, civic, military and faith-based organizations, Arkansans Against Abusive Payday Lending, helped bring this protection to working families in the state through years of persistent advocacy.