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McDaniel: Majority Of Payday Lenders In Arkansas Say They Will Shut Down

By The Associated Press

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LITTLE ROCK (AP) _ Most payday lending companies operating in Arkansas have said they will close or stop issuing high-interest loans to avoid being sued for violating the state constitution, Attorney General Dustin McDaniel said Tuesday.

McDaniel said his office received word from 52 companies that they will comply with a March 18 cease-and-desist letter he sent them. He said that based on news reports, consumer calls and other contacts, he believes another seven companies have stopped issuing payday loans.



Most payday lending companies operating in Arkansas have said they will close or stop issuing high-interest loans to avoid being sued for violating the state constitution, Attorney General Dustin McDaniel says.

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The 59 companies account for almost all of the 156 payday lending locations that he targeted with the letter, informing the companies they were violating the state constitution by charging more than 17 percent interest, McDaniel said.

The 156 payday lenders make up more than half of the 277 check cashers licensed by the Arkansas State Board of Collection Agencies. McDaniel's office said it focused on companies that offer "deferred presentment loans" where the business not only exchanges cash for a check but also agrees to delay the depositing of the check for a specific length of time.

The remaining 121 businesses that were not sent letters are businesses that cash checks for a fee but do not enter into delayed deposit agreements.

McDaniel indicated that there are still other payday lenders that his office plans on targeting.

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"They should know that their day is coming. It is my goal to end this practice across the state of Arkansas," McDaniel said. "No one that engages in this sort of activity - whether they are doing so now or did so a year ago, whether they're calling it something else or claim to be doing otherwise - is immune from the law."

Not all of the companies that have responded will close completely. Advance America, which operates 30 payday lending locations in the state, said it will restructure its business to comply with the law.

"I think the vast majority of them are just shut down because the vast majority are one owner, one store small-

time operations," McDaniel said.

Advance America spokesman Jamie Fulmer said the company will not offer any new loans while it reviews its options, but will temporarily offer interest-free loans to its existing customers.

"It's our intent and desire to offer some sort of short-term loan product to consumers in Arkansas, although the details haven't been worked out," Fulmer said.

Last Friday was the deadline McDaniel set for companies to respond. In the next few weeks, McDaniel's office will check on whether the companies have indeed closed or stopped issuing high-interest loans as they said they would.

"This is not a declaration of victory. It is far from it," McDaniel said.

The Arkansas State Board of Collection Agencies, however, will continue to license payday lenders and check cashers, executive director Peggy Matson said.

The 1999 Check Cashers Act defined the borrowing charges levied by payday lenders as fees and not interest. A lawsuit challenging the constitutionality of the act is pending before Arkansas' Supreme Court.

"Operating in compliance with the Check Cashers Act doesn't necessarily shield a business from the lawsuits the attorney general is contemplating," Matson said. "As you can imagine, it's a strange situation for a check casher to be in to be in compliance with a valid law but still be told that what they're doing is illegal."

Matson said that 28 payday lending locations have already closed, while 22 said they will stop offering deferred presentment loans but continue to cash checks for a fee.

Other locations have said they will shut down but have not submitted paperwork to officially close.

Although he acknowledged the need for small loans for customers with poor credit, McDaniel said that payday lending can do more damage than good.

"As badly as I'm concerned about people who need \$50, \$100 or \$250, I'm more concerned about them paying \$1,000 or more to try and repay it," McDaniel said. "They were in poor financial straits when they needed that microloan, they obtained it and then they're caught in a financial situation that makes it even worse."

Through a typical payday loan in Arkansas, a customer writing a check for \$400, for example, would typically receive \$350. The lender would keep the check for about two weeks without cashing it, thereby allowing the customer time to buy back the check. The \$50 charge on the \$350 loan for 14 days equates to 371 percent interest, well above Arkansas' 17 percent limit.

On March 18, McDaniel sent the letters to the payday lending firms asking them to shut down immediately and forgive customers' debts or face the likelihood of lawsuits. McDaniel based his actions on two recent state Supreme Court rulings that he said make it clear that the high interest rates charged by payday lenders violate the state constitution and the Arkansas Deceptive Trade Practices Act.

McDaniel said Tuesday that any businesses that continue to make high-interest loans or collect on past loans will make themselves targets for lawsuits. He said the payday lenders that have shut down aren't safe from future legal action.

"No business that has issued usurious loans, including those

that have responded and stopped the practice, is safe from action today. Each and every past loan was a violation of Arkansas law and subject to penalty," McDaniel said.

A trade group representing Arkansas payday lenders said the move to force their shuttering would only hurt customers by removing a credit option.

"One thing we do know is that if all payday lenders are forced to close their doors in Arkansas, Arkansans will pay more for short term credit," said Cheney Pruett, president of the Arkansas Financial Services Association.

Michael Rowett, chairman of Arkansans Against Abusive Payday Lending, praised McDaniel's actions.

"Basically, the developments so far are very encouraging," Rowett said. "We are confident these businesses will no longer be able to gouge Arkansas consumers."

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