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End of predatory loans

BY SHERECE WEST SPECIAL TO THE DEMOCRAT-GAZETTE

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LITTLE ROCK — The Winthrop Rockefeller Foundation supports and promotes policies

that move the needle toward economic wellbeing in Arkansas. The decisive move to shut down payday lenders in the state by Arkansas Attorney General Dustin McDaniel will give that needle a good nudge, promising to save Arkansas' working families at least \$25 million per year in abusive lending fees.

McDaniel ordered payday lenders to cease and desist operations last month after a hard-fought battle in the courts, where representatives of payday lending defended these companies' practice of exploiting people who are desperate for cash before payday. We at the foundation heartily applaud his decision.

Not only do some payday loans carry interest rates of well over 300 percent, they function as a long-term debt trap, swiping more in fees from borrowers who cannot afford to pay off the loans than the amount lent in the first place. The Center for Responsible Lending has found that payday borrowers have an average of nine transactions per year. The lender lends about \$300, closing the loan and reopening it again and again at a cost of about \$50 each time. The borrower typically cannot afford pay it off and walk away on payday when it's due.

Some borrowers are caught in this trap for years, either never able to scrape together the entire principal at once to pay off the loan for good or confused into thinking that they are getting a new loan each time they come into the store. They are actually handing over the principal and re-borrowing it over and over.

An elderly North Carolina man interviewed by the Center for Responsible Lending went to the same payday loan store for over five years, losing a good chunk of his limited income every time and not realizing that he had lost over \$5,000 in fees until he sat down with a bankruptcy attorney. He had nothing to show for this loan, only a net worth that sank

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deeper and deeper into the red.

Arkansas' working families don't need this high-interest, predatory form of credit, they need loans with terms that allow them to be paid off over time. They don't need a loan that will force them into bankruptcy, they need the resource of reasonably priced funds at critical times, the same resource that well-off families take for granted.

With payday lending, the poor lose much more than they gain. Many states have recognized this recently, second-guessing their decisions a few years back that exempted payday lending from consumer protection laws. There is momentum growing among the states for enforcing two-digit interest rates. In the past year, Oregon, New Hampshire and the District of Columbia have passed such limits after recognizing that no other reform has stopped the cycle of debt created by the design of the payday loan.

Congress also found merit in the two-digit interest rate cap, passing a 36 percent cap on payday loans to military borrowers after the Department of Defense brought to its attention the terrible bind in which payday lenders were putting military families. The Pentagon reported that these predatory lenders were threatening not only the financial well-being but the military readiness of its troops, clustering around bases and tempting young soldiers and their families in with the promise of quick cash. Some military personnel were so badly affected, their security clearances were denied.

In Arkansas, our state Constitution wisely includes a 17 percent interest rate cap to prevent vulnerable, financially strapped people from falling prey to unscrupulous lenders. It has taken a lot of hard work and persistence by many people to restore the integrity of that provision, and many families have lost a great deal in earnings to these predators in the meantime.

Reports are that most of the payday lenders operating in the state have already agreed to stop making illegal payday loans. This is cause for celebration. McDaniel has opened the playing field for fair lending by banks and reputable finance companies by enforcing our state's constitutional cap on interest rates. This protects our struggling families from being taken advantage of and makes it possible for reasonable loans to be made, loans that may actually help working people gain a foothold toward financial security.

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Sherree West, Ph.D., is president of the Winthrop Rockefeller Foundation.

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