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Arkansas attorney general sues payday lending companies

by Andrew DeMillo, The Associated Press



Story Published: May 2, 2008 at 4:39 PM CDT
Story Updated: May 2, 2008 at 4:39 PM CDT

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LITTLE ROCK, Ark. -- Arkansas Attorney General Dustin McDaniel filed lawsuits against about 20 payday lenders that he says violate the state's constitution by charging high-interest loans.



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McDaniel filed four lawsuits in Pulaski County Circuit Court on Thursday against businesses that operate about 20 payday-lending locations in the state. The payday-lending outlets were among 156 businesses that told the attorney general they would shut down in response to a cease-and-desist letter that McDaniel sent them on March 18.

Chief Deputy Attorney General Justin Allen said Friday the lawsuits were filed after the office learned the businesses were still operating despite claims they had stopped issuing high-interest loans.

McDaniel had threatened lawsuits against payday lenders if they did not stop issuing high-interest loans and forgive customers' debts by April 4.

"They have stayed open, but more importantly they stayed open and continued to violate the Arkansas constitution," Allen said. "They engaged in conduct that we specifically asked them to stop."

In payday lending, typically someone wanting a loan goes to a check-cashing company and writes a check for a certain amount. The company then agrees not to cash the check for a specified time - often waiting until the check-writer's payday, when money can be deposited to cover the amount of the check.

Through a payday loan in Arkansas, a customer writing a check for \$400, for example, typically would receive \$350. The lender would keep the customer's 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 is the equivalent of interest at a rate of 371 percent a year, well above Arkansas' 17 percent limit set out in the state's constitution.

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

Phillip Caudle, one of the owners targeted in the lawsuits, said he was surprised by the lawsuit and said he had stopped issuing payday loans in response to McDaniel's threat. Caudle owns Pawn Exchange of DeQueen, Pawn Exchange of Mena and Pawn Express of Foreman. Caudle said he did not know about the lawsuit until notified by a reporter on Friday afternoon.



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"I don't know what grounds they're going to go on because I've already turned my license in," Caudle said.

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