



Arkansans Against Abusive Payday Lending

www.StopPaydayPredators.org

FOR IMMEDIATE RELEASE
March 8, 2006

CONTACT: Michael Rowett
(501) 372-3435

Study of payday lending in Arkansas shows fewer than 25% of lenders regulated by state, lax enforcement of usury protections

Payday lenders outnumber McDonald's 2-to-1 as consumers drown in triple-digit debt

LITTLE ROCK—Arkansans Against Abusive Payday Lending (AAAPL) today released a study of payday lending in Arkansas that shows fewer than 25 percent of the lenders are regulated by the state and lax enforcement of the Arkansas Constitution's usury protections against high-interest loans.

The study by AAAPL President H. C. "Hank" Klein is titled *Payday Lenders in Arkansas: The Regulated and the Unregulated*. This report, an update of a study released in September 2004, offers the most comprehensive examination to date of how the payday lending industry operates in Arkansas. Go to http://www.stoppaydaypredators.org/pdfs/news%20articles/06_0200_Payday_U_Study.pdf for a PDF of the full study.

Payday loans are small loans, usually \$100 to \$500, made for an average of 14 days. Individuals who borrow money from payday lenders typically pay fees equivalent to an annual percentage interest rate of **more than 400 percent**. The average payday borrower pays \$800 to borrow \$325.

Article 19, Section 13 of the Arkansas Constitution limits interest rates on consumer loans to **17 percent annually**. Yet payday lenders in Arkansas routinely make triple digit annual interest rate loans—with little or no repercussions from the Arkansas State Board of Collection Agencies (ASBCA), the state agency responsible for regulating and licensing payday lenders.

"The price of this lax enforcement of the usury protections of the Arkansas Constitution is unfortunately being paid by Arkansas consumers who use payday loans," Klein said.

Research conducted for the study shows a total of **275** payday lenders operating in Arkansas as of February 2006. Of those, just **66 (24 percent)** are licensed and regulated by the ASBCA.

Of the remaining 209 payday lenders, **70 (25 percent)** are licensed by the ASBCA, but make unregulated payday loans due to the agency's interpretation of state law. The largest group of payday lenders, **139 (51 percent)** are neither licensed nor regulated by the ASBCA.

To provide some context to these numbers, there are 127 McDonald's restaurants in Arkansas, according to McDonald's Corp.

"There are more than twice as many payday lenders in Arkansas keeping consumers in perpetual debt as there are McDonald's feeding them hamburgers and French fries," Klein said. "And for every payday lender that is regulated by the state, another three operate free of regulation."

Research shows that proximity to military bases is a powerful predictor of a high number of payday loan shops. And payday lending industry business plans describe disproportionately targeting customers who are minority or low-income.

Payday lenders continue to create various models of operation in an attempt to disguise these transactions or to cause these transactions to appear to be products other than payday loans and/or loans made by out of state banks, finance companies, or payday lenders. The truth is that the majority of the revenues in these lending methods are retained by the payday lenders operating stores in Arkansas.

Unfortunately, the ASBCA board in recent months has taken actions that significantly reduced the number of payday lenders subject to regulation. A particularly troubling aspect of these actions is that one of the ASBCA board members who voted to exclude these payday lenders from regulation has financial connections to the very lenders exempted from regulation. Ironically, this same ASBCA board member was appointed to represent “the public at large.”

“Arkansans consumers deserve better from the state agency that is charged with protecting our citizens from abusive payday lending practices,” Klein said.

The Check Cashers Act (Act 1216 of 1999) stated that fees charged by payday lenders “shall not be deemed interest.” But the Arkansas Supreme Court in 2001 found that the Legislature in passing the Check Cashers Act made an “invalid attempt to evade the usury provisions of the Arkansas Constitution.”

The Legislature in Act 1962 of 2005, a law that made “technical corrections” to the Arkansas Code, struck the provision that specifically exempted payday lenders from the Constitution’s usury cap. So why are payday lenders still being allowed to make clearly usurious loans to Arkansas consumers?

Recommendations in the report to ensure that Arkansas consumers receive the protections against high-interest loans guaranteed under the Arkansas Constitution include:

- No payday lender should be allowed to make consumer loans with interest rates of more than 17 percent annually. Violators of this constitutional protection should face a criminal penalty and fine.
- All payday lenders in Arkansas, no matter their method of operation, should be licensed and actively regulated by the ASBCA to make payday loans in Arkansas. The ASBCA also should require all payday lenders to use a state-contracted database to enforce loan limits and to provide industry-wide data to both regulators and the public on payday lending as a whole. Other states that currently require tracking and reporting are Oklahoma, Florida, Michigan, Indiana and North Dakota.
- Payday lenders in Arkansas should not be allowed to circumvent the Arkansas Constitution’s usury limits by partnering with out-of-state banks, out-of-state finance companies, out-of-state payday lenders, or using Internet rebates or other questionable methods.
- The “public at large” representative on the ASBCA board should have no connection whatsoever to payday lenders, to ensure that consumer interests are adequately represented.

Arkansans Against Abusive Payday Lending (AAAPL) is a coalition of 20 Arkansas organizations dedicated to addressing issues related to abusive payday lending in our state.