

# ArkansasOnline.

## McDaniel opposes small-loan bills

BY [DAVID SMITH](#)

Saturday, February 26, 2011

LITTLE ROCK — Attorney General Dustin McDaniel is opposed to two bills designed to change the Arkansas Constitution to permit small loans with interest rates above 17 percent, his office said Friday.

Senate Bill 568 and House Bill 1572 were introduced Thursday and would amend Amendment 89 of the constitution. Amendment 89 was approved by voters in November and set Arkansas' interest rate limit at 17 percent.

The attorney general's office said Friday that it had informed the bills' sponsors and Robbie Wills, former speaker of the House who represents an organization that helped draft the bills, of the "attorney general's firm opposition to [the bills]."

The bills are "unfriendly to consumers and could reopen this state to the unscrupulous, predatory lenders the attorney general has successfully worked to shut down," Aaron Sadler, spokesman for the office, said in a prepared statement.

On Thursday, Julie Thompson, another attorney general spokesman, said the Senate bill was "not anything alarming" and that the office didn't consider it an attempt to reopen payday lending in the state.

Friday, Thompson said she had confused the bill with another one and was mistaken when she said the attorney general wasn't concerned about the bill.

If the two bills, which require a 75 percent majority to pass, get through the House and Senate, they would allow the General Assembly to set the maximum rate of interest charged on loans below \$5,000.

The bills don't state what that interest rate would be. Another bill, which would be filed later if the two bills pass, would set that interest rate. It would require only a simple majority to pass.

In March 2008, McDaniel sent "cease-and-desist" letters to payday lenders across Arkansas. The stores were charging annual interest rates that reached 400 percent and higher in some cases.

There were more than 230 payday-lending stores in the state at the time. By the end of 2008, there were fewer than 100 and by the end of 2009, all the stores had closed.

The bills have not been on Gov. Mike Beebe's "front burner," but his office is reviewing them to see if there is any concern about them, said Matt DeCample, Beebe's spokesman.

Arkansans Against Abusive Payday Lending, which vigorously opposed payday lending, said Friday that it also is opposed to the bills.

“We agree with [McDaniel] that this legislation could reopen Arkansas to the abuses of predatory lending,” Michael Rowett, the organization’s chairman, said in a prepared statement.

“It took nearly 10 years for payday lenders to be driven out of our state; Arkansas doesn’t need to repeat this unfortunate period in its history.”

Similar laws in other states allow the small-loan industry to charge 36 percent interest, charge “acquisition fees” as high as \$150 on the front end and allows the loans to be renewed, said Jean Ann Fox, director of consumer protection with the Consumer Federation of America.

A \$500, 12-month loan with a 36 percent annual interest rate and a \$150 fee equals \$330 in fees and interest - the equivalent of 66 percent interest.

Often, small installment loans include acquisition fees, monthly fees, handling fees, “which add up to much higher [annual percentage rates] than the Arkansas voters authorized last year,” Fox said.

“After passing these laws, some small-loan companies tend to go back to their legislatures asking to raise the rates,” Fox said.

Historically, small-loan acts can allow flipping of loans if lawmakers aren’t careful, Fox said. Flipping is renewing loans before they are paid off.

“In those cases, low-income consumers pay over long periods of time because these loans get renewed,” Fox said.

Business, Pages 28 on 02/26/2011