



## Abusive payday lending criticized

### Coalition is formed to ban practice here

By JOHN HOFHEIMER  
Leader staff writer

So-called payday lenders are really loan sharks in a feeding frenzy around military installations like Little Rock Air Force Base, according to a newly formed coalition that wants to legislate against the most serious abuses.

They are prevalent wherever low-to-moderate income people live, but military bases are choice targets.

Meeting at Arkansas Federal Credit Union headquarters in Jacksonville on Friday, Arkansas Against Abusive Payday Lending included representatives from the Consumer Federation of America, Arkansas Advocates for Children and Families, the American Association of Retired Persons, the Pulaski County Cooperative Extension Service, the Better Business Bureau, Consumer Credit Counseling Service and ACORN.



Klein

Payday loans are short-term cash loans based on personal checks held for future deposit or electronic access to the borrower's bank account, according to the Consumer Federation of America.

Hank Klein, president of the credit union and chairman of the coalition, said that when someone goes for a two-week, \$100 loan and agrees to pay 15 percent, "it might sound like 15 percent interest," but that it was really an annual interest rate of 390 percent, if paid back in two weeks. A high credit card interest rate, by comparison, would be 21 percent.

Credit cards, pawn shops and checking accounts with overdraft protection were cited as more reasonable alternatives to those lenders.

The annual interest rates run as high as 700 or 800 percent, according to Jean Ann Fox of the Consumer Federation of America.

In 1999, this previously illegal type of lending was approved by the state legislature with only former senators Mike Beebe and Mike Ross voting against it. Beebe is now the state attorney general and Ross a congressman.

What the general assembly did to get around the state's usury law was to say the loan was not a loan and the interest was instead a fee.

"We believe this is illegal and want to see the law repealed," said Klein. "Every time these folks are caught, they reinvent themselves. The check cashers are running the show, not the regulatory agencies."

The payday lenders are attracted to military bases because most of the employees were not well paid, they were assured a reg-

ular check and the check wouldn't bounce.

Fox, who specializes in payday lending, said that nationally, they lend \$40 billion a year and make about \$6 billion in interest.

The loans typically are made without any kind of credit check, and the lenders are just as happy to keep stringing the loan alone along, collecting regularly without reducing the amount of the principal.

To work around some laws, she said, they pretend to be selling internet service, phone cards or other schemes to keep state and federal authorities at bay.

For instance, they might "sell" a borrower two weeks of internet service for \$60—service they might not need or use.

Pla.net.cash recently agreed to stop that practice, said Klein.

Some lenders "rent" an affiliation from less than scrupulous banks, said Fox. This is known as "rent-a-bank."

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—Hank Klein

When the payday lenders sue to recover money from customers, they invariably lose, according to Todd Turner, but they never appeal because they know that the Supreme Court will rule them usurious and illegal. Turner is a lawyer who represents borrowers against the payday lenders.

The new coalition wants to "protect the needy from the greedy."

Ironically, finance companies, which operate in some other states, charge a far-more-reasonable 24 percent to 48 percent interest, but are excluded from operating in Arkansas by usury laws.