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## Fed Up

### Arkansas FCU CEO Klein Leading the Charge Against Payday Lending in Arkansas; CU's Own Study Getting Attention from State Regulator

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LITTLE ROCK, Ark. — Arkansas FCU President/CEO Hank Klein isn't content with sitting back and letting payday lenders and check cashers abuse consumers in Arkansas.

"They're charging just horrible rates, and the sad thing is the people going there think they are doing them a favor when they are really stabbing them in the back," said Klein. He compared what payday lenders and check cashers are doing with money, to what a drug dealer would do with drugs. "They're hooking them on money, and getting them into a never ending debt trap," he said.

Klein's CU hosted the first meeting of Arkansans Against Abusive Payday Lending meeting on Sept. 17 at its headquarters.

Arkansans Against Abusive Payday Lending was formed on a suggestion by Klein. It was born out of the Arkansas Advocates for Children and Families, an organization which Arkansas FCU was a member of along with a number of consumer agencies, government officials and business leaders. During the final meeting of that group, Klein suggested the formation of Arkansans Against Abusive Payday Lending. It is an informal group with no dues, income or expenses. The group describes itself as "a gathering together of individuals and groups who will take every opportunity to work with other Arkansans in ridding our state of abusive payday lending."

Jean Ann Fox, Director of Consumer Protection for Consumer Federation of America, participated in the initial meeting. Klein said Fox should be commended for her commitment to the group because despite being delayed for hours by a hurricane and traveling into the early morning hours, she made the meeting and didn't miss a beat.

Fox said Arkansas, like many states, is being hit hard by check cashers and payday lenders. "Payday

lenders in Arkansas are using every trick in the book to hide their usurious loans. Quick cash advances masquerading as rebates and loans made by out of state financial institutions ignore the constitution of Arkansas and must be stopped," she said.

During the meeting, Klein reported on the regulated and unregulated check cashers and payday lenders in the communities of Pulaski County, Conway, and Fort Smith, Arkansas. Klein's report was based on a study conducted by managers of Arkansas FCU who visited check cashers and payday lenders in those counties to ensure that they were complying with the Check Cashers Act of 1999 and the regulations of the Arkansas State Board of Collections Agencies, Division of Check Cashers. What they found is, many were not in compliance.

Among its findings were the following:

- 44.44% of the check cashers/payday lenders studies have been sued at least once by Arkansas law firms,
- 33.33% do not hold active licenses with the Arkansas Board of Collections Agencies, Division of Check Cashers, but are still in business,
- 11.11% seek to evade state law by partnering with out-of-state banks,
- 20.83% seek to evade law by partnering with out-of-state finance companies.

The study also found that the lower the income level, the more of these stores are found in an area, while the opposite is true for higher income level areas. While both exist, Klein said the payday lenders are doing more damage than the check cashers.

Klein said there needs to be laws passed that will force check cashers and payday lenders to comply with the state's usury law. "Arkansas is a little unusual in that our usury limit is in our state



Arkansas FCU President/CEO Hank Klein and CFA's Jean Ann Fox say check cashers and payday lenders are doing long-term damage to consumers' financial lives.

constitution, so it has to be changed by the voters," said Klein. The maximum rate under the law is 17%.

Despite the usury law, check cashers and payday lenders are charging upwards of 300%, said Klein. He noted there is a law on the books allowing them to do business, but it's a law many think is unconstitutional.

"We want to repeal the existing law and institute a new law, like in Georgia, that makes it a criminal offense to charge more than the usury limit. In Georgia you can get five years in jail or a \$5,000 fine," he said.

What about the argument that check cashers and payday lenders are in business because other financials have shunned the consumers who use them?

"In this state in 1998 there were no payday lenders and our people were doing just fine. This isn't helping needy people, this is hurting needy people. The usury laws were enacted to protect the needy from the greedy," said Klein.

But Klein did admit that the sad fact is many who use payday lenders actually think the payday lenders are trying to help them. They have bad credit and low paying jobs, so they may not feel they're qualified to get help from a credit union or bank.

Klein is pleased that the Arkansas FCU study seems to be getting noticed by the state. At press time, he was scheduled to meet with the Arkansas Board of Collections Agencies, Division of Check Cashers to discuss the study's findings.

One particularly egregious finding of the Arkansas FCU study was that check cashers and payday lenders use an Internet rebate scheme to skirt a "rollover" restriction in the law. The Internet Rebate works just like a normal payday loan except the consumer signs a contract to rollover the loan every two weeks for a period of 12 months and agrees to purchase Internet service from the payday lender.

The Arkansans Against Abusive Payday Lending group includes reps from the Arkansas Advocates for Children and Families, the NAACP, the AARP, the AFL/CO, Consumer Credit Counseling and others.

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