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TOP STORY >> Law favors high-interest lenders over servicemen

IN SHORT: Rep. Wood, a soldier-legislator, is upset that a law he sponsored requires payday lenders to make usurious loans to the military.

By JOHN HOFHEIMER AND HEATHER HARTSELL
Leader staff writer

A spokesman for the nation's largest payday lender said Thursday that despite its promise to stop making payday loans to military families, it must continue or violate an Arkansas law passed just last year.

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Advance America, amidst fanfare and with a full-page ad in USAToday last September, said it would stop making payday loans to the military in October, but earlier this week, an employee of the Jacksonville Advance America branch assured one Little Rock Air Force Base airman's wife that she could borrow as much as \$350 for two weeks at an annual interest rate percentage of 336 percent.

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By way of contrast, 8 percent would be a high home mortgage rate, but only payday lenders are exempted from the state’s 17 percent usury cap.

The sponsor of that act, state Rep. Jeff Wood, D-Sherwood, who is an Arkansas National Guardsman and a lawyer, called it ironic that his law, designed protect the civil rights of military members, was being used by payday lenders to continue to prey upon them.

Wood called Advance America’s interpretation of his legislation “a crafty argument.”

“That’s not the intent of the legislation,” Wood said Thursday. “The intent is to protect servicemen.”



In many instances, car dealerships have discriminated against them in making credit available, Wood said. He said he would draft a bill to correct the problem when the General Assembly reconvenes in January.

“Making loans to military at triple-digit interest is not doing them a favor,” said Hank Klein, founder of Arkansans Against Abusive Payday Lending.

“It does not protect them. I think it’s pretty sad that they would make that statement and then back off and say the law prevents them from quitting such loans.”

In October, Congress passed a law capping interest rates

on loans to military personnel at 36 percent.

When asked Thursday why Advance America continued to make such loans in Arkansas, spokesman Jamie Fulmer said it was required by Arkansas law.

In a related matter, Thursday the state Supreme Court sent back to Circuit Judge Barry Sims' court for the second time the issue of the constitutionality of payday lenders charging interest about 30 times higher than the state cap of 17 percent, according to Hank Klein, founder of Arkansans Against Abusive Payday Lending.

Advance American announced Sept. 25 that it would "respectfully and voluntarily refrain from making any payday advances to active, full-time members of the military effective Oct. 15, 2006, except where strictly prohibited from doing so by applicable law."

It was the "except where strictly prohibited from doing so by applicable law" portion that requires Advance America to continue making those loans in Arkansas under Act 12-62-1205, according to Fulmer, director of investor relations.

Act 12-62-805, concerning rights of members of members of the military in Arkansas, reads in part: "The right of an otherwise qualified person to be free from discrimination because of military service is recognized as and declared to be a civil right. This right shall include, but not be limited to (D) the right to engage in credit and other

contractual transactions without discrimination.”

Financial pitfalls represented by payday lenders and check cashers impact the readiness of Marines which “directly impacts unit readiness and consequently the corps’ ability to accomplish its mission,” according to Gen. M.W. Hagee, commandant.

Noting that about 7 percent of all military personnel rely on such high-interest, easy-to-obtain loans, Hagee said, “We must act to ensure our marines avoid financial pitfalls and make wise decisions.”

Officials at Little Rock Air Force Base have said they discourage the use of such store-front lenders, where customers need only a current paycheck stub and a driver’s license to obtain two-week loans of several hundred dollars, but Klein says it’s no accident that there are at three such businesses within one-half mile of the Vandenberg—Hwy. 67/167 intersection.

That’s the commercial area closest to the base. Fulmer said Advance America restricted its payday loans to service members because there had been a lot of discussion by the Department of Defense and Congress. Fulmer said he disagreed with the characterization by critics that payday lenders prey on the military or anyone.

“We believe that our product is viable and useful to all in need of short-term credit,” said Fulmer, and compares favorably with other options such as late fees, bounced check fees and overdraft protection that can result from

not having access to short-term, high-interest loans.

He also disagreed that payday lenders prey on financially unsophisticated.

“Our consumers are middle income Americans with jobs and bank accounts. They have options.”

He said he hoped critics would step up to plate and help offer something to help solve short-term credit needs of the military and others.

Of the 36 states where Advance America operates, Arkansas is one of a handful that have laws requiring the company to continuing making loans to servicemen and their families, Fulmer said.

Advance America has 2,700 outlets, according to Fulmer.

The entire payday lending and check cashing industry has been under fire both locally and in the halls of Congress, particularly for exploiting members of the military.

Fulmer said that less than 1 percent of Advance America’s customers are members of the military and that only 42 of 2,728 of their stores are within one mile of a military base.

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