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Arkansas Democrat Gazette

NORTHWEST ARKANSAS EDITION



Lenders still not controlled, group says

BY LAURA STEVENS
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Arkansans Against Abusive Payday Lending said Wednesday that although the state has made progress in licensing "payday lenders," 45 percent remain unregulated.

Even though over half of the payday lenders are now licensed and regulated, Hank Klein said, "In anybody's book, 55 percent is still failing."

Klein's report is inaccurate and misleading, said the executive director of the Arkansas State Board of Collection Agencies, which regulates and licenses payday lenders.

"We are certainly on top of things," said Peggy Matson. "We are trying to enforce the law. I'm sorry that Mr. Klein and his group do not understand that or accept it."

According to Klein, the organization's founder and president, out of the 265 payday lenders, 146 are licensed and regulated by the state. That's an improvement from the 24 percent, or 66 companies, reported by the group in March.

Klein also said at a news conference at the state Capitol that 102 payday lenders are licensed but unregulated, and 17 companies remain unlicensed and unregulated. In March Klein reported that 139, or 51 percent, of all payday lenders were unlicensed and unregulated.

Payday lending works like this in Arkansas: A customer writes a check for \$ 400, for instance.

The lender then gives the customer \$ 350 and holds the check for

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two weeks.

After two weeks, the customer can write another check to extend the loan. Interest percentages are often in the triple digits, said Klein, which violates the state constitution cap of 17 percent interest.

Matson said the report by Klein's group contained factual errors, and that the agency has already addressed most of Klein's concerns.

During the news conference, Klein broke down the unregulated lenders into four groups. The first, "rent-a-bank" payday loans is made up of 19 lenders that partner with out-of-state banks.

Matson responded that under the Arkansas Check-casher's Act it is legal for lenders to do so.

"Rent-a-finance company" includes 54 payday lenders who have licenses from South Dakota. Klein likened these to the Missouri lenders recently closed down by the State Board of Collection Agencies.

Matson responded that the five lenders were shut down because of Missouri's law, which did not allow payday lending to be done outside their Missouri locations.

South Dakota allows loans to be made to out-of-state individuals if the applications are approved in South Dakota and the funds originate there, said Cathy Brandner, deputy director of the South Dakota Division of Banking.

Twenty-eight of the companies avoid regulation by using money orders for 95 percent of the borrower's paycheck. Klein said that on top of the "reasonable" 10 percent annual interest fee, the companies also charge a flat 10 percent fee, which increases the interest to 307 percent annually.

Matson said: "We are scrutinizing these transactions, because we're not convinced that they're not an evasion of the law."

And Klein's grouping of 19 payday lenders that make "Internet rebate loans" charges a high service rate for Internet, and then refunds part of the cost to customers.

Matson responded that her office noticed the suspicious activities and sent a list of names and addresses to the attorney general's office, which has now filed suit against some of the companies. "We did all that we could," she added. Information for this article was contributed by David Smith of the Arkansas Democrat-Gazette.

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