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- sports
- opinions
- religion
- obituaries
- region

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[Louisiana-Monroe 76, Ark.-Little Rock 68, OT](#)

[Ark. proposal would ban high interest consumer loans](#)

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State News

Ark. proposal would ban high interest consumer loans

By *ANDREW DeMILLO*
Friday, December 22, 2006 3:46 AM CST

LITTLE ROCK - Payday lenders in Arkansas could be fined \$300 for every loan they make carrying an interest rate higher than 17 percent under a proposal offered by several lawmakers on Thursday.

Rep. David Johnson said the measure pre-filed for the legislative session that begins next month would, if it become law, prevent payday lenders from charging triple-digit interest rates that some Arkansans have paid.

"Payday lenders operate by offering what they advertise as a short solution to financial distress, and in truth for many people who fall victim to them, it becomes a death trap they can't escape," Johnson, D-Little Rock.

The state's constitution limits interest on consumer loans to a maximum of 17 percent annually, but opponents of payday lending have said the state's Check Cashers Act allows payday lenders to charge higher interest rates.

Through a payday loan in Arkansas, a customer writing a check for \$400, for example, typically would receive \$350. The lender would keep the check for about two weeks without cashing it, allowing the customer time to buy back the check.

The \$50 charge on the \$350 loan for 14 days is the equivalent of 371 percent annual interest, well above Arkansas' usury limit of 17 percent per year.

In November, the Arkansas Supreme Court sent a lawsuit challenging the Check Cashers Act back to a Pulaski County court, rejecting an earlier ruling that those suing must first exhaust administrative appeals before seeking a decision by the courts.

"The case has now narrowed down to the question of, is 400 percent higher than 17 percent, and I think we know the answer to that," said H.C. Klein, president of Arkansans Against Abusive Payday Lending, a coalition of groups seeking to end the practice of payday loans.

Sen. Shawn Womack, R-Mountain Home, said he understands the need for providing credit to people who can't normally get loans but said the payday lending industry's growth concerns him.

"Oftentimes the most vulnerable members of our society end up finding themselves getting into an endless cycle of debt," Womack said. "What we're trying to do is find the right balance where people get credit but not in a way where they get trapped in an endless cycle that perpetuates them (as) an underclass."

A service of the Associated Press(AP)

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